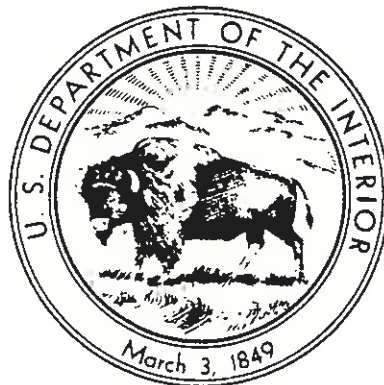


**UNITED STATES
DEPARTMENT OF THE INTERIOR
BUDGET JUSTIFICATIONS, F.Y. 1989**



MINERALS MANAGEMENT SERVICE

NOTICE: These budget justifications are prepared for the Interior and Related Agencies Appropriations Subcommittees. Approval for release of the justifications prior to their printing in the public record of the Subcommittee hearings may be obtained through the Office of Budget of the Department of the Interior.

DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
Fiscal Year 1989 Budget

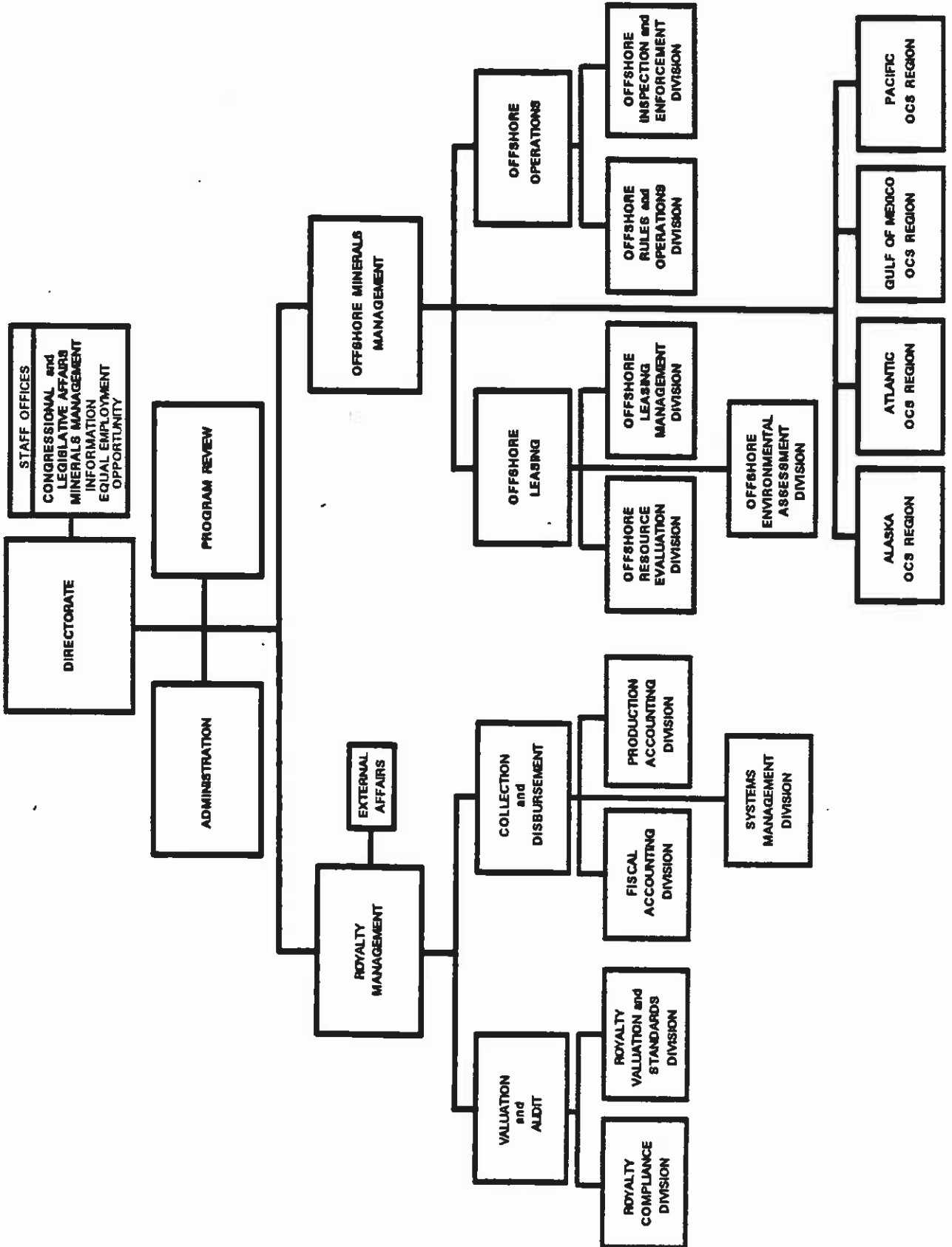
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MINERALS MANAGEMENT SERVICE



GENERAL STATEMENT

The Minerals Management Service (MMS) is responsible for offshore minerals leasing and lease management under the provisions of the Outer Continental Shelf (OCS) Lands Act and other related statutes and for the collection and distribution of mineral revenues owed the Government from Federal onshore and offshore leases and, in most instances, Indian tribes and allottees from leases on Indian lands pursuant to the Federal Oil and Gas Royalty Management Act, the Mineral Lands Leasing Act, the Indian Mineral Leasing Acts, and other related statutes.

Comparison of 1989 Estimate with 1988 Estimate

(Dollar amounts in thousands)

		FY 1988 Enacted <u>To Date</u>	FY 1989 Estimate	Inc. (+) Dec. (-)	Perm Empl. <u>12/31/87</u>
Leasing and Royalty Management	\$	168,717	171,317	+2,600	1,883
	(FTE)	(2,042)	(2,042)	(---)	
Payments to States from Receipts under Mineral Leasing Act	\$	412,458	439,122	+26,664	
	(FTE)	(---)	(---)	(---)	
Total, MMS	\$	581,175	610,439	+29,264	
	(FTE)	(2,042)	(2,042)	(---)	

The major missions of the programs included in the appropriation "Leasing and Royalty Management" are: (1) to manage the leasing of oil and gas and other minerals on offshore areas under the jurisdiction of the U.S. Government; (2) to classify and evaluate the energy and nonenergy mineral resources of those areas; (3) to supervise mineral development and production operations on leased OCS lands; and (4) to collect and distribute revenues due the Federal Government, States, and Indian Tribes from all onshore and offshore mineral leases.

The appropriation "Payments to States from Receipts under Mineral Leasing Act" provides States with a statutory share of bonuses, rentals, and royalties collected by the Federal Government for minerals produced on onshore Federal lands. This appropriation also reflects amounts included for interest to be paid to States and Indian accounts when mineral leasing revenues due them are not disbursed within the time established by the Federal Oil and Gas Royalty Management Act of 1982, interest to industry payors who successfully appeal royalty payment orders and are refunded all or part of the principal paid to and held by the Government, and rewards to persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government.

The programs and missions of the Minerals Management Service are conducted by the major components shown in the organizational chart on page MMS-3.

Highlights of the 1989 Request

The proposed funding level represents an increase of \$1.28 million from the 1989 base budget in the Leasing and Royalty Management (LARM) appropriation, and an increase of \$26.66 million in the appropriation for Payments to States from Receipts under the Mineral Leasing Act. Savings from geological and geophysical data acquisition, operational efficiencies, and nonrecurring costs in LARM are offset by the additional funding needed to automate and centralize production reporting from onshore oil and gas leases in the Royalty Management Program (RMP). Expanding production accounting to all onshore leases is estimated to result in additional revenues to the Treasury. The increase in payments to States is due to a projected rise in: (1) oil, gas, and coal prices; (2) average coal royalty rates; and (3) oil and gas rentals. As onshore mineral receipts are shared almost equally between the Federal Government and the States, the Federal Government will receive a similar increase in revenue.

Leasing and Royalty Management

Outer Continental Shelf Lands

Geologic and Geophysical (G&G) data acquisition costs are proposed to be reduced \$0.70 million as a result of the 1986 change in the Outer Continental Shelf Lands Act Amendments requiring payment by the Government only for reproduction costs for data gathered under permits issued in FY 1986 and thereafter. Environmental Studies funding can be reduced by \$900,000 as funding provided in FY 1988 to accelerate studies in various frontier planning areas, such as the Straits of Florida, Northern California, and Washington-Oregon was effectively used for that purpose. Studies in these areas will continue on the new schedule, and information needed for lease management decisions can be provided at the lower funding level.

Royalty Management Program

Increases totaling \$4.36 million are requested to fund the automation and centralization of onshore production reporting which allows the comparison of sales reports from royalty payors with production reports from lease operators. These increases are partially offset by decreases for retroactive exception processing (\$0.31 million), telecommunications equipment (\$0.18 million), operation and maintenance (\$0.61 million), and mainframe leasing (\$0.22 million).

General Administration

A net decrease of \$0.17 million from the 1989 base is proposed for this activity. One-time expenses of \$0.21 million associated with telecommunications needs for the consolidated Northern Virginia offices are proposed to be deleted from the base. This reduction is offset by an increase of \$0.04 million for FTS costs associated with automating and centralizing onshore production reporting in the RMP.

Payments to States from Receipts under the Mineral Leasing Act

The Minerals Management Service is responsible for the collection and distribution to the States of a share of bonuses, royalties, and rentals from the leasing of onshore Federal mineral resources in accordance with applicable laws. This appropriation consists of two activities: Payments to States from Receipts under Mineral Leasing Act and Miscellaneous Payments.

Payments to States

Payments to States from mineral leasing receipts are estimated to increase by \$26.06 million from 1988. This increase is due to a projected rise in: (1) oil, gas, and coal prices; (2) average coal royalty rates; and (3) oil and gas rentals. The Budget does not propose to deduct from the States' share of revenues the Federal Government's costs of managing and administering mineral leasing programs.

Miscellaneous Payments

This budget activity requests annual indefinite budget authority, estimated to total \$0.60 million, for three categories of payments. Interest on late payments (\$0.25 million) is requested to compensate States and Indian tribes when mineral leasing revenues are not disbursed within legislatively prescribed timeframes. Interest on refunds (\$0.15 million) is requested to compensate industry payors who appeal royalty payment orders and are refunded all or part of the principal paid to and held by the Government. Rewards funding (\$0.20 million) is requested to pay persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government.

Authorizations

The basic authorizing legislation for the Minerals Management Service includes the OCS Lands Act of 1953 (43 U.S.C. 1331-43); the OCS Lands Act Amendments of 1978 (43 U.S.C. 1801); the Mineral Leasing Act of 1920, as amended (30 U.S.C. 181, et seq.); the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1701, et seq.); the Indian Mineral Leasing Acts of 1891, 1909, and 1938; and the Indian Mineral Development Act of 1982.

Appropriation Summary Statement
Minerals Management Service

Appropriation: Leasing and Royalty Management

This annual operating appropriation provides resources to enable the Service to carry out its responsibilities for: implementing the 5-year Outer Continental Shelf (OCS) Oil and Gas Leasing Schedule approved in July 1987 and developing the next 5-year schedule; conducting prelease resource assessments, evaluations, and environmental activities, exercising regulatory authority over the exploration for and production of leasable energy and mineral commodities on the OCS Lands; classifying and evaluating the energy and solid mineral resources of OCS lands; performing postlease environmental assessments to ensure compliance with the National Environmental Policy Act (NEPA); and collecting, depositing, and distributing royalties and other mineral revenues due the Federal Government, States, and Indian tribes, from all Federal onshore and offshore leases. The 1989 appropriation request for these activities totals \$171,317,000. A summary of the program changes proposed for 1989 is provided below:

Outer Continental Shelf Lands: (-\$1,600,000)

This budget activity funds the offshore leasing, environmental, resource evaluation and regulatory programs which: (1) develop environmental impact statements (EISs) and environmental assessments both prelease and postlease to ensure compliance with the National Environmental Policy Act (NEPA) and conduct oil spill trajectory analyses to support the leasing program; (2) conduct lease sales; (3) classify OCS lands for their resource potential for oil, gas, and solid minerals; (4) evaluate tracts offered for lease by competitive bidding; (5) assure that the Government receives fair market value for leased lands through the determination of bid adequacy; (6) exercise regulatory authority over leaseable mineral prospecting, development, and production operations on the OCS lands; (7) develop and maintain an inventory of oil and gas activities; and (8) collect and distribute information concerning oil and gas activities to affected State and local governments. Funding is also provided for examination of possible solid mineral leasing and for resource evaluation activities on the OCS. The MMS activities that are associated with and related to solid minerals are coordinated with and draw directly upon work carried out by the U.S. Geological Survey (USGS), the Bureau of Mines, and the National Oceanic and Atmospheric Administration (NOAA).

Program changes, resulting in a total decrease of \$1,600,000 are distributed as follows:

- Environmental Studies. In FY 1988, Congress provided funds to accelerate studies in various frontier planning areas, such as the Straits of Florida, Northern California, and Washington-Oregon. These funds were effectively applied to specific studies. The \$900,000 can thus be offered as a decrease in FY 1989 without negatively affecting the program's ability to provide information for leasing decisions.

- Resource Evaluation Program. A decrease of \$700,000 is proposed in funding for the acquisition of geological and geophysical (G&G) data. This represents the phase-out of funds required to reimburse industry for processing costs of data and information acquired from permits issued on or before September 30, 1985.

Royalty Management (+\$3,045,000)

The Royalty Management Program provides for the collection, auditing, and compliance activities of the mineral revenues owed the Federal Government, States, and Indian lessors from minerals produced on Federal, Indian, and Outer Continental Shelf Lands. The program is comprised of three automated revenue and production accounting systems supported by a variety of auditing programs. The following changes in funding for Royalty Management are proposed:

- Mineral Revenue Collections. In 1989, the Department of the Interior plans to automate and centralize production reporting for the remaining onshore oil and gas leases. An increase of \$2,366,000 is requested in the Mineral Revenue Collections subactivity to fund this conversion and begin performing correction and exception resolution on production data from these leases. This increase is partially offset by a reduction of \$309,000 for retroactive exception processing.

Additional increases of \$1,995,000 in the Systems Development and Operation subactivity and \$45,000 in the General Support Services subactivity bring the total increase requested for onshore production reporting to \$4,406,000.

- Systems Development and Operation. An increase of \$1,995,000 is requested for software development, computer operations, and data entry to automate and centralize onshore oil and gas production reporting. This increase is partially offset by decreases for telecommunications equipment (\$175,000); operations and maintenance (\$607,000); and mainframe leasing (\$225,000).

General Administration (-\$168,000)

General administrative expenses provide for management, executive direction and coordination, administrative support, and common support costs for the Bureau. This includes such essential functions as budget, financial management, personnel administration, procurement and contract administration, property management, and information resources management. The Offices of the Director and the immediate executive staff are provided for in the Executive Direction subactivity. The Office of Administration and the Administrative Service Centers are supported by the Administrative Operations subactivity while fixed operational costs, such as rent, Federal and commercial communications, and postage, are funded in the General Support Services subactivity.

- General Support Services. The 1988 budget proposed an increase of \$213,000 for telecommunications needs at the consolidated Northern Virginia offices. This one-time expense is now proposed to be deleted from the base. This decrease is offset by an increase of \$45,000 for FTS costs associated with automating and centralizing onshore production reporting.

Appropriation Language Sheet

LEASING AND ROYALTY 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; [\$168,717,000] [^], of which not [less than \$171,317,000] \$50,179,000 shall be available for royalty management activities including general administration: Provided, That notwithstanding any other provision of law, funds appropriated under this Act shall be available for the payment of interest in accordance with 30 U.S.C. 1721 (b) and (d)] to exceed \$3,000 shall be available for reasonable expenses related to promoting volunteer beach and marine clean-up activities: Provided [further], That of the above enacted amounts, \$250,000 proposed for data gathering to help determine the boundary between State and Federal lands offshore of Alaska shall be available only if an equal amount is provided by the State of Alaska from State revenues to match the Federal support for this project [: Provided further, That none of the funds in this Act may be used to implement a rule which modifies NTL-5 until such time as H.R. 3479, or similar legislation, is enacted into law: Provided further, That audits may proceed but the Minerals Management Service shall take no action to collect unpaid or underpaid royalties on natural gas production from Federal onshore or Indian leases between January 1, 1982, and July 31, 1986, plus applicable interest, based on a value of production in excess of the lessee's gross proceeds (or minimum value required by the applicable lease terms and regulations in titles 25 and 30 of the CFR) until such time as legislation affecting NTL-5 for that period is enacted].

[Subsection (g)(5)(A) of section 8 of the Outer Continental Shelf Lands Act (43 U.S.C 1337(g)(5)(A)) is amended--

(1) by striking out "such account" in the second sentence and inserting in lieu thereof "an escrow account established pursuant to an agreement under section 7";

(2) by designating the indented clause as clause (ii);

(3) in the first sentence of the clause (ii) by striking "any" and inserting in lieu thereof "a", by striking out "all" and by inserting in lieu thereof "any additional", and by inserting "or credited to" before "the escrow account"; and

(4) by inserting before clause (ii) the following new clause:

"(i) Twenty-seven percent of all bonuses, rents, and royalties, and other revenues (derived from any bidding system authorized under subsection (a)(1)), excluding Federal income

and windfall profits taxes, and derived from any lease issued after September 18, 1978, of any tract which lies wholly within three nautical miles of the seaward boundary asserted by the Federal Government in the boundary dispute, together with all accrued interest thereon, shall be paid to the State either--

"(I) within thirty days of December 1, 1987, or

"(II) by the last business day of the month following the month in which those revenues are deposited in the Treasury, whichever date is later.".] (Department of the Interior and Related Agencies Appropriations Act, 1988.)

Justification of Proposed Language Changes

LEASING AND ROYALTY MANAGEMENT

1. Deletion: "less than \$50,179,000 shall be available for royalty management activities including general administration:"

This internal limitation on the funds appropriated is unnecessary. The Leasing and Royalty Management Appropriation account is divided into three separate budget activities, including "Royalty Management." A specific amount of funding is appropriated for each activity. The Appropriation Committees' reprogramming guidelines restrict the reallocation of these amounts and establish a process which provides needed flexibility to respond to changing circumstances. Thus, this limitation on funds available in the appropriation language is not necessary and hinders the optimal use of resources as program needs change during the fiscal year.

2. Deletion: "Provided, That notwithstanding any other provision of law, funds appropriated under this Act shall be available for the payment of interest in accordance with 30 U.S.C. 1721 (b) and (d)"

This provision allows the MMS to make interest payments to States when Federal onshore mineral leasing revenues are not disbursed within the timeframes required by law. Since the actual amount cannot be accurately predicted in advance, an indefinite annual appropriation is being requested in FY 1989 under the Miscellaneous Payments Activity in the Payments to States Appropriation.

3. Addition: "to exceed \$3,000 shall be available for reasonable expenses related to promoting volunteer beach and marine clean-up activities:"

This provision is requested to allow the Minerals Management Service to pay for reasonable expenses in conjunction with organizing or sponsoring volunteer beach and marine clean-up activities. The expenses could include the purchase of pins, T-shirts, decals, certificates of participation, or refreshments for receipt or consumption by Federal employees and private citizens involved in the clean-up activities.

4. Deletion: "Provided further, That none of the funds in this Act may be used to implement a rule which modifies NTL-5 until such time as H.R. 3479, or similar legislation, is enacted into law: Provided further, That audits may proceed but the Minerals Management Service shall take no action to collect unpaid or underpaid royalties on natural gas production from Federal onshore or Indian leases between January 1, 1982, and July 31, 1986, plus applicable interest, based on a value of production in excess of the lessee's gross proceeds (or minimum value required by the applicable lease terms and regulations in titles 25 and 30 of the CFR) until such time as legislation affecting NTL-5 for that period is enacted"

This language is no longer needed since the necessary legislation has been enacted and signed into law as P.L. 100-234 on January 6, 1988.

5. Deletion: "Subsection (g)(5)(A) of section 8 of the Outer Continental Shelf Lands Act (43 U.S.C 1337(g)(5)(A)) is amended--

(1) by striking out "such account" in the second sentence and inserting in lieu thereof "an escrow account established pursuant to an agreement under section 7";

(2) by designating the indented clause as clause (ii);

(3) in the first sentence of the clause (ii) by striking "any" and inserting in lieu thereof "a", by striking out "all" and by inserting in lieu thereof "any additional", and by inserting "or credited to" before "the escrow account"; and

(4) by inserting before clause (ii) the following new clause:

"(i) Twenty-seven percent of all bonuses, rents, and royalties, and other revenues (derived from any bidding system authorized under subsection (a)(1)), excluding Federal income and windfall profits taxes, and derived from any lease issued after September 18, 1978, of any tract which lies wholly within three nautical miles of the seaward boundary asserted by the Federal Government in the boundary dispute, together with all accrued interest thereon, shall be paid to the State either--

"(I) within thirty days of December 1, 1987, or

"(II) by the last business day of the month following the month in which those revenues are deposited in the Treasury, whichever date is later."

This provision permanently amended the Outer Continental Shelf Lands Act and thus does not need to be repeated in the 1989 appropriation language.

Appropriation Language Citations

LEASING AND ROYALTY MANAGEMENT

1. For expenses necessary for minerals leasing and environmental studies, regulation of industry operations, and collection of royalties, as authorized by law;

30 U.S.C. 181 et seq.

30 U.S.C. 181 et seq. provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.

30 U.S.C. 1701 et seq.

30 U.S.C. 1701 et seq. provides for comprehensive fiscal and production accounting and auditing systems to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed and to collect such amounts in a timely manner.

43 U.S.C. 1331 et seq.

43 U.S.C. 1331 et seq. extends the jurisdiction of the United States to the Outer Continental Shelf; provides for granting of leases to develop offshore energy and minerals; and provides for bonuses, rents, and royalties to be paid in connection with such leases.

43 U.S.C. 1801

43 U.S.C. 1801 establishes a policy for the management of oil and gas on the Outer Continental Shelf and development of environmental studies for lease sale areas and 5-year leasing programs.

43 U.S.C. 4321-4347

43 U.S.C. 4321-4347 provides congressional declaration of a national environmental policy.

2. for enforcing laws and regulations applicable to oil, gas, and other minerals leases, permits, licenses and operating contracts;

30 U.S.C. 189

30 U.S.C. 189 empowers the Secretary of the Interior to prescribe necessary and proper rules and regulations to carry out the purposes of this chapter (Title 30 - Mineral Lands and Mining).

43 U.S.C. 1334(a)(1)

43 U.S.C. 1334(a)(1) provides that "The Secretary shall administer the provisions of this subchapter relating to the leasing of the Outer Continental Shelf, and shall prescribe such rules and regulations as may be necessary to carry out such provisions...."

3. and for matching grants or cooperative agreements;

43 U.S.C. 1331-1343 43 U.S.C. 1801,
30 U.S.C. 1701, et seq.

4. including the purchase of not to exceed 8 passenger motor vehicles for replacement only;

31 U.S.C. 638(a)(b)

31 U.S.C. 638(a)(b) provides that "Unless specifically authorized by the appropriation concerned or other law, no appropriation shall be expended to purchase or hire passenger motor vehicles for any branch of the Government...."

5. \$171,317,000, of which not to exceed \$3,000 shall be available for reasonable expenses related to promoting volunteer beach and marine clean-up activities:

No specific authority

This provision is requested to allow MMS to pay for reasonable expenses in conjunction with organizing or sponsoring volunteer beach and marine clean-up activities.

6. Provided, That of the above enacted amounts, \$250,000 proposed for data gathering to help determine the boundary between State and Federal lands offshore of Alaska shall be available only if an equal amount is provided by the State of Alaska from State revenues to match the Federal support for this project.

No specific authority

This provision is included to ensure that the State of Alaska shares in the funding of the boundary project.

MINERALS AND ROYALTY MANAGEMENT

Activity/Subactivity Change Crosswalk - FY 1988 President's Budget

(In thousands of dollars)

<u>Format of FY 1988 Congressional Budget</u>	<u>FY 1988 Estimate</u>	<u>Format of FY 1989 Congressional Budget</u>	<u>FY 1988 Estimate</u>
<u>Appropriation/Activity/Subactivity</u>		<u>Appropriation/Activity/Subactivity</u>	
<u>Minerals and Royalty Management</u>		<u>Minerals and Royalty Management</u>	
A. Outer Continental Shelf Lands		A. Outer Continental Shelf Lands	
(1) Leasing & Environmental Program...	40,095	(1) Leasing & Environmental Program...	40,070
(2) Resource Evaluation Program.....	23,738	(2) Resource Evaluation Program.....	23,688
(3) Regulatory Program.....	29,447	(3) Regulatory Program.....	29,422
Total, Outer Continental Shelf Lands.....	93,280	Total, Outer Continental Shelf Lands.....	93,180
B. Royalty Management		B. Royalty Management	
(1) Mineral Revenue Collections.....	15,829	(1) Mineral Revenue Collections.....	15,829
(2) Mineral Revenue Compliance.....	14,912	(2) Mineral Revenue Compliance.....	14,912
(3) Systems Development & Operation...	19,199	(3) Systems Development & Operation...	19,199
Total, Royalty Management.....	49,940	Total, Royalty Management.....	49,940
C. General Administration		C. General Administration	
(1) Executive Direction.....	3,517	(1) Executive Direction.....	3,517
(2) Administrative Operations.....	9,986	(2) Administrative Operations.....	10,086
(3) General Support Services.....	11,994	(3) General Support Services.....	11,994
Total, General Administration.....	25,497	Total, General Administration.....	25,597
Combined Total.....	168,717	Combined Total.....	168,717

MINERALS AND ROYALTY MANAGEMENT

Activity/Subactivity Change Crosswalk - FY 1989 President's Budget

(In thousands of dollars)

Format of FY 1988 Congressional Budget

Appropriation/Activity/Subactivity

FY 1989 Estimate

Minerals and Royalty Management

A. Outer Continental Shelf Lands

(1) Leasing & Environmental Program... 39,099
(2) Resource Evaluation Program... 23,072
(3) Regulatory Program... 29,225
Total, Outer Continental Shelf Lands... 91,396

B. Royalty Management

(1) Mineral Revenue Collections... 17,738
(2) Mineral Revenue Compliance... 14,701
(3) Systems Development & Operation... 20,166
Total, Royalty Management... 52,605

C. General Administration

(1) Executive Direction... 3,550
(2) Administrative Operations... 9,944
(3) General Support Services... 13,822
Total, General Administration... 27,316

Combined Total... 171,317

Format of FY 1989 Congressional Budget

Appropriation/Activity/Subactivity

FY 1989 Estimate

Minerals and Royalty Management

A. Outer Continental Shelf Lands

(1) Leasing & Environmental Program... 39,074
(2) Resource Evaluation Program... 23,022
(3) Regulatory Program... 29,200
Total, Outer Continental Shelf Lands... 91,296

B. Royalty Management

(1) Mineral Revenue Collections... 17,738
(2) Mineral Revenue Compliance... 14,701
(3) Systems Development & Operation... 20,166
Total, Royalty Management... 52,605

C. General Administration

(1) Executive Direction... 3,550
(2) Administrative Operations... 10,044
(3) General Support Services... 13,822
Total, General Administration... 27,416

Combined Total... 171,317

Justification for Change to Activity/Subactivity Structure

In FY 1988, funds and FTE were transferred from the Outer Continental Shelf Lands Activity to the General Administration Activity to support the establishment of an administrative satellite office in Los Angeles, California. Due to the geographical separation from the Central Administrative Service Center located in Lakewood, Colorado, certain administrative functions were being performed by OCS Regional employees. This transfer reflects a more appropriate alignment of these functions.

Funds and FTE were transferred from the following OCS subactivities:

	<u>\$</u>	<u>FTE</u>
Leasing and Environmental Program	25,000	1
Resource Evaluation Program	50,000	2
Regulatory Program	<u>25,000</u>	<u>1</u>
Total	100,000	4

to the Field Administrative Services program element of the Administrative Operations subactivity.

Summary of Requirements

Appropriation: Leasing and Royalty Management

Summary of Base Adjustments	(Dollar amounts in thousands)			
	<u>FTE</u>	<u>Amount</u>	<u>FTE</u>	<u>Amount</u>
<u>Appropriation Currently Available, 1988.....</u>	---	---	2,042	168,717

Base Adjustments:

Adjustments for FERS (Difference between
FY 1988 Enacted and FY 1989 Estimated Costs)

Adjustment for January 1988 Pay Increase
(Full-Year Costs).....

Executive and Washington area
clerical pay increase.....

Rental payments to GSA and others.....

FTS.....

FTS Base Transfer
From Geological Survey.....
From Office of the Secretary.....

Postage.....

Workers' Compensation payments.....

Departmental Working Capital Fund.....

Total Base Adjustments.....

1989 Base Budget.....

-2,568

+1,655

+240

+755

+307

+700

+100

-44

+9

+169

1,323

1,323

2,042

170,040

Summary of Requirements (continued)
(Dollar amounts in thousands)

Comparison by Activity/Subactivity	FY 1987 Actual		FY 1988 Enacted to Date		FY 1989 Base		FY 1989 Estimate		Inc./Dec. from FY 1988		Inc./Dec. from FY 1989 Base	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
<u>OCS Lands</u>												
Leasing & Environmental Program	343	38,607	342	40,070	342	39,974	342	39,074	---	-996	---	-900
Resource Evaluation Program	340	26,162	352	23,688	352	23,722	352	23,022	---	-666	---	-700
Regulatory Program	424	27,927	416	29,422	416	29,200	416	29,200	---	-222	---	---
Subtotal	1,107	92,696	1,110	93,180	1,110	92,896	1,110	91,296	---	-1,884	---	-1,600
<u>Royalty Management</u>												
Mineral Revenue Collections	301	14,652	295	15,829	295	15,681	295	17,738	---	+1,909	---	+2,057
Mineral Revenue Compliance	225	13,526	256	14,912	256	14,701	256	14,701	---	-211	---	---
Systems Development & Operation	94	17,206	86	19,199	86	19,178	86	20,166	---	+967	---	+988
Interest on Late Payments	---	320	---	---	---	---	---	---	---	---	---	---
Subtotal	620	45,704	637	49,940	637	49,560	637	52,605	---	+2,665	---	+3,045
<u>General Administration</u>												
Executive Direction	66	3,153	72	3,517	72	3,550	72	3,550	---	+33	---	---
Admin. Operations	226	9,207	223	10,086	223	10,044	223	10,044	---	-42	---	---
Gen. Support Services	---	10,737	---	11,994	---	13,990	---	13,822	---	+1,828	---	-168
Subtotal	292	23,097	295	25,597	295	27,584	295	27,416	---	+1,819	---	-168
Total Requirements	2,019	161,497	2,042	168,717	2,042	170,040	2,042	171,317	---	+2,600	---	+1,277

Justification of Adjustments to Base

LEASING AND ROYALTY MANAGEMENT

	<u>FTE</u>	<u>Amount</u> <u>(\$000)</u>
<u>Federal Employees Retirement System</u>	---	-2,568
This adjustment is for the decrease in estimated retirement costs from the FY 1988 enacted level to the FY 1989 requested level and reflects changes in actuarial, switch rates, and thrift plan assumptions used to calculate agency contribution for FERS. Previous switch rate and thrift plan contribution rate assumptions have resulted in an overestimation of the base adjustment for FERS costs included in the 1988 enacted level. Actual experience indicates, for example, that the switch rate will be significantly lower than the previous 40% assumption and is now assumed to be 5%.		
<u>Adjustment for January 1988 pay increase (full-year costs)</u>	---	+1,655
Total cost in 1988 of pay increase.....		\$1,234
Adjustment for full-year 1989 cost		
of 1988 pay increase.....		+421
Total adjustment for 1988 pay increase.....		\$1,655
This adjustment is for the 2 percent Federal pay raise effective in January 1988. The total 1988 cost of \$1,234,000, which was fully absorbed in 1988, includes \$1,233,000 for general schedule pay and \$1,000 for wage board pay during 1988. An additional \$421,000 is required in 1989 to cover the full-year cost of the 1988 pay raise; of this amount, \$420,702 is for general schedule pay and \$298 is for wage board pay.		
<u>Executive and clerical pay raises</u>	---	+240
This adjustment is for the executive schedule pay increase effective February 5, 1987 (\$85,000) and the April 12, 1987 general schedule pay increase for certain clerical employees in the Washington, D.C. area (\$155,000) and reflects the FY 1989 full-year costs of these pay raises, for which full-year costs were absorbed in FY 1988.		
<u>Rent</u>	---	+755
This adjustment reflects the annual rate increase by the General Services Administration (GSA), increased costs in rental payments to others, and the cost resulting from the net change in the square footage and types of space occupied nationwide.		

<u>FTS</u>	---	+307
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This adjustment reflects the estimated increase in total costs for Federal Telecommunications System (FTS) as developed by the Department and GSA.

FTS Base Transfer

From Geological Survey.....	---	+700
From Office of the Secretary.....	---	+100

This adjustment reflects the transfer of funding to support corrected GSA billings for MMS FTS usage. Previously, GSA had been billing USGS and OS for approximately 1,170 and 125 FTS lines, respectively, which should have been billed to MMS. Costs for these lines have previously been covered by USGS and OS.

<u>Postage</u>	---	-44
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This adjustment reflects the estimated savings due to the conversion of the mail system from the prestamped Government envelope system to a metered mail system.

<u>Workers Compensation payments</u>	---	+9
--	-----	----

This adjustment is for costs for compensation to injured employees to be paid to the Department of Labor, Federal Employees Compensation Fund, pursuant to 5 U.S.C. 8147(b) as amended by Public Law 94-273.

<u>Departmental Working Capital Fund</u>	---	+169
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This adjustment is for increased costs assigned to the Bureau for administrative services provided on a Department-wide basis.

Activity Summary

Activity: Outer Continental Shelf Lands

(In thousands of dollars)

<u>Subactivity</u>	<u>FY 1987 Actual</u>	<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc. (+) Dec. (-) from 1988</u>	<u>Inc. (+) Dec. (-) from Base</u>
Leasing & Environmental Program	38,607	40,070	39,974	39,074	-996	-900
Resource Evaluation Program	26,162	23,688	23,722	23,022	-666	-700
Regulatory Program	<u>27,927</u>	<u>29,422</u>	<u>29,200</u>	<u>29,200</u>	<u>-222</u>	<u>---</u>
Total Requirements	92,696	93,180	92,896	91,296	-1,884	-1,600

Authorizations

43 U.S.C. 1331, <u>et. seq.</u>	The <u>Outer Continental Shelf Lands Act of 1953, as amended</u> , extended the jurisdiction of the United States to the Outer Continental Shelf (OCS) and provided for granting of leases to develop offshore energy and minerals.
43 U.S.C. 4321, 4331-4335, 4341-4347	The <u>National Environmental Policy Act of 1969</u> required that Federal agencies consider in their decisions the environmental effects of proposed activities and that agencies prepare environmental impact statements for Federal projects having a significant effect on the environment.
16 U.S.C. 1451-1464	The <u>Coastal Zone Management Act of 1972</u> established goals for ensuring that industry activity in the coastal zone is consistent with coastal zone plans set by the States.
16 U.S.C. 1531-1543	The <u>Endangered Species Act of 1973</u> established procedures to ensure interagency cooperation and consultations on endangered and threatened species.
16 U.S.C. 470-470w6	The <u>National Historic Preservation Act</u> established procedures to ensure protection of significant archaeological resources.

30 U.S.C. 21(a)
30 U.S.C. 1601
et. seq.

The Mining and Minerals Policy Act of 1970 and the Materials and Minerals Policy, Research and Development Act of 1970, set forth the continuing policy of the Federal Government, in the national interest, to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves. The MMS is responsible for the assessment of oil, gas, and strategic/critical mineral resources in the OCS and management of the exploration and development of OCS leases.

43 U.S.C. 1301

The Marine Protection, Research, and Sanctuaries Act of 1972 provided that the Secretary of Commerce must consult with the Secretary of Interior prior to designating marine sanctuaries. The MMS provides information regarding the mineral resource potential in areas being considered for designation as marine sanctuaries.

The Outer Continental Shelf Lands budget finances the sale and award of energy and mineral leases and regulation of exploration, development, and production on Federally-leased OCS lands. The budget for the program is described in three subactivities entitled: Leasing & Environmental Program, Resource Evaluation Program, and Regulatory Program. This division is a useful description of the major activities of the Minerals Management Service on the Outer Continental Shelf Lands, and each subactivity represents an integral component of a highly coordinated program.

Justification of Program and Performance

Activity: Outer Continental Shelf Lands
 Subactivity: Leasing and Environmental Program

(Dollar amounts in thousands)

<u>Program Element</u>		<u>FY 1988</u> <u>Enacted</u> <u>to Date</u>	<u>FY 1989</u> <u>Base</u>	<u>FY 1989</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u> <u>from 1988</u>	<u>Inc.(+)</u> <u>Dec.(-)</u> <u>from Base</u>
Leasing & Environ- mental Assessment	\$ (FTE)	17,305 (342)	17,209 (342)	17,209 (342)	-96 (---)	--- (---)
Environmental Studies	\$ (FTE)	22,765 (---)	22,765 (---)	21,865 (---)	-900 (---)	-900 (---)
=====						
Total Requirements	\$ (FTE)	40,070 (342)	39,974 (342)	39,074 (342)	-996 (---)	-900 (---)

Leasing and Environmental Assessment

Objectives

1. To make the Outer Continental Shelf (OCS) available for expeditious and orderly mineral resource development.
2. To prepare, revise periodically, and maintain an oil and gas leasing schedule (5-year program) to implement the policies of the Outer Continental Shelf Lands Act Amendments (OCSLAA).
3. To assure that protection of the environment is given full consideration in the planning of leasing and development activities on the OCS.
4. To ensure that leasing and permitting actions are in accordance with all Federal environmental laws and that required coordination with Federal and State agencies occurs, such as for endangered species, archaeological resources, and coastal zone management.
5. To provide affected States, and through such States affected local governments, with opportunities to participate in policy and planning decisions relating to leasing exploration, development, and production of minerals on the OCS.
6. To grant to the highest responsible qualified bidders, oil and gas and other mineral leases on submerged lands.
7. To provide information, through environmental and socioeconomic studies, to assist in the prediction, assessment, and management of impacts on the environment from OCS oil and gas and other mineral activities.

8. To determine size, timing, location, terms and conditions for each sale which provide a reasonable balance between the national interest and the well-being of the citizens of each affected State; and to communicate to the Governor of each affected State this determination vis-a-vis the Governor's recommendations.

Base Program

The primary functions of the Leasing and Environmental Assessment Program are: (1) to develop an OCS oil and gas leasing program which indicates as precisely as possible the schedule of lease sales which will best meet national energy needs for the 5-year period following its approval; (2) to manage and directly support the OCS minerals leasing activities; and (3) to obtain environmental information on, review, and assess the environmental impacts associated with the leasing program permits issued under the Resource Evaluation and Regulatory Program subactivities. Active coordination of the offshore minerals leasing program with other Federal agencies and ongoing consultation with affected State and local governments and the public occur throughout the development of the schedule and leasing process and are major tasks of this program. Figures 1 and 2 graphically depict the coordination, consultation and approval required through both the pre and postleasing processes of the offshore oil and gas leasing program. Additionally, the activities required to develop OCS strategic and critical minerals leasing procedures and expand the information base for potential future minerals development on the OCS will continue to be studied and evaluated.

In recent years the Leasing and Environmental Assessment Program has evolved into one that relies on continuous involvement with State and affected local governments, other Federal agencies, industry and public interest groups in the development and conduct of the Department's leasing program. The information transfers between these parties and the Department help the Secretary to achieve consensus on design and timing of lease sales, and promotes early resolution of issues and concerns regarding the leasing program. Information exchanges begin early in the leasing process with a Request for Interest or a Call for Information and Nominations, as appropriate, and continue throughout the pre and postlease phase (e.g., endangered species consultations and postlease development/production plan EIS hearings).

The OCS minerals leasing program also supports the Administration's goals of reducing the Nation's reliance on foreign oil sources, enhancing national security, and strengthening the Nation's economy. The OCS currently provides approximately 12 percent of domestic oil and 25 percent of domestic gas production.

Bonuses and rents paid for leases and royalties from subsequent production from the OCS have a positive effect on the Federal Budget. Approximately \$2.7 billion was received in FY 1987 from bonuses, rents, and royalties and an additional \$2.2 billion was received from escrow payout. Approximately \$4.4 billion is estimated to be received in FY 1989. Of this amount, royalty receipts from producing OCS leases are estimated to be \$3.2 billion.

Leasing activity on approximately 25 oil and gas sales will be in progress during FY 1989 (see Table 1), an increase of 5 sales over FY 1988. Also, one sulphur/salt sale will occur in FY 1988. Sales are scheduled in two California planning areas in FY 1989, which will require difficult decision and consultation processes to allow sales to occur as proposed. In FY 1989, there will be

Prelease Process

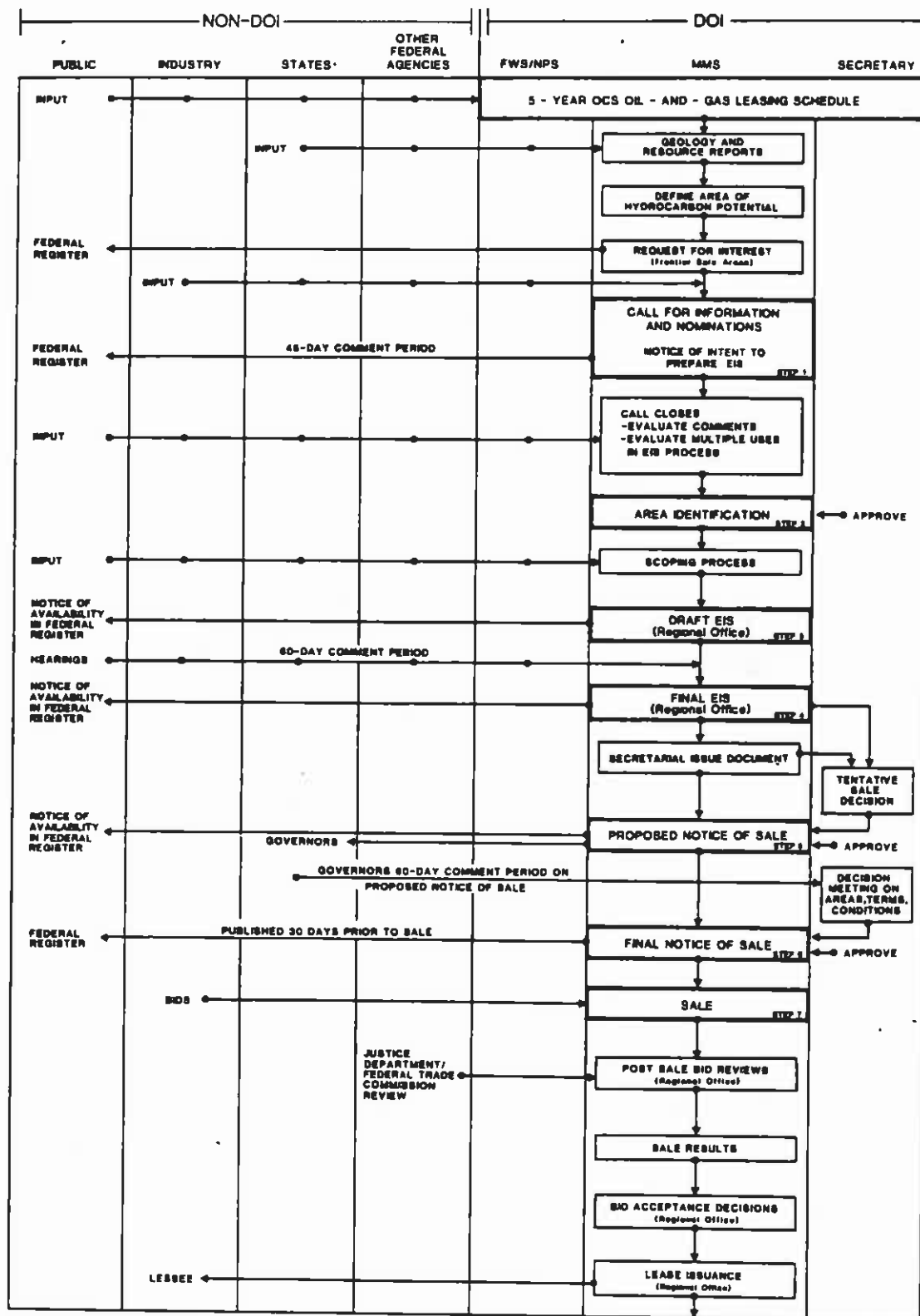


Figure 1

Postlease Process

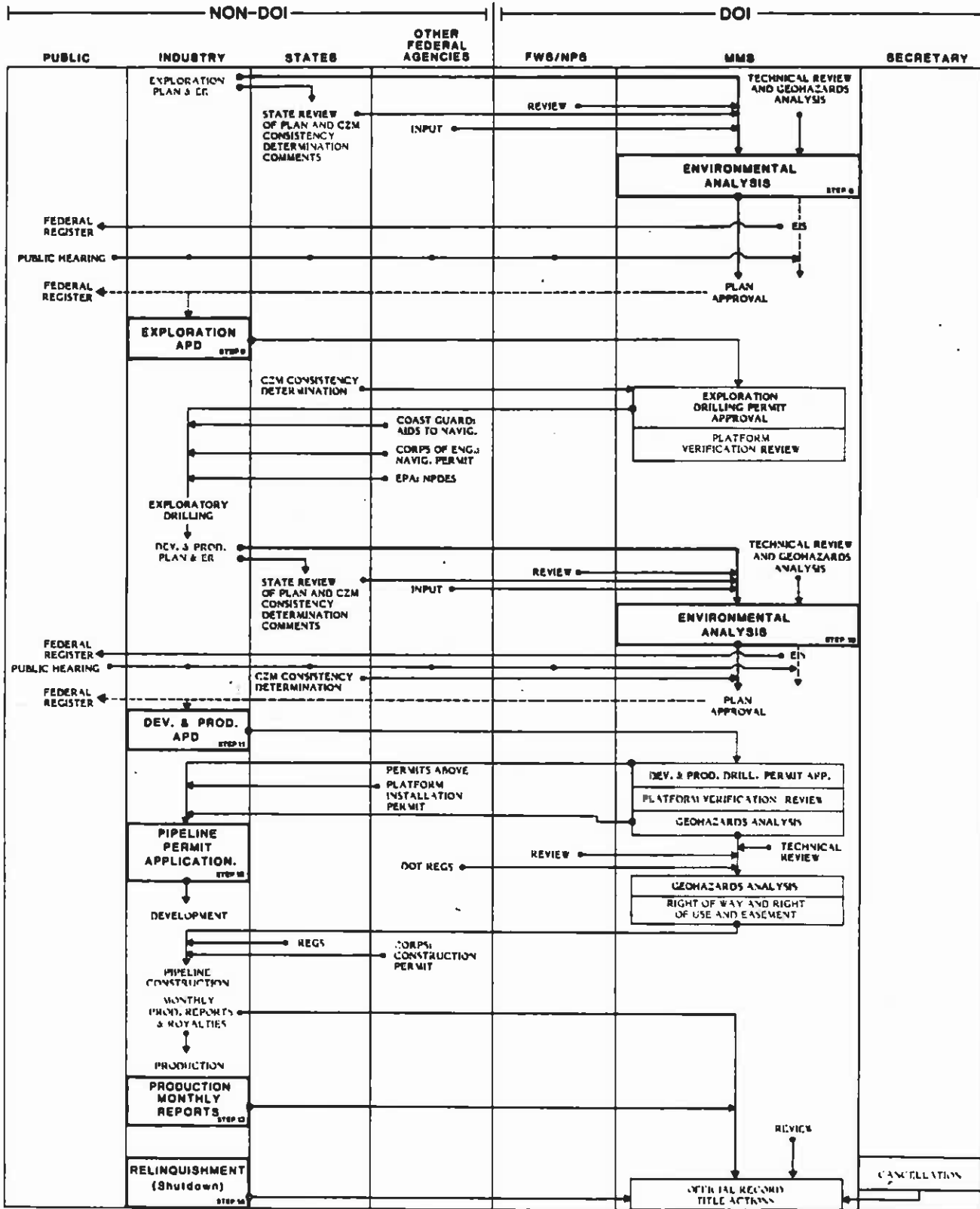


Figure 2

MMS-27

U.S. DEPARTMENT OF THE INTERIOR					
MILESTONES FOR 5-YEAR OFFSHORE LEASING SCHEDULE					
1987	1988	1989	1990	1991	DECEMBER 1987
JASOND JFMAMJJASOND	JFMAMJJASOND	JFMAMJJASOND	JFMAMJJASOND	JFMAMJJASOND	JFMAMJJASOND

[illegible]

***Frontier Exploration Sale. Request for Interest will be issued if necessary.**

R - Possible Request for Interest - Call for Information & Nominations
D - Comments on Call Due A - Area Identification E - Draft EIS H - Public Hearing
F - Final EIS I - Issue Environmental Assessment for Supplemental Sale
P - Proposed Notice of Sale G - Governor's Comments Due N - Notice of Sale S - Sale

For Budget Planning Purposes Only

continuing activities in all three Atlantic planning areas, including initial public and State consultation efforts for a proposed sale in the North Atlantic planning area. In Alaska, the proposed program entails work on follow-up sales for several Bering Sea sale areas, including completion of the Draft EIS, and public hearing for the next lease sale in the North Aleutian Basin.

The Alaska boundary project will be continued in FY 1989. This effort was initiated in FY 1984 because of long-term issues which continue to impact State and Federal oil and gas leasing programs in the territorial sea and on the OCS. When precise boundary locations cannot be determined, disputes arise as to which governmental entity may lease lands near to and abutting the 3-geographical mile line. In many areas around Alaska, the location of the 3-geographical-mile line boundary is not known. This situation exists because Alaska is remote and the costs of surveying are very high--up to \$6,000 per mile in some coastal areas. In addition, tidal readings (datums) used to establish the baseline (from which the 3-geographical-mile line is measured) must be accumulated for some time before that line can be determined. Without resolution of the boundary issue, Federal lease sales offshore Alaska may be cut back in terms of size, postponed, or not held due to further litigation such as the ongoing Supreme Court case in connection with the Federal/State boundary along the Beaufort Sea.

Plans are also being made to conduct the first supplemental sale, in FY 1989. Supplemental sales will be scheduled annually to allow the re-offering of blocks for which bids were rejected or forfeited during the preceding year, as well as drainage and development blocks where new information indicates economic benefits would result from their being offered earlier than at the next regularly scheduled sale in the planning area. Such lease sales will result in economic benefits to the Nation by allowing earlier production of oil and gas resources and the more orderly and efficient development of those resources.

While supplemental sales are very limited in size, and the prelease effort will be somewhat less than that required to conduct a regularly scheduled lease sale, required presale preparation steps will be completed to ensure compliance with the requirements of the OCS Lands Act, the National Environmental Policy Act, and other applicable statutes. Full consultation with the States and the public will still occur.

For the purposes of presentation, the Leasing and Environmental Assessment Program has been divided into subelement groupings. It is important to point out, however, that the subelements are not independent. Each phase, step, or activity of the prelease program is linked to and is interactive with other subelements. In most cases, individual staff members participate in many of the subelements.

Under subelement 1, a discussion of the development and review of the 5-year oil and gas program is provided. The activities included under subelements 2 and 4 are closely related but have been segregated to clarify the discussion. These sections provide information on the major leasing processes and documents. The information provided under subelements 3 and 7 cover the major environmental thrusts of the program while subelement 8 depicts the work effort involved with the administration of the Environmental Studies Program funded under the Environmental Studies program element. Subelements 5 and 6 discuss the lease sale and lease issuance and maintenance activities.

Also included are discussions of several program components which are not detailed in the discussion of the basic subelements. These discussions include: (1) Leasing area maps and diagrams which are used in various subprocesses and activities throughout the entire leasing process; (2) OCS Advisory Board coordination, which provides the Secretary and Director with expertise from States, the scientific community, the private sector, and the public; and (3) strategic and other minerals.

The nine major subelements of the Leasing and Environmental Assessment Program and their products are described below:

1. Development/Review of 5-Year Oil and Gas Leasing Program (\$434,000)

The Secretary of the Interior is responsible for the preparation of, maintenance, and periodic revisions to a leasing program. The program consists of a schedule of proposed lease sales, indicating the size, timing, and location of leasing activity that the Secretary determines will best meet national energy needs for a 5-year period following approval of the program. In accordance with section 18(e) of the amended OCS Lands Act, the Secretary is required to review the leasing program at least once each year. He may revise and reapprove the program at any time in accordance with statutory procedures. The program must be developed on the basis of a number of environmental, economic, and other factors which assure evaluation of the characteristics of each planning region, equitable sharing of developmental benefits and environmental risks, relative national and regional energy needs, relationships to other marine resource uses, relative environmental sensitivity and marine productivity, and other relevant information. Further, the Secretary is required to balance the potential for environmental damage, the potential for the discovery of oil and gas, and the potential for adverse effects on the coastal zone in developing this program.

During the preparation of a proposed 5-year leasing program, the Secretary of the Interior is required to invite and consider suggestions and relevant information from all interested parties, including Federal agencies, industry, and the Governor of each potentially affected State, and from the general public. Through the States, information is considered which may affect local governments. These comments and/or suggestions are submitted in response to a request for information issued as a notice in the Federal Register. Comments are requested on the geographical, geological, and ecological characteristics of the broad areas under consideration, other uses of offshore resources and space, identification of areas of environmental sensitivity and marine productivity, and the technological feasibility of, time periods required for, and interest in offshore exploration and development. The Secretary also sends letters to the Governors of affected States, asking them to identify specific laws, goals, and policies they believe should be considered in connection with the leasing program. States that are developing or administering a coastal zone management (CZM) program are also requested to supply information concerning the relationship between their CZM programs and potential offshore oil and gas activity.

After considering comments and information received, a Draft Proposed Leasing Program is prepared. A copy is sent to the affected States at least 60 days prior to publication in the Federal Register Notice of the Proposed Program. Written responses will be made to any request made by the Governors for modification of the Draft Proposed Program if such

requests are received at least 15 days before the Proposed Program is submitted to Congress. Within 90 days after publication of the Proposed Program in the Federal Register, comments and recommendations may be submitted on any aspect of the program. At least 60 days prior to approval, a Proposed Final Program is provided to the President and Congress, along with any comments received on the Proposed Program. This transmittal must indicate why any specific recommendations were not accepted. Sixty days after congressional notification, the Final Program is approved and published.

There are three basic developmental stages to the approval of a leasing program. The first stage is the Draft Proposed Program (DPP). This stage also includes the development of a draft Environmental Impact Statement (EIS). The next stage is the proposed program and includes the initial development of a Secretarial Issue Document and a decision memo. The final developmental stage is that of the Proposed Final Program (PFP). At this stage the final Environmental Impact Statement, the Secretarial Issue Document and other documentation are completed.

Recent activities and accomplishments for this subelement include:

- o Pursuant to P.L. 99-591, appropriating funds for FY 1987, a Draft Proposed Final Leasing Program for offshore California was completed and transmitted to the Congress for review in February 1987.
- o The Proposed Final Leasing Program was completed and submitted to the Congress in April 1987 for the 60-day review required by section 18 of the OCS Lands Act.
- o The final environmental impact statement on the Proposed Final 5-year Leasing Program was published and filed with the Environmental Protection Agency in FY 1987.
- o The Final Leasing Program for mid-1987 to mid-1992 was approved by the Secretary in July 1987.
- o Preparation for defense of suit brought by several States.

2. Prelease Process to Determine Specific Lease Sale Area that will be Analyzed in EIS (\$551,000)

For proposed lease sales which have been identified in the approved 5-year leasing program, a detailed prelease process is followed by the MMS to determine the area to be offered for sale and the lease terms and conditions for a sale. The objective of the initial steps in the prelease process through the Area Identification (discussed below in detail) is to determine the area to be considered for leasing and studied in the environmental analysis process under the National Environmental Policy Act. This determination is made by the Department after ample opportunity for public and governmental involvement which may include preliminary sale consultations with State governments, Congressional delegates or other Federal agencies prior to a Call for Information and Nominations, a 45-day public comment period on the Call, and a decision process at the Area Identification stage which considers all comments, concerns and expressions of interest in leasing received during the consultation process.

Following are discussions of the major workload areas of this subelement of the Leasing and Environmental Program:

a. Request for Interest

A request for interest may occur as a first prelease step. This is done to resolve leasing issues at an early stage, and may be part of a preliminary sale consultation. This is most likely to occur for sales proposed in frontier areas where there is limited industry interest. Industry's responses, along with other information, are used to determine if enough interest exists to begin the lengthy prelease process. In some regions, preliminary sale consultations may take the form of meetings and information exchanges with coastal States and members of Congress to discuss OCS concerns and issues. These meetings often require the development of specialized information (histories, statistics, briefing and option papers, graphics, and summaries) so the complex and technical activities of the offshore program can be adequately presented, reviewed, and evaluated.

A request for interest may be issued at any stage in planning for a proposed sale when it is believed that current economic or market conditions may have lowered industry interest or reduced the number of companies interested in exploring an area. The request to industry is published in the Federal Register, responses are analyzed, and a decision is made by the Assistant Secretary - Land and Minerals Management to proceed with, delay, or cancel the prelease process for that sale.

b. Call for Information and Nominations (Call)

The Call is a public participation and information-gathering step. It provides industry, the States, and the public with a formal opportunity to participate in the prelease process by submitting specific information (geological, biological, archaeological, socioeconomic, and technical) which might bear upon the potential leasing and development of particular areas proposed for lease (Figures 3 and 4). The comments are used in future decisionmaking points in the leasing process. Also, during this step, consultation begins with the Department of Defense to identify possible multiple-use conflicts in the sale area.

In the process used for focusing on promising acreage the Minerals Management Service will highlight on a map issued with the Call for Information and Nominations its view of the promising acreage within the Call area. The text of the Call will explain that while primary consideration would be given to the highlighted area, respondents may nominate any acreage within the Call area. Such nominations and comments will also be considered at the Area Identification stage for identification of the proposal to be analyzed in the EIS.

Industry, States, local governments, public interest groups, and individuals respond to the Call, published as a Federal Register Notice. A Notice of Intent to prepare an Environmental Impact Statement (EIS) is issued with the Call. This initiates the scoping process, which is discussed under subelement 3 on the following pages.

OCS PLANNING AREAS

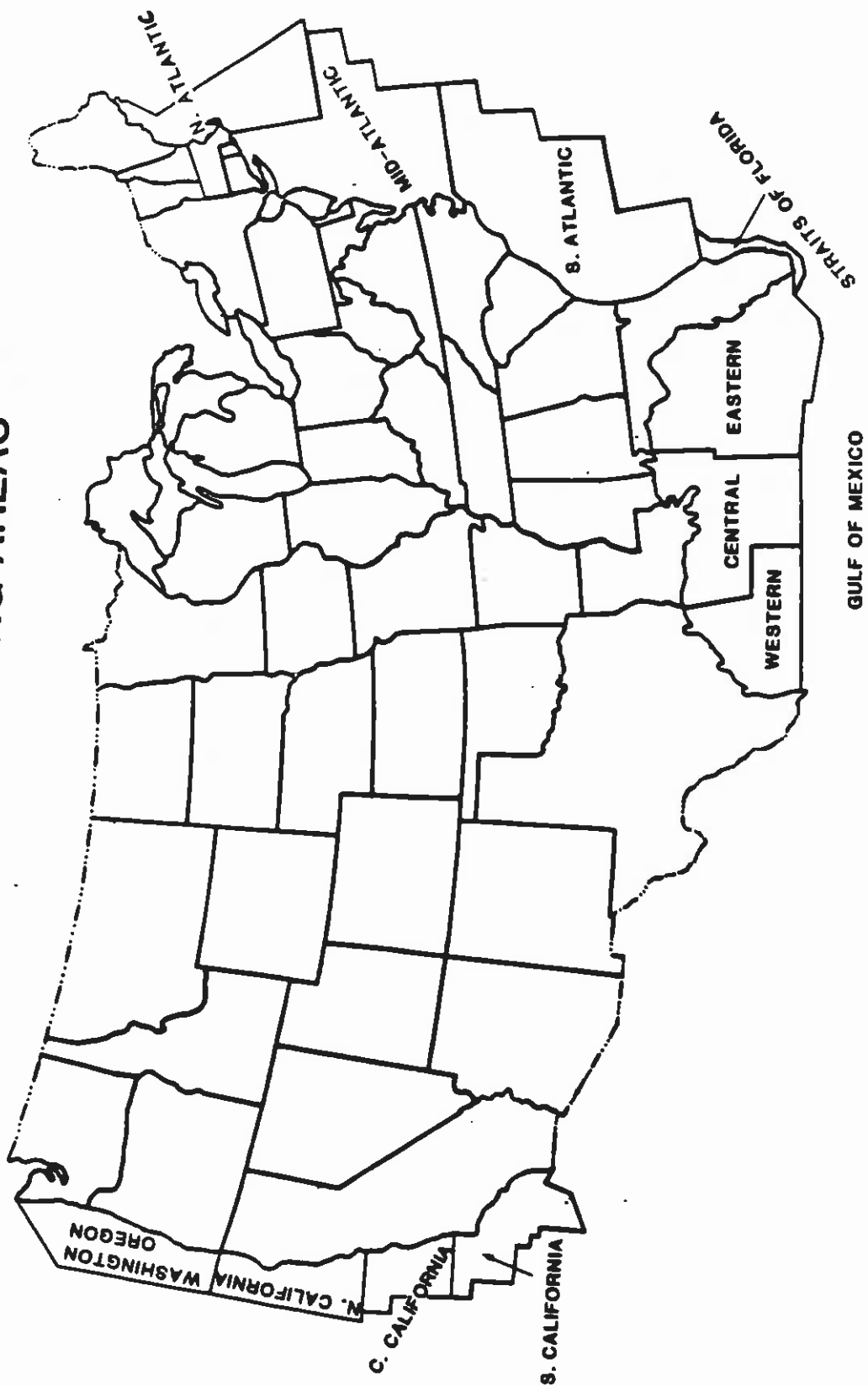


Figure 3

OCS PLANNING AREAS

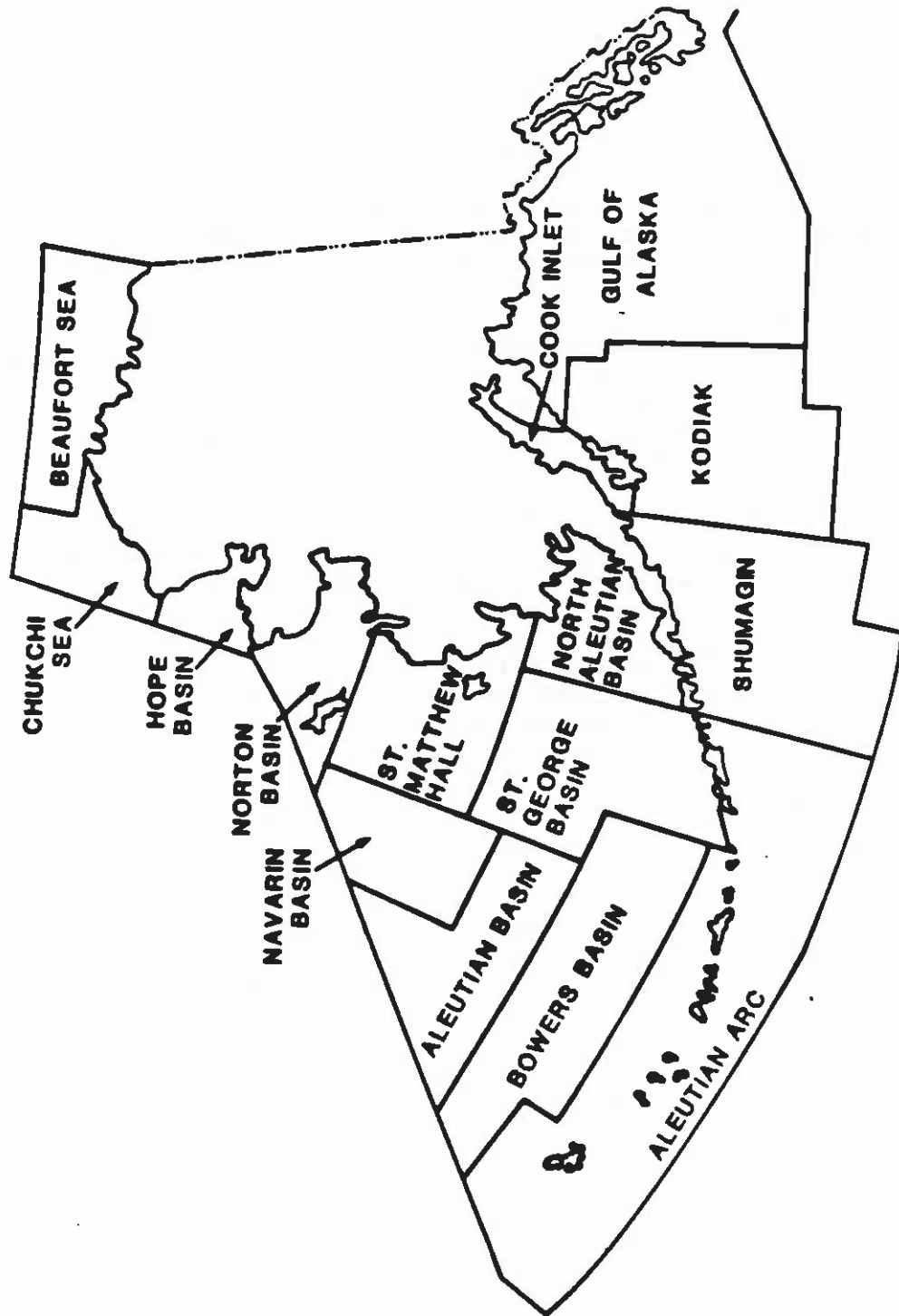


Figure 4

Industry identifies and ranks areas of potential for oil and gas development and provides information on sale terms and conditions. Government agencies and public respondents provide comments on the subjects listed above and on possible environmental conflicts in and near the proposed sale area. The resulting information is a direct input to the area identification step and is used in subsequent planning and analysis activities.

c. Area Identification

The purpose of this step is to select the area that will be further analyzed in the EIS as the proposed sale area. In preparation for the area identification decision, information received in response to the Call for Information and Nominations and other information such as that received during the development of the 5-Year Program is carefully reviewed. Industry provides priority information indicating the order in which it wants to explore areas. Industry also nominates areas it would like to lease, identifying them as being of high, medium, or low interest. In addition, the information and comments provided in response to the Call by States, local governments, and public interest groups is analyzed, summarized, and incorporated into the decision process.

Through the use of written material, briefings, and graphics, departmental decisionmakers are provided with information on industry interest; public concerns; State and local government positions; multiple use conflicts; resource potential; past leasing history; environmental, geophysical, and geologic conditions; recommendations on potential sale area configurations; and other relevant information. The concerns expressed by the public are addressed and the delicate process of weighing and balancing the activities associated with exploring for oil and gas with the need to protect the environment is continued.

Once area identification decisions are made, affected States and selected Federal agencies are provided with information regarding the proposed sale area. Also, at this point in the prelease process, consultations are initiated with States regarding potential boundary disputes in the proposed sale area.

Selected FY 1988 activities and accomplishments for this subelement include:

- o Initiate the prelease process for the Request for Interest for the following sales:

- 114 - Gulf of Alaska/Cook Inlet
 - 108 - South Atlantic

- o Initiate the prelease process for the Call for Information and Nominations for the following sales:

- 123 - Central Gulf of Mexico
 - 125 - Western Gulf of Mexico
 - 117 - North Aleutian Basin
 - 119 - Central California
 - 124 - Beaufort Sea

- o Continue the prelease process for Area Identification for sales:

- 95 - Southern California
- 121 - Mid-Atlantic
- 101 - St. George Basin
- 123 - Central Gulf of Mexico
- 125 - Western Gulf of Mexico
- 117 - North Aleutian Basin
- 114 - Gulf of Alaska/Cook Inlet
- 120 - Norton Basin

3. Prelease Environmental Assessment Process (\$5,601,000)

The Minerals Management Service normally prepares an Environmental Impact Statement (EIS) and holds public hearings on this EIS before the Secretary of the Interior decides whether to hold an OCS lease sale proposed on the 5-year oil and gas leasing schedule. These procedures are included in the leasing process to comply with the requirements of the National Environmental Policy Act (NEPA). The NEPA requires the preparation of an EIS before the conduct of any major Federal action which could significantly affect the quality of the human environment and specifies the basic information that the EIS shall include. In limited instances for small-scale sales (such as supplemental sales), an environmental assessment may be prepared for the sale to determine whether an EIS is needed. The Council on Environmental Quality (CEQ) was established by NEPA as the agency responsible for overseeing compliance with the Act by Federal agencies.

The prelease environmental analysis process may be started as early as one year before the Call for Nominations with the development of general descriptive material. Following the Call for Information and Nominations and issuance of a Notice of Intent to prepare an EIS, the scoping process (required by CEQ regulations) begins. Scoping is the process of identifying the range and significance of important issues associated with a proposed Federal action and alternatives to that action through coordination and consultation with Federal, State, and local governments; the public; and any interested individual or organization before pursuing development of an EIS. Information gathered through the request for data from the Call for Information and Nominations, through the Environmental Studies Program, and from ongoing exploration and development activities is also reviewed during the scoping process. This leads to the identification of major issues and alternatives to be addressed in the EIS and assists in the design of the sale proposal. Topics addressed in the EIS usually include effects of the leasing proposal on air and water quality, archaeological resources, endangered species, marine mammals, fisheries, areas of special biological concern, and onshore socioeconomics.

One of the most useful inputs to the prelease environmental analysis process is the oil spill risk analysis. This is a computer modeling technique that incorporates the best available physical oceanographic and meteorological data; estimated locations and potential volumes of oil projected to be produced and transported over the life of the proposed leases if commercial quantities of hydrocarbons are discovered and developed; the locations of environmental resources (e.g., fish spawning areas, recreational beaches, whale migration routes, etc.); potential transportation routes; and the likelihood of oil spills based on historical accident rates. The model provides a measure of the likelihood of oil spill occurrence, as well as the estimated mean trajectories of spills in relation to recreational and

biological resources. To report model results, an oil spill risk analysis report is prepared for each EIS. The availability of adequate environmental data, such as that on wind and ocean currents, is an important factor. The Environmental Studies Program provides for timely gathering and analysis of these data, as well as the examination of historical oil spill production and accident statistics. Oil resource estimates used in the model are provided by the Resource Evaluation Program.

The development of mitigating measures appropriate to the pertinent environmental concerns is another critical phase of the prelease NEPA process. Lease stipulations and Information to Lessees clauses, which are implemented through work in the Regulatory Program, are developed in conjunction with the environmental analyses. Included is an analysis showing impacts to environmental resources assuming (1) that no mitigation is used, and (2) that the proposed mitigation is used. In this way, the efficacy of the proposed measures is apparent. These mitigating measures, in conjunction with the existing regulatory framework, have proven to be an effective and economical means of minimizing many potential adverse environmental effects while allowing the search for offshore oil and gas resources to proceed. Additionally, much of the analytical environmental work carried out at this stage provides background information that directly supports environmental analyses related to review and permitting of postlease activities.

Pursuant to Section 7 of the Endangered Species Act of 1973, the Minerals Management Service formally consults with the National Marine Fisheries Service (NMFS) and the U.S. Fish and Wildlife Service (FWS), as appropriate, if the proposed activity has the potential to affect an endangered or threatened species or harm its critical habitat. The Minerals Management Service provides NMFS/FWS with detailed background information on each lease sale and formally requests consultations and "Biological Opinions" on whether OCS mineral leasing or exploration in an area will jeopardize the continued existence of endangered or threatened species or destroy or adversely modify their habitat. The formal consultation process is associated with the preparation of the EIS and the information provided is factored into the EIS analysis and/or the lease-sale decision process. Additional consultation is undertaken as necessary as a part of the postlease environmental activities at the development stage. A Draft Environmental Impact Statement (DEIS) is filed with the Environmental Protection Agency (EPA) and released for public review about 8 months after the Area Identification. A Notice of its availability is published in the Federal Register, and the document is made available upon request.

Public Hearings are held in the vicinity of the proposed lease-sale area for the purpose of receiving comments on the draft EIS. These hearings are held within the 45- to 60-day public review period with the time and location of the hearing being announced in the Federal Register. Written or verbal testimony is invited from environmental organizations; the academic community; Federal, State, and local government representatives; industry, and the public.

The information received through public hearings and the public comment process is analyzed along with any newly acquired information and, when appropriate, is incorporated into a final EIS. At this stage, new mitigating measures may be included after comments from affected States and other interested parties are reviewed. In some cases, new deferral options

are developed and incorporated into the final EIS. Usually about 3 to 5 months after the public hearing, the final EIS is filed with EPA and made available to the public. Notice of its availability is published in the Federal Register.

Technical papers may be prepared to support the lease sale EIS's and can be incorporated by reference into the EIS, thus avoiding lengthy technical and descriptive material, while maintaining the usefulness of the EIS as a decisionmaking document.

Description of Subelement Products

a. Scoping Process and Report

Scoping is conducted in response to CEQ regulations. Preparation, review, and approval of a scoping report takes place within 2 months after Area Identification. The scope and significance of the major issues associated with the proposed lease sale and alternatives to that action are included in the report. These issues and alternatives are addressed in the EIS and are used to help design the sale proposal.

b. Draft Environmental Impact Statement

The NEPA requires preparation of an EIS before the conduct of any major Federal action which could significantly affect the quality of the human environment. The DEIS is filed with EPA, a notice of its availability is published in the Federal Register, and the document is released for public review.

c. Oil Spill Risk Analysis and Report

The oil spill risk analysis examines potential risks from proposed and existing production and transportation of oil in United States waters and provides a quantitative basis for discussion in the environmental impact statement. It estimates the probabilities of oil spills from the lease area occurring and contacting environmental resources. A formal report describing the oil spill model analysis (including assumptions and findings) is prepared for each EIS.

d. Endangered Species Consultation

In accordance with Section 7 of the Endangered Species Act, formal consultation is required if the proposed lease sale activity has the potential to affect an endangered or threatened species or harm its critical habitat. Information gathered during these consultations is used in the EIS and/or the lease-sale decision process.

e. Public Hearings

A 45- to 60-day comment period immediately follows public availability of the draft EIS. Public hearings are held in a location convenient to residents in the areas adjacent to the proposed sale area. Notification

of the intent to hold public hearings is published in the Federal Register, including the date, location, and procedures for providing oral and written testimony.

f. Final Environmental Impact Statement (FEIS)

The FEIS, which includes an analysis of pertinent comments received during the comment period and any newly acquired information, is prepared and filed with EPA 3 to 5 months after the public hearings. A notice of its availability is published in the Federal Register and the document is released for public review.

g. Environmental Assessment

An environmental assessment may be prepared to evaluate the environmental effects of new issues which may arise after completion of the FEIS, or for smaller scale sales, such as supplemental sales or sulphur/salt sales.

h. Technical Papers

Technical papers are normally listed and summarized as supporting documents in the appendix section of environmental impact statements. Copies are made available, upon request, to program reviewers.

Recent activities and accomplishments for this subelement include:

- o The following EIS's have been published and filed with the Environmental Protection Agency during FY 1987:
 - Sale 97 - Beaufort Sea (Draft and Final)
 - Sale 109 - Chukchi Sea (Draft)
 - Sale 113/115/116 - Gulf of Mexico (Draft)
 - Sale 110/112 - Gulf of Mexico (Final)
- o The MMS continued improvements to its oil spill risk analysis model by testing methods to better project the movement, spreading, and dissolution of oil spills on the ocean surface. The enhanced model provides additional information on possible impacts if an oil spill were to occur.

4. Lease Sale Notification and Decisions (\$1,207,000)

The objective of this subelement is to build upon the analyses performed under subelements 2 and 3 and culminates in the decision on lease sale configuration, terms, and conditions. To this end, activities discussed below focus on important factors for the decisionmakers, and solicit participation of Department of the Interior executives, other Federal agencies, State and local governments, and the private sector. This coordination and distillation of issues and options builds upon information collected and analyzed throughout the prelease process and culminates in the lease sale.

Description of Subelement Products:

a. Secretarial Issue Document (SID) and Associated Decision Material

The purpose of the SID is to clearly and concisely present information which the Department of the Interior needs to make decisions on the size, timing, location, terms, and conditions of a proposed lease sale, and to provide a basis for the balancing decisions between State and national interests as required by section 19 of the OCSLAA. While the SID is only one of a number of decision documents presented to the decisionmaker, it is significant because it integrates all the analyses relevant for decisionmaking including environmental, legal, economic, technical, and hydrocarbon resource information.

The SID relies heavily on the EIS which accompanies the SID through the decision process. The SID focuses on analysis and detailed discussion of sale-related issues and synthesizes information germane to decision-making. The SID contains no recommendations but rather presents the advantages and disadvantages of each decision option. It contains a neutral summary of factors relevant to the decisions to be made and does not attempt to support a particular point of view.

A decision memorandum summarizing all sale issues and options for decisions is presented to the Assistant Secretary for Land and Minerals Management (AS/LM). It is accompanied by the SID, the EIS, and the decision sheet. Departmental decisionmakers are provided copies of the decision material and their recommendations are solicited. The AS/LM, with the benefit of the analyses and recommendations of other Department officials selects the size, timing, location, terms, and conditions which are then included in the proposed Notice of Sale document.

b. Proposed Notice of Sale

A Federal Register Notice announcing the availability of the proposed Notice is published about 90 to 120 days before an oil and gas lease sale is held. The Proposed Notice contains specific information on the blocks and bidding units which may be offered for sale. It also specifies lengths of lease terms, minimum bid levels, rentals, royalty rates, and numerous items of information to prospective bidders, including stipulations, joint usage conditions, and bidding instructions. This step gives the public, industry, and other agencies such as the Department of Defense, an opportunity to comment on the sale proposal.

Gulf of Mexico Notices are supplemented with detailed maps providing additional information on blocks and bidding units, acreage, and status. This material is mailed promptly to qualified bidders, and upon request, to all parties.

c. Section 19 Consultation

Section 19 of the OCSLAA mandates that Governors of affected States be provided the opportunity to comment on the size, timing, and location of a proposed lease sale. The Governors receive the Proposed Notice,

the SID, the EIS, and the Proposed Notice decision memorandum for information on the decision process. The letter transmitting the material describes the decisions made at this stage in the prelease process and explains how the State's comments on the sale and its coastal zone management policies were considered in making the decisions on the proposed Notice. It also invites the Governor's comments on the size, timing, and location of the proposed sale, as required by Section 19 of the OCSLAA. During the following 60-day review period, the MMS may meet with State officials to discuss and possibly resolve issues associated with the proposed sale.

d. Final Notice of Sale Decision Memorandum

Once comments on the Proposed Notice are received from the Governors of affected States and interested parties, the MMS prepares a decision memorandum to the Secretary outlining the final decisions to be made on the proposed sale. The decision memorandum summarizes the comments on the Proposed Notice, analyzes all of the sale issues, and if needed, presents new decision options addressing concerns raised by commenters. It is an important analytical document since it contains information of any new decision options developed for Secretarial decision. The SID, the EIS, the proposed Notice decision memorandum, the proposed Notice itself, comments on the Proposed Notice, a recommendation memorandum and transmittal memorandum along with a Final Notice decision sheet accompany the Final Notice decision memorandum given to the Secretary.

e. Final Notice of Sale

Once a decision is made to hold a sale, a Final Notice of Sale is published in the Federal Register at least 30 days before the announced sale date. This Notice, in similar manner to the Proposed Notice, includes, in final form, the various terms and conditions applicable to the sale and to ensuing leases. It places limitations on joint bidders (by Federal Register reference) and establishes the stipulations applicable to the various blocks offered, and procedures to be followed by successful bidders in making the balance of payments due and obtaining their leases.

f. Balancing Letter

In accordance with section 19 of the OCSLAA, the Governor of each affected State is notified, in writing, of the Secretary's reasons for his determination to accept or reject the Governor's recommendations on the lease sale. Section 19 requires the Secretary to accept such recommendations if he determines, after having provided the opportunity for consultation, that they provide for a reasonable balance between the national interest and the well-being of the citizens of the affected States. A letter explaining the balance reached is sent to each Governor with a copy of the Final Notice of Sale.

Planned FY 1988 activities and accomplishments for this subelement include:

- o Complete Proposed Notice of Sale decision process (Secretarial Issue Documents, decision memorandum, Proposed Notice of Sales, and section 19 letters and consultations) for:

- Sale 113 - Central Gulf of Mexico
- Sale 109 - Chukchi Sea
- Sale 115 - Western Gulf of Mexico
- Sale 107 - Navarin Basin
- Sale 116 - Eastern Gulf of Mexico
- Sale 91 - Northern California
- Sale 96 - North Atlantic
- Sale 118 - Central Gulf of Mexico

- o Complete Final Notice of Sale decision process (decision memorandum, final Notice of Sale, and balancing letters and consultations) for:

- Sale 97 - Beaufort Sea
- Sale 113 - Central Gulf of Mexico
- Sale 109 - Chukchi Sea
- Sale 115 - Western Gulf of Mexico
- Sulphur/Salt Sale - Central Gulf of Mexico

- o Conduct sales for:

- Sale 97 - Beaufort Sea
- Sale 113 - Central Gulf of Mexico
- Sale 109 - Chukchi Sea
- Sale 115 - Western Gulf of Mexico
- Sulphur/Salt Sale - Central Gulf of Mexico

5. Lease Sale and Issuance of Leases (\$509,000)

The prelease process of MMS ends with the conduct of the lease sale and the issuance of leases from that sale. The sales of Offshore leases are conducted under competitive bidding procedures. Separate sealed bids are submitted for each block bid on and are received before the date of the sale as specified in the Final Notice. The purpose of this lease sale step is to record and publicly announce the bids received; no bids are rejected or accepted at the sale. After the bid opening, the MMS conducts a review of the bids to determine whether the highest valid bid for each block exceeds our bid adequacy criteria. Technical and economic information gathered prior to the lease sale for the purpose of evaluating the potential mineral resource value of the blocks (provided by the Resource Evaluation Program subactivity) is considered during this review. The evaluation and acceptance or rejection of the bids on a case-by-case basis must, by regulation, occur within 90 days after the lease offering is held. Pertinent information is sent to the Department of Justice, Antitrust Division, and the Federal Trade Commission (FTC) for review. The Justice Department and FTC recommendations are considered in the final decision on which bids will be accepted or rejected.

Lease sales are conducted by the appropriate OCS regional office. Before most sales, extensive training sessions and mock sales are held to assure that all procedures and activities are carried out accurately and quickly. Detailed procedures are put in place to safeguard bids, facilitate the public opening and announcement of bids, adjudicate bid documents, enter information into computers for processing, and create the reports used by managers in the bid acceptance or rejection process. Monies received for the one-fifth bonuses, which are required when bids are submitted, must be protected, recorded, and deposited in the U.S. Treasury or returned, in a timely manner, to unsuccessful bidders. Facilities large enough for the sale are procured in each region for each sale. In FY 1989, seven regular and one supplemental sale are scheduled.

6. Postlease Adjudication and Maintenance of Leases (\$562,000)

The records for each lease must be maintained until that lease is terminated by law, relinquished, or expires. In FY 1987, approximately 5,242 lease records were being maintained in the four regional offices. Maintenance includes actions related to assignments of record title (approved by the Department of Justice), relinquishments, extensions, rentals, status (tract and serial register books), statistics, and the development and updating of bidder qualification files.

Once marketable quantities of oil or gas are found, a permit is required to transport the product across the OCS. Pipeline rights-of-way are granted only after appropriate consultation and coordination is conducted with other agencies.

7. NEPA Review for Industry Activities (\$2,768,000)

After the issuance of a lease, lessees are notified of any special requirements (outside of the normal requirements set forth in OCS regulations) on a lease needed to mitigate potential impacts identified during the prelease NEPA process and the Secretarial decision process. Such special requirements include those measures needed to fulfill the stipulations developed through the prelease NEPA process that are included in the lease contract for specific tracts.

Lessees develop plans detailing their proposed actions for exploration and, if sufficient resources are discovered, eventually plans for development and production including pipeline activities. Each plan must contain a certification of consistency with applicable State plans approved under the CZMA. In close coordination with work carried out by the Regulatory Program, each plan and accompanying environmental report are reviewed to determine whether they meet the requirements under the OCS Lands Act and relevant associated environmental laws and special lease stipulations, and will acceptably mitigate adverse impacts to the environment. Included is a detailed review of the impacts from the proposed activities and of the mitigation measures needed for oil spill prevention and cleanup, air quality, water quality, biologically sensitive areas and species (including endangered species, marine mammals, and fishing concerns), archaeological and cultural resources, onshore support and storage facilities, and relevant meteorological, oceanographic, and geological conditions. During the review, other Federal agencies and affected States are consulted, including agencies for endangered species consultations and State Historic Preservation Officers.

Upon completion of the review, an environmental analysis is prepared in the form of a categorical exclusion review or an environmental assessment, as required by NEPA, for each plan. The analysis is used as a decisionmaking tool to determine whether the environmental impacts are acceptably mitigated and to determine if an EIS must be prepared. An EIS, with possible attendant public hearings, is required prior to plan approval if potential impacts can significantly affect the human environment. If the plan and mitigation measures are acceptable, the plan is approved.

In addition, Section 25 of the OCSLAA provides that an EIS will be required for the approval of at least one oil and gas development and production plan in any area other than the producing areas of the Central and Western Gulf of Mexico and the Santa Barbara channel offshore California.

During conduct of lessee operations, activities are monitored to ensure compliance with any required mitigation measures and that the measures in place are sufficient to mitigate the adverse impacts. By carefully evaluating the mitigation measures, technical and operational requirements are kept up-to-date and are incorporated in regulations, orders, and conditions for granting permits. At the end of the life of a platform, the MMS reviews the lessee's proposed method of its removal, prepares an Environmental Assessment, and completes Endangered Species Act section 7 consultations.

Also as part of its oversight of industry activity, MMS does an environmental review of proposals for geological and geophysical activities permitted under the Resource Evaluation Program. These activities typically require Categorical Exclusion Reviews or Environmental Assessments.

Description of Subelement Products

a. Categorical Exclusion Review for Regulatory Action

The Department's categorical exclusions (CE) cover actions which in its experience do not cause significant environmental effects. Included as CE's are most exploration, development, and production plans in the central and western Gulf of Mexico, and rights-of-way permits that do not result in a new pipeline corridor to shore. Prior to approval of such plans or permits, a categorical exclusion review of the environmental effects of the activities proposed in the plan is made. If the potential for a significant impact or some controversy does not exist, the plan may be approved. Otherwise, an environmental assessment is prepared.

b. Environmental Assessment (EA) for Regulatory Action

For non-categorically excluded activities, the environmental effects of the activities proposed in the plan are reviewed prior to approval of an exploration plan or a development/production plan in accordance with NEPA. During the reviews, environmental effects are analyzed and documented in an EA. If a significant impact is found, in accordance with NEPA, an EIS is prepared. Otherwise, the plan may be approved.

c. Environmental Impact Statement for Regulatory Action

The NEPA compliance for development and production plans results in the preparation of an EIS when MMS concludes that the environmental assessment indicates that approval of the plan would constitute a major Federal action significantly affecting the quality of the marine, coastal, or human environment. Notice of the availability of a draft EIS is published in the Federal Register and public hearings are held. After reviewing public comments, a final EIS is prepared and a decision can be made on the plan.

d. Oil Spill Risk Analysis and Report

An oil spill risk analysis may be prepared for each development/production plan EIS and some DPP EA's. The analysis examines potential risks from proposed and existing production and transportation of oil in United States waters and provides a quantitative basis for discussion in the development and production plan EIS. A formal report describing the oil spill model and analysis (including assumptions made and results) may be prepared.

e. Endangered Species Consultation

The Endangered Species Act (ESA) section 7 consultation conducted in the prelease process covers exploration activities. Such consultation may be reinitiated at the development stage if the proposed development/production activity has the potential to affect an endangered or threatened species or harm its critical habitat. Information gathered during these consultations is used in the decision process for approval of development/production plans. Consultation may be reinitiated at any time if an action or its effects change significantly or if new biological information or effects warrant reexamination of previous biological opinions.

f. Environmental Reports Review

Environmental reports are prepared by the lessee or operator and submitted along with an exploration or a development/production plan. These documents are reviewed, along with the plan, and must be approved before exploration or development and production activities can begin.

g. Categorical Exclusion Review for Geological and Geophysical Activity

Prior to issuing a permit to conduct a Geological and Geophysical (G&G) survey (an activity conducted through the Resource Evaluation Program), the MMS conducts an environmental analysis of the potential effects of the proposed survey activities. Approval of such activities are categorically excluded except when the proposed activity includes the drilling of deep stratigraphic test holes or uses solid or liquid explosives. If the categorical exclusion review shows a potential for a significant impact or some controversy, an environmental assessment must be prepared. Otherwise, the permit may be approved.

h. Environmental Assessment for Geological and Geophysical Activity

An environmental assessment is prepared if (1) the permit involves deep stratigraphic drilling or the use of explosives, or (2) the categorical exclusion review shows the potential for causing a significant impact or some controversy. The permit may be approved if no significant impact is found.

Recent activities and accomplishments for this subelement include:

- o An environmental impact statement was prepared jointly with the State of California for the San Miguel Project development and production plan in the Santa Barbara Channel area.
- o In order to address the wide range of issues concerning the air quality impacts from OCS facilities adjacent to California, MMS participated in a negotiated rulemaking process to revise its OCS air quality rules. Other coalitions participating in the facilitated meetings represented the State of California, local air quality agencies and governments, environmental groups and industry. The MMS was supported in the Federal coalition by the Department of Justice, the Department of Energy, the Office of Management and Budget, and the Environmental Protection Agency. The information gathered during the negotiated rulemaking process will be used to revise the air quality rules for OCS facilities adjacent to California.
- o The MMS prepared a report to Congress pursuant to section 20(e) of the Outer Continental Shelf Lands Act for assessment of the cumulative effect of activities conducted under the Act.
- o The MMS and the National Marine Fisheries Service (NMFS) jointly developed and implemented expedited procedures to conduct ESA section 7 consultations for removal of Gulf of Mexico oil and gas platforms. These consultations are needed because removal of platforms with explosives could adversely affect endangered marine turtles. The procedures with NMFS were set up to assure timely completion of necessary consultations. These procedures provide a way to facilitate environmentally safe removal of platforms and similar structures. An assessment of the risk to endangered and threatened sea turtles as a result of structure removals by explosives in the Gulf of Mexico region is being conducted by both MMS and NMFS. A proposed survey to address the relative abundance and distribution of sea turtles in relation to OCS structures is currently in the planning stage and is likely to provide needed information on the seasonal and distributional movement of these species. In addition, MMS is reviewing recent information on mitigating the potential risk to sea turtle species by using available air-gun technology as a hazing technique to displace any sea turtles from the immediate vicinity of a removal.

8. Environmental Studies Management (\$2,631,000)

As stated in the OCSLAA, the purpose of the Environmental Studies Program (ESP) is ". . . to establish information needed for prediction, assessment, and management of impacts on the human, marine, and coastal environments

which may be affected by OCS oil and gas activities . . . " The ESP has been continually evolving and changing to meet the needs of the OCS activities. The most recent changes, which respond to the final proposed 5-year OCS leasing schedule for the period from 1987 through 1991, include: (1) greater balance between prelease and postlease studies; (2) greater emphasis on generic studies; (3) development of a strategy for postlease monitoring studies; and (4) increased emphasis on summary reports using existing information.

The knowledge gained from the studies conducted under this program are used by the Department in making decisions on the development of oil and gas and other marine mineral resources. The data are used in selecting leasing areas, analyzing environmental effects, formulating lease stipulations, modifying leasing and operating rules and regulations, and assessing effects of industry activities. Environmental studies are also designed to monitor the effects of hydrocarbon and other mineral exploration and the effects of development and production activities. If potential adverse effects are discovered by these monitoring efforts, appropriate measures are taken to mitigate or change the expected effects by amending and modifying OCS regulations or by issuing Notices to Lessees and Operators (NTLs). When an environmental study indicates a need to further protect the environment, new or changed operating conditions may be imposed on existing and future leases in a specific geographical area.

Conduct of a study and availability of the study data is the end result of a very complex and lengthy process. This process begins with an assessment of information needs and the development of environmental studies plans performed annually. The MMS establishes and disseminates policy and guidance for the preparation of regional studies plans. This guidance includes interpretations of departmental policy and advice from the OCS Advisory Board's Scientific Committee. Regional studies plans are prepared with the assistance of the OCS Advisory Board's six Regional Technical Working Groups and other local advisors. These plans include statements of local information needs, the regional perspective on the priorities of these needs, cost estimates, and a brief description of each proposed study. A studies plan is developed at headquarters which concentrates on identifying studies that address programwide issues and enhance the effectiveness of the offshore leasing program nationwide. In addition, the MMS has developed a Long-Range Studies Plan. This document contains an analysis of available information pertaining to pertinent environmental issues. This analysis presents a national perspective and provides guidance to the Regions as to what kinds of studies will need to be undertaken by the Agency within the next 5 to 10 years.

Following development and approval of the regional studies plans, MMS compiles a preliminary national studies list which includes all studies proposed for funding. Because the total cost of all studies nominated for funding during any fiscal year has historically exceeded available funds, criteria (discussed in the Environmental Studies program element) were designed to rank each study. The ranking criteria are used to arrange the proposed studies into priority order programwide. This composite list of proposed studies receives extensive and critical review.

The National Studies List serves as the basis for preparation of the annual advance procurement plan (required by Federal regulation) and execution of the procurement process which includes the following three major steps: (1) development of a procurement package by the program experts who proposed and designed the particular study; (2) development of the solicitation which is completed by the MMS procurement staff; and (3) evaluation of proposals and award of the contract, responsibilities shared by the program and procurement staffs.

Once an award has been made for conduct of an environmental study, administration and monitoring of the contract begins. The program staff perform these functions in their role as contract officer's technical representatives.

Reports resulting from the ESP are kept by the regional offices and headquarters for their use and copies are distributed to appropriate Federal and State agencies, libraries, and limited general distribution. The MMS Regions hold scientific meetings on a regular basis to transfer up-to-date information to in-house staff, other government agencies, industry, and the interested public. These meetings take place as synthesis meetings for specific lease sales, technical workshops, and information transfer meetings.

Description of Subelement Products

a. Regional Studies Plan

A regional studies plan is prepared for each fiscal year by the four regional offices and the headquarters office. These plans include statements of regional information needs, the regional perspective on the priorities of these needs, and a brief description of the rationale for each study. These plans are the basis for developing the National Studies List.

b. National Studies List

The National Studies List is prepared each fiscal year and reflects the ranked list of studies to be funded under the Environmental Studies Program.

c. Procurement Package

A procurement package is developed for each study on the National Studies List. It includes: requisition; statement of work; independent government cost estimate; technical evaluation criteria; justification for noncompetitive procurement, if required; and the necessary funding approvals required by Federal regulation. The statement of work is the most important element in the procurement process. It is used to describe the Government's requirements, evaluate competing proposals to accomplish the work, guide or control the contractor's performance, and determine if the requirements are being satisfied.

d. Technical Proposal Evaluation

The basic purpose of the evaluation process is to determine which of two or more competing proposals should be selected for contract award.

The ultimate question to be answered is: Which proposal will be most advantageous to the Government, considering price and other factors? The evaluation process is conducted by a committee selected by the contracting and program officers and complies with the requirements of the Federal procurement regulations.

e. Contract Monitoring

Program staff who assisted in design of the environmental studies are designated Contracting Officer's Technical Representatives (COTR) responsible for administration and monitoring of the contracts. A COTR is authorized to perform the following tasks: (1) inspect and monitor contract performance to assure technical compliance with the specifications; (2) inspect and verify satisfactory delivery of all items; (3) verify efficient and satisfactory performance of work for payment purposes; and (4) furnish the contracting officer copies of all approved invoices, trip and conference reports, and general correspondence dealing with the administration and monitoring of the contract.

Recent activities and accomplishments for this subelement include:

- o To ensure the best use of Federal resources, MMS coordinated extensively with other Federal, State, and private groups regarding the design and management of oil- and gas-related marine pollution research. This included meetings with the National Ocean Pollution Policy Board, the Arctic Research and Policy Committee, the Marine Mammal Commission, and the National Science Foundation. Additional meetings occurred with State and industry representatives concerning data sharing and availability.
- o The MMS is continuing several complementary reviews of the ESP to assess the long-term direction of the program. These include a major effort with the National Academy of Sciences (NAS) to review MMS information needs and the availability of information in topics such as marine ecosystems, physical oceanography, and socioeconomic. At the same time, MMS prepared a Long-Range Studies Plan that focuses on long-term commitments to monitoring. Both efforts are intended to help MMS assess how well the ESP has met its goals and to identify where future studies efforts should lie.
- o The MMS is implementing an aggressive policy of information management through the preparation of project summaries for all major studies funded through the program since 1973 and development of an improved indexing and reference retrieval system. This, combined with the ongoing information transfer meetings in each region, ensures that the scientific community has full access to this wealth of information.

9. Program Management and Support (\$1,623,000)

This subelement provides program guidance and direction, internal and external coordination of program activities, and program and technical support for the work of the entire Leasing and Environmental Program. Policy guidance and program direction are provided by the Associate Director for Offshore Minerals Management, the Deputy Associate Director for Offshore Leasing, Regional Directors, the Office of Information and Publications, and the Office of Offshore Management Support. Included in the Office of Offshore Management Support is the Offshore Systems Center which centrally

reviews all of Offshore's ADP procurement and major systems design, standardizes data elements for all Offshore regions and headquarters offices, prepares activity reports and develops the ADP Strategic Plan. Cartographic, editorial, and other program support duties are provided by support staffs within each region and are funded within this subelement.

Other Programs (\$1,323,000)

In addition to the nine major subelements described above, the Leasing and Environmental Program is responsible for managing other mineral leasing activities and coordinating the work through task forces and advisory groups. This workload is discussed below.

Leasing Area Maps and Diagrams

The Federal Government has jurisdiction over and is authorized to issue mineral leases on the OCS. The OCS must be precisely defined to assure that only those submerged lands falling under the jurisdiction of the United States are offered for lease. The Federal Government must also be able to detect instances where leasing efforts by coastal States or foreign countries might inadvertently include OCS lands.

The OCS of the United States is currently depicted on 473 Official Protraction Diagrams (OPD's) and Leasing Maps and on 15,200 Supplemental Official Block Diagrams, of which 4,700 have been computed and approved. The development of these products is an exacting and lengthy process requiring research using various products such as hydrographic and topographic survey sheets, coast pilots, and nautical charts produced by the National Ocean Service (NOS); mathematical computations; consultation and review with coastal States; frequent evaluation and concurrence by the Department of State; and, in some cases, approval by the Department of Justice. Existing diagrams are periodically revised and reissued if coastline physical changes occur and are documented and if new large-scale charts reflecting such changes are issued by NOS or if legal decisions cause changes in jurisdiction.

The information shown on OPD's and leasing maps is presented in greater detail and is supplemented with additional data in documents called Supplemental Official Block Diagrams or "split block" diagrams. Split blocks are issued only for nearshore blocks which contain the 3-geographical-mile and 8(g) lines. Before a lease sale is held, all affected split blocks must be reviewed and, if necessary, updated and reissued. These diagrams depict international, Federal, and State boundary lines, identify section 7 (boundary dispute) and section 8(g) areas (where 27 percent of the revenues are shared with affected coastal States), and list precise acreage for each sub-area.

The extensive data base supporting development of the leasing diagrams and maps is also used when technical and legal boundary disputes arise over the location of the 3-geographical-mile and 8(g) lines. Precise information and skilled technical, professional, and legal expertise are required to monitor boundary issues. It must also be available when decisions are made on the impact that certain offshore features (low water elevations and islands) and boundary concepts (decree lines, straight baselines, bay closing lines, and historical statehood land grants) have on the location of boundary lines.

Resources are also devoted each year to identify, monitor, and resolve specific boundary disputes which exist in all regions of the OCS. A key boundary related lawsuit (United States vs. State of Alaska, No. 84, Original) concerns the location of the 3-geographical-mile and 8(g) lines in the Northern Chukchi and Beaufort Seas. In 1988, the Supreme Court is expected to issue a decision on this case which is likely to result in the establishment of a fixed decree line along portions or all of the northern coastline of Alaska.

Implementation of the decision will require that the MMS and the State of Alaska devote funds and resources to complete coastal surveys along portions of the Beaufort Sea. Other work related to fixing a decree line (coordination, planning analysis, mapping, and agreement on the location of the baseline) will continue throughout FY 1988. Careful attention will be paid to the precedents set during this process since they have the potential for impacting other areas of the OCS.

Recent activities and accomplishments include:

- o Mapping support of the critical and strategic minerals program in Hawaii during FY 1988 resulting in 12 maps;
- o Extensive technical support for three Supreme Court litigations during FY 1987 and extensive computational and mapping support for these cases resulting in 30 maps;
- o Review of state of Alaska sale maps for three sales during FY 1987; and,
- o Development of an extensive listing of shore line points for California, Oregon and Washington (7,500 points have been developed between FY 1986 and FY 1987).

OCS Advisory Board Coordination

The OCS Advisory Board was established in 1975 to provide advice to the Secretary and other officers of the DOI in performing discretionary functions of the OCSLAA.

The OCSLAA requires consultation by Interior with affected States and other interested parties on all aspects of leasing, exploration, development, and production of the resources on the OCS. This requirement is partially fulfilled through the activities of the OCS Advisory Board, which is comprised of: (1) a policy committee; (2) six regional technical working group committees; and (3) a scientific committee. The policy committee, which meets at least twice a year, includes representatives of the Governors of all coastal States, and Hawaii, Pennsylvania, various Federal agencies, and the private and public sectors, and provides policy advice to the Secretary on all aspects of the OCS program. The committee is empowered to and often does appoint subcommittees to deal with specific issues and report back to the full committee.

Six regional technical working group committees, which operate at the field level and meet generally twice a year, provide advice to the Director and Regional Directors on technical matters of regional concern relating to OCS activities. Membership totals about 120 technical level representatives of

coastal States and Federal agencies, and members of the private and public sector. The latter appointments are made to effect balance in terms of expertise, points of view, and functions of the committees.

The scientific committee is composed of 15 scientists, each selected on the basis of their scientific competence, reputation within their field of expertise, and ability to represent important elements of the Environmental Studies Program. The committee meets at least twice a year and advises the Director on the feasibility, appropriateness, and scientific value of the Environmental Studies Program.

The MMS provides support for all the committees of the Advisory Board, including the services of an Executive Secretary. Such support also includes travel expenses for all non-Federal members of the committees, planning and paying for committee and subcommittee meetings, and producing meeting records as required by the Federal Advisory Committee Act.

Planned FY 1988 activities and accomplishments include:

- o The Policy Committee will hold three meetings in FY 1988.
- o Twelve RTWG meetings will be held in FY 1988.

Strategic and Other Minerals

The Minerals Management Service has established cooperative arrangements with nine coastal states for the joint analysis of resource potential and environmental consequences of potential OCS marine mineral leasing and for the development of the NEPA requirements for such mineral leasing. These analyses are more fully described under the Resource Evaluation subactivity. Decisions on what, if any, commodities to offer will be based on work carried out under these cooperative agreements, the results of participation in workshops and conferences on related topics, and indications of industry interest.

It is anticipated that the leasing of marine minerals will include procedures similar to the offshore oil and gas prelease steps. The planning, evaluation, and development of leasing procedures and the identification of potential and viable lease areas for solid mineral commodities typically will be accomplished by joint Federal/State working groups. These working groups will include interested Federal agencies and affected States.

During FY 1988 a sulphur/salt sale is planned in the Gulf of Mexico. The Final Notice of Sale was completed in December 1987 and the sale is scheduled to be held in February 1988.

WORKLOAD SUMMARY

A summary of the major oil and gas workload in the Leasing and Environmental Program by subelement and other initiatives is presented in the following table:

<u>Subelement</u>	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
1. Development/Review of 5-Year Oil and Gas Program:				
o Annual Review	1	1	1	---
2. Prelease Process to Determine Specific Lease Areas that will be Analyzed in EIS:				
o Requests for Interest	3	3	4	+1
o Calls for Information Nominations	5	8	5	-3
o Area Identifications	3	5	7	+2
3. Prelease Environmental Assessment Process:				
o Scoping Process Reports	5	5	6	+1
o Draft Environmental Impact Statements	3	5	5	---
o Oil Spill Risk Analyses/Reports	5	5	6	+1
o Endangered Species Consultations	14	12	8	-4
o Public Hearings	3	4	5	+1
o Final Environmental Impact Statements	3	5	4	-1
o Environmental Assessments	1	1	1	---
o Technical Papers	14	13	12	-1
4. Lease Sale Notification and Decision:				
o Secretarial Issue Documents	4	8	7	-1
o Proposed Notice of Sale Decision Memorandums	4	8	7	-1
o Proposed Notices of Sale	3	8	6	-2
o Section 19 Letters	9	22	20	-2
o Final Notices of Sale	2	4	9	+5
o Final Notice of Sale Decision Memorandums	2	4	9	+5
o Balancing Letters	7	9	28	+19
5. Lease Sale and Issuance of Leases:				
o Lease Sales	2	4	8	+4
6. Postlease Adjudication and Maintenance of Leases:				
o Active Leases Maintained	5,242	5,325	5,627	+302

7. NEPA Review for Industry Activities:

o Categorical Exclusion Reviews for Regulatory Action	678	787	797	+10
o Environmental Assessments for Regulatory Action	62	104	111	+7
o Environmental Impact Statements for Regulatory Action	1	1	3	+2
o Oil Spill Risk Analysis/ Reports	1	2	2	---
o Endangered Species Consultations	27	26	19	-7
o Environmental Reports Reviewed	605	814	866	+52
o Categorical Exclusion Reviews for Geological/Geophysical Activity	257	339	390	+51
o Environmental Assessments for Geological/Geophysical Activity	4	16	26	+10

8. Environmental Studies Management:

o Regional Studies Plans	9	12	10	-2
o National Studies Lists	1	1	1	---
o Procurement Packages	58	50	56	+6
o Technical Proposal Evaluations	53	52	54	+2
o Contracts Monitored	125	117	123	+6

Other Initiatives

1. Leasing Area Maps and Diagrams:

o Official Protraction Diagrams and Leasing Maps	86	200	200	---
o Supplemental Official Block Diagrams	1,416	3,000	3,000	---

2. Advisory Board Coordination:

o Policy Committee Meetings	2	3	2	-1
o Regional Technical Working Group Committee Meetings	8	12	12	---
o Scientific Committee Meetings	3	3	3	---

Environmental Studies

Objectives:

Conduct a studies program:

- o That provides information necessary for prediction, assessment, and management of potential effects of oil and gas and other mineral activities on the OCS and adjacent coastal areas.

- o That is designed to support the 5-Year OCS Oil and Gas Leasing Schedule by providing data to support regional and national information needs.
- o That provides data to help monitor postlease OCS oil and gas and other mineral operations.

Base Program

The resources of the Environmental Studies Program were initially devoted to prelease decisions involving the prediction and assessment of environmental impacts of OCS oil and gas operations. This strategy was based on the need for this information in the numerous frontier regions existing during FY 1973-1977 and on the limited areas in which to conduct well-defined monitoring studies. Since its inception in 1973, the program has supported prelease studies in all areas on the OCS leasing schedules. The program has produced a significant amount of relevant information on environmental and socioeconomic characteristics of currently proposed leasing areas. This existing information is used in the analyses of risks and benefits of OCS leasing as required by Section 18 of the OCSLAA and in the production of sale-specific and programmatic Environmental Impact Statements (EIS's), Secretarial Issue Documents (SID's), and other decision documents.

In 1980, the Environmental Studies Program began to invest a substantial proportion of its funds in issues related to postlease management decisions. Such redirection could be taken because the number of studies required in frontier areas had decreased, most lease areas had several years of completed study, and opportunities for scientifically credible monitoring experiments became available. Studies related to postlease activities now dominate the studies program, except in certain frontier areas. These studies focus on possible long-term, low-level impacts which, if present, remain to be more clearly defined. In addition, studies are concentrated in areas where industry interest or prospects are high, and are sensitive to the timing of development and production activities.

As each study is completed, its results are evaluated and used in the planning of future sales and, if appropriate, additional studies. The MMS has also undertaken initiatives to analyze and evaluate the status of selected research topics. MMS's goal is to focus on issues which will benefit from continued study, and decrease funding in those areas where little benefit would result from further effort.

At present, particular emphasis is being given to air quality issues in Southern California, wetlands loss in the Gulf of Mexico, fisheries studies and longterm monitoring and ecosystem studies in several regions, along with synthesis and evaluation reports for selected topics. The basic data collection in frontier areas not previously studied is also supported. The goal of maximum use and availability of existing information has also led to development of initiatives in information and data management.

The Environmental Studies Program is designed to support both regional and national information needs. These needs are assessed annually through the development of study plans. These plans are developed in close consultation with the Regional Technical Working Groups. During FY 1989, regional offices

will develop final FY 1990 and draft FY 1991 regional study plans for studies to be procured in FY 1990 and FY 1991. Development of these plans requires several months from initiation to final approval, including extensive review.

During the annual formulation of the National Study Plan, regional needs are combined with national needs and ranked in order of their importance to decisionmakers. Studies are ranked using a set of criteria based on a system developed for the program. The MMS is assisted in defining nationally important information needs by the OCS Advisory Board through its technical and scientific committees.

The ranking system includes the following criteria:

1. Importance of the information to the decisionmaker.
2. Date of the leasing or management decision for which the study is designed.
3. Generic applicability of study results.
4. Availability of information in the subject of the study.
5. Applicability of the study to issues of regional or programmatic concern.

Recent activities and accomplishments for this program element include:

- o The MMS is continuing to develop monitoring studies in areas where opportunities exist to evaluate operational and/or accident related impacts of OCS oil and gas activities. In the Pacific Region, the monitoring phase of a long-term study designed to evaluate the impacts of production platforms in the Santa Maria Basin and western Santa Barbara Channel is now underway. This study included a pre-placement reconnaissance phase which was completed in FY 1986. It will continue through platform installation, initiation of production, and will then monitor operational impacts.
- o A major study of an oil spill in Panama which affected a coastal research facility of the Smithsonian Institution is now in its second year, and will continue for 3 more years. This spill is unique in that it affected an area of coral reefs, mangroves, and seagrass beds for which the Smithsonian had a significant amount of pre-spill data, something normally lacking in oil spill studies. This effort represents one of the best opportunities which has ever existed to document oil spill impacts in a tropical coastal environment.
- o In FY 1987, the final data synthesis report was completed for the "Southwest Florida Shelf Ecosystems Study." This 6-year study was designed to provide the MMS with information required to determine potential impacts of OCS oil and gas activities on seafloor habitats and communities (live bottom and soft bottom) of the southwest Florida continental shelf. The third year of southwest Florida shelf physical oceanographic studies was also completed during FY 1987.

- o A major field program to study biological processes on the North, Mid- and South Atlantic Continental Slope and Rise (1983-1988) has been completed in each planning area. The South Atlantic tends to have more diverse biological community structures than those found in the Mid- and North Atlantic planning areas. The greater diversity and complexity found in the South Atlantic may be attributed in part to differences in sediment bottom substrates and currents. The levels of hydrocarbons in sediments and biota are low and not indicative of pollution from the exploration well platforms monitored in the Mid-Atlantic. The hydrocarbon and trace metal studies of the North Atlantic planning area did not show trace metal or hydrocarbon levels that could be attributed to drilling activities.
- o The Mississippi-Alabama shelf program, begun in 1983, has concluded the initial phase of data gathering and information synthesis. A multiyear field study to characterize the OCS, describe current movements, and survey topographic features was initiated during FY 1987.
- o A 2-year study of impacts of OCS activities on wetlands losses in Louisiana was completed in FY 1987. This study has provided an assessment of data on losses in this area, and the relative importance of their causes. This understanding may lead to management activities by appropriate State and Federal agencies to reduce or reverse the rate of losses. The final report will be submitted in FY 1988.
- o A 3-year physical oceanography program (1983-1986) on the Mid Atlantic continental slope and rise to study circulation patterns and define variability in this area was concluded and a final report was submitted in May 1987. The study has given new insight into the exchange of water between shelf and slope areas and the relative effects of winds and the Gulf Stream on determining currents and the possible paths of discharged materials in deeper waters of the Mid-Atlantic planning area.
- o A physical oceanography program implemented under a Memorandum of Understanding with the State of North Carolina is planned for completion during FY 1988. Detailed field measurements of Gulf Stream dynamics will assist in validating our circulation modeling effort, and evaluate the significance of these circulation features as pollutant transport mechanisms on the continental shelf.
- o Additional funding (\$900,000) provided by Congress in the FY 1988 appropriation was used to accelerate research in specific geographic areas. These areas (Northern California, Washington-Oregon, and the Straits of Florida) have the potential for multiple use conflicts and general concerns are expected to be great. As indicated by the study titles, endangered species, tourism and commercial and sport fisheries will be addressed in the Straits of Florida area, and commercial fisheries will also be addressed in the Washington-Oregon area. Seabirds will be addressed in the Northern California area. The following table identifies the studies, proposed levels of FY 1988 funding, and the original and accelerated procurement schedule for studies which will be accelerated from FY 1989 into FY 1988.

Title	FY 1988 Budget	Contract Award Date	
		Current	Accelerated
Seabird Colony Catalog Northern California Portion	\$75,000	6/89	8/88
Survey of Commercially Important Fishes in Rocky Reef Habitats of WA-OR	200,000	7/89	9/88
Field Study and Development of a Three Dimensional General Circulation Model of the Straits of Florida	100,000	6/89	9/88
The Impact of Oil and Gas Activities on Coral Reefs and Submerged Vegetation of the Straits of Florida	299,776	6/89	9/88
Impacts of Oil and Gas Activities on the Aesthetics Recreation, and Tourism off the Florida Keys	<u>225,224</u>	6/89	9/88
Total	\$900,000		

All of these studies have been reviewed by the affected states during the Regional Studies Plan review cycle. Additional coordination is anticipated during the preparation of the statements of work and award phase of the procurement cycle. The first such meetings with Washington and Oregon are scheduled for February, 1988.

Decrease from 1989 Base

(Dollar amounts in thousands)

	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Difference</u>
\$ (FTE)	22,765 (---)	21,865 (---)	-900 (---)

Congress appropriated an additional \$900,000 in FY 1988 specifically to accelerate studies that were planned for FY 1989 and beyond in frontier areas such as the the Northern California, Washington-Oregon, and Straits of Florida planning areas. Specific studies were accelerated in FY 1988, effectively utilizing the additional funding. The FY 1989 Environmental Studies Program budget can be reduced by the same amount without negatively affecting the Program's ability to provide information for decisions related to sales in these areas.

Table 2
FY 1989 Environmental Studies Program

OCS Region/ Lease Sale No.	Study Categories								Remarks
	Endangered Species	Pollutant Transport	Hazards	Marine Ecology	Monitoring	Fates and Effects	Socioeconomics	Meteorology	
North Atlantic: 96, 134 Mid Atlantic: 121 South Atlantic: 108 Straits of Florida 140	X	X		X	X			X	Completion of physical oceanographic processes on the lower continental slope and continental rise in all planning areas and synthesis of information on endangered species and fisheries. Survey studies in Straits of Florida.
Eastern Gulf of Mexico: 116, 137 Central Gulf of Mexico: 113, 118 123, 131 Western Gulf of Mexico: 115, 122, 125, 135	X	X		X	X	X	X		Continued refinement of oil spill trajectory modeling; evaluation of the effect of OCS operations on coastal wetlands; socioeconomic analysis of regional ecosystem characterization in lesser developed regions; initiation of study of biological effects of chemically dispersed oil.
Central California: 119; Northern Calif: 91, 128 Southern Calif: 95, 138 Washington-Oregon: 132	X	X		X	X	X	X	X	Continued emphasis on field effects monitoring to evaluate long-term, chronic discharge impacts of OCS operations; evaluation of the vulnerability of the sea otter to OCS development; continued study to define the physical oceanography of northern and central California. Collection and analysis of existing information for Washington-Oregon.
Gulf of Alaska Gulf of Alaska: 114 Cook Inlet: 136 Kodiak: 127 Shumagin: 129				X					Emphasis on updating information base developed for previous offerings in this area; reconnaissance of commercially important organisms.
Bering Sea Navarin Basin: 107 130 St. George Basin: 101 North Aleutian Basin: 117 Norton Basin: 120	X	X	X		X	X	X		Continued development of reconnaissance information on endangered species, biological communities, and physical oceanographic features; monitoring of effects of OCS operations on whales, native communities, and fishing resources; evaluation of hazards to operations posed by sea ice.
Arctic Ocean Chukchi Sea: 109, 126 Beaufort Sea: 124 Hope Basin: 133	X	X	X		X	X	X		Continued monitoring of effects of OCS operations on Bowhead whales and other marine mammals; monitoring of OCS development effects on native populations; evaluation of hazards to operations posed by sea ice; continued analysis of pollutant transport by oceanographic features and sea ice.
Programmatic Studies						X	X	X	Continued emphasis on program quality assurance and integrity; development of consistent data for analyses of environmental and socio-economic impacts of a potential new 5-year schedule; management of information transfer; design and coordination of a long-term effects program.

Justification of Program and Performance

Activity: Outer Continental Shelf Lands
Subactivity: Resource Evaluation Program

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-) from 1988</u>	<u>Inc.(+) Dec.(-) from Base</u>
Resource Evaluation Program	\$ (FTE)	23,688 (352)	23,722 (352)	23,022 (352)	-666 (---)	-700 (---)
=====						
Total Requirements	\$ (FTE)	23,688 (352)	23,722 (352)	23,022 (352)	-666 (---)	-700 (---)

Objectives

- o Provide sound analytical and technical support to the offshore leasing process, including postlease regulatory activities, so that all activities can be carried out effectively and efficiently.
- o Provide scientific data and information concerning offshore lands to assure an adequate data base is available to the Secretary to make informed decisions regarding the OCS Leasing Program.
- o Provide estimates of undiscovered mineral resources, exploration and development scenarios, and economic parameters and statistical data on lease sale areas.
- o Develop and maintain an accurate data base of estimates for proven and indicated oil and gas reserves and an inventory of hypothetical and speculative oil and gas resources.
- o Provide resource economic evaluations and bid adequacy determinations for tracts bid upon in lease sales to assure that the Government receives fair market value for leased lands.

Base Program

The Resource Evaluation Program directly supports both the Offshore Leasing and Regulatory Programs. Information is provided throughout the leasing process, focusing on the use of geological and geophysical (G&G) data for the purpose of identifying and evaluating areas and tracts with potential for oil and gas. Economic and engineering data are used to develop estimates of undiscovered mineral resources and resource economic evaluations and analyses. In the early stages of the leasing process, the program focuses on providing data, information, and analyses required for decisions that are made relative to planning areas being considered for lease. As the leasing process progresses, the focus shifts from planning areas to specific areas being offered for lease and the

potential prospects within that area, and finally on tracts receiving bids in a sale. Upon completion of the process for a specific sale, the emphasis shifts again to planning areas of future sales.

In preparation for each lease sale, tract- and prospect-specific maps and analyses are updated and evaluations are completed to provide inputs for determination of bid adequacy, which occurs at the end of the sale process. In addition, economic and engineering analyses of minimum economic field size, minimum bid level, and lease terms, among others, are also carried out. These analyses, while directly related to specific lease sales, also provide necessary input for overall program decisions such as the annual review of the current leasing schedule and any subsequent revisions. Regional mapping and analyses are important early in the leasing process and later serve to identify promising areas that are used in reviewing and developing future oil and gas leasing schedules. Additionally, the Resource Evaluation Program develops and maintains current estimates of oil and gas reserves in developed and developing fields and provides information on the potential availability of undiscovered offshore oil, gas, and mineral resources; these resources are essential to the national security of the United States and may need to be made available to meet future energy and mineral supply emergencies.

To fulfill requirements of Section 8(g) of the OCS Lands Act Amendments (OCSLAA) of 1978, the Governors of States adjacent to areas proposed for leasing are provided, in writing, with the following information at the time of the Call for Information and Nominations:

- o An identification and schedule of the areas and regions proposed to be offered for leasing;
- o All information from all sources concerning the geographical, geological, and ecological characteristics of such tracts;
- o An estimate of the oil and gas reserves in the areas proposed for leasing; and
- o An identification of any field, geologic structure, or trap located wholly or partially within 3 nautical miles of the seaward boundary of such coastal State, including all information relating to the entire field, geologic structure, or trap.

The Resource Evaluation Program is responsible for providing all of this information, except for the identification and schedule of the areas proposed for lease, and ecological data characteristics. Additionally, at the time of Area Identification, the Resource Evaluation program staff is responsible for making a determination of whether or not a common structure exists with State submerged lands on each tract in the Section 8(g) zone. This information is then provided to the Governors of affected States.

The resource information and the economic estimates derived throughout the leasing process and the conclusions resulting from analyses of these data also enable the Department to make informed balancing decisions in resolving conflicts on the OCS with other Federal Agencies, State and local governments, and other interested groups. Furthermore, MMS provides data and information concerning the resource potential of OCS areas to other Federal Agencies in support of their activities, e.g., proposed marine sanctuaries, traffic separation schemes, international boundary disputes, etc.

Those aspects of the Resource Evaluation Program which focus on providing scientific data, information, and analyses on offshore geology and hydrocarbon resource potential include: (1) acquisition of G&G data; (2) production of regional G&G maps and analyses; and (3) production of tract- and prospect-specific maps and analyses for resource economic evaluations. These outputs are essential to completing major milestones in the leasing and evaluation process leading to the acceptance/rejection of high bids received at the lease sale.

The Resource Evaluation Program combines much of the G&G data and analyses with resource economic and engineering data to produce outputs and products that are also essential to completing major steps in the leasing process. These steps proceed from the Geology Report through the acceptance/rejection of high bids. The objectives of these analyses are to: (1) develop estimates of technologically and economically recoverable undiscovered hydrocarbon resources for planning and for potential lease sale areas to be used throughout the leasing decision process; (2) inventory oil and gas reserves of individual fields, reservoirs, and leases in support of planning decisions, lease sale evaluations, supervision of field and reservoir development and long-range energy supply projections; (3) analyze, develop, and design economic and engineering parameters on both a lease sale and a tract-specific basis to be used in assessing environmental impact and in determining bid adequacy; and (4) develop economic and engineering methodologies and studies for the leasing process. Fundamental to accomplishing these objectives is the design, maintenance, and update of advanced computer models, ADP systems, and data bases for economic and engineering analyses that are a basic part of the overall OCS program and decisionmaking process.

The eight major subelements of the Resource Evaluation Program and their products are described on the following pages.

1. Acquisition of G&G Data (\$2,419,000)

The objective of this subelement is to acquire and analyze G&G data in order to first identify broad areas and then specific tracts with geologic potential for oil and gas. These data are the basis for mapping and evaluating the formation and distribution of potential offshore resources. The data also provide inputs for determination of bid adequacy.

Industry collects G&G data under permits issued through the Resource Evaluation Program. A condition of the permits issued to industry allows MMS to selectively acquire G&G data to directly support the analyses required throughout the leasing process. These data include logs and other data from deep stratigraphic tests and significant amounts of Common Depth Point (CDP) seismic data. Since 1968, over 1,175,000 line miles of CDP data have been acquired in OCS areas. These data are analyzed and interpreted in order to map a proposed lease sale and determine areas having potential for the occurrence of hydrocarbon resources. They are also used to specifically locate and map geologic structures capable of trapping hydrocarbons, and to establish values for the geologic parameters necessary for resource economic evaluation in support of determinations of the adequacy of bids received at a lease sale.

Section 26(a)(1)(c)(iii) of the OCSLAA requires the Secretary to reimburse permittees for the costs of processing and reproducing G&G data requested by MMS. This was amended in the FY 1986 Leasing and Royalty Management appropriation language (P.L. 99-190) which provides that in FY 1986 and thereafter, the Department will no longer reimburse industry for the cost of processing G&G data acquired under Federal permit. However, the Secretary will continue to reimburse industry for data reproduction costs and the cost of any special data processing or reprocessing specifically requested by MMS.

Permits issued prior to FY 1986 for data collection on the OCS state that the permittee will be reimbursed for both data processing and reproduction costs. Therefore, the Government has a contractual liability to reimburse permittees for data provided to MMS under the terms of the permit. As a result, it is necessary to budget funds for: (1) reproduction cost of data acquired under permits, special processing, interpretations, special data, special data storage, 8(g) data acquisitions; and (2) processing of data acquired under permits issued prior to enactment of the FY 1986 appropriation language which contain specific provisions requiring reimbursement for processing costs.

A comparison of these costs for the period FY 1987-1989 is presented below. It should be noted that the costs given in this table only represent the cost associated with acquiring the data and do not reflect the costs for analysis of this data by MMS personnel.

	(In thousands of dollars)			
	FY 1987 <u>Actual</u>	FY 1988 <u>Estimate</u>	FY 1989 <u>Estimate</u>	Inc. (+) Dec. (-)
Data reproduction and special processing of data not available under permit to support litigation section 8(g), and boundary disputes.	2,000	2,000	2,000	---
Processing costs for data acquired under permits issued prior to enactment of the FY 1986 appropriation language	3,600	700	-0-	-700
Total Funding	5,600	2,700	2,000	-700

Description of Subelement Products

a. G&G Permits Processed and Approved

Gathering of prelease data by industry on the OCS requires the issuance of G&G permits. Processing and approval of exploration permits includes: review of applications for permits and agreements for OCS geologic or geophysical scientific research or exploration for mineral resources; the issuance of permits and agreements, including terms, conditions, and stipulations; the monitoring of permit activity; and all correspondence with prospective permittees.

b. G&G Data Acquisition Actions

After data have been collected by permittees, MMS selectively acquires those data which are needed to augment the existing data base. The steps in acquiring data from permittees include: preparation and approval of a proposed data acquisition list; onsite inspection of data; selection of data; preparation and submittal of requisition forms to reimburse permittees for data reproduction and the cost of special reprocessing requested by MMS; preparation of justifications for selection of data and lists of deliverable items; and contact and correspondence with permittees, administrative personnel, and headquarters personnel.

At the beginning of each fiscal year, G&G data requirements to support the leasing schedule are identified and priorities established. Throughout the year these data needs are reassessed as required by the leasing schedule.

c. Line Miles of CDP Data Acquired

The CDP seismic data provide the primary data base required for much of the effort in the Area Identification and prospect evaluation process and to support the activities of other Federal Agencies. Seismic data in a planning area are used not only for products related to a specific sale, but are supplemented, as required, with new data for later sales in the same planning area.

Recent activities and accomplishments for this subelement include:

- o Permit forms for geologic and geophysical scientific research or exploration for mineral resources on the OCS have been revised, authorized by the Office of Management and Budget, and disseminated to all regional offices. The new forms incorporate recent regulatory changes and clarify requirements for permit application and execution.
- o Continuing participation by program personnel as technical advisors on various Federal, State, and joint task forces concerned with geophysical data collection and interpretation on the OCS.
- o Increased interest by private industry in marine mineral resources as reflected in the issuance of several geologic exploration permits in the Alaska and Atlantic OCS.
- o Compilation of a statistical summary report on G&G data acquired by MMS through FY 1987. The publication will detail the quantity and costs associated with the various types of data vital to the Resource Evaluation Program.
- o Management and maintenance of the largest and most comprehensive OCS G&G data base in the Federal Government. Dissemination of nonproprietary data and information to other agencies and the public is accomplished locally at MMS regional offices and internationally through a cooperative agreement with the National Oceanic and Atmospheric Administration.

- o Revised agreements with the Governors of coastal States have been forwarded to further coordinate, consult, and provide information to affected States, in accordance with Section 8(g) of the OCSLAA of 1985.
- o New procedures have been implemented to reimburse permittees in accordance with the language of P.L. 99-190.
- o Revision of 30 CFR 251, Geological and Geophysical Explorations of the Outer Continental Shelf, was initiated in FY 1987.

2. Production of Regional G&G Maps and Analyses (\$2,339,000)

The objective of this subelement is the development of maps identifying areas favorable for the accumulation of hydrocarbons and the analysis of the geologic history and processes involved in the formation and distribution of offshore resources. These maps and data are the basis for the Geology Report used in development of the 5-Year Leasing Program, the early stages of the leasing process, and later for individual sales as input to the resource economic evaluation process.

The primary objective for the production of regional G&G maps and analyses is to provide preliminary reconnaissance of the planning area in preparation for lease sales. This is done by analyzing technical and scientific data and information in order to develop a basic knowledge of the geologic history and its effects on hydrocarbon generation, distribution, and accumulation within the planning area. This knowledge provides the basis for the Geology Report and associated maps, which are the initial technical analyses in the early stages of the leasing process that describe the geology, geologic risk, and resource potential of the planning area.

The Geology Report consists of a geologic analysis section, a petroleum geology section, and an environmental geology section that includes a general description of potential geohazards. Release of the Geology Report generally precedes the Call for Information and Nominations by approximately 2 months. The data, information, and analyses in the Geology Report are updated and used in the leasing process as input to the National Environmental Policy Act (NEPA) documents, the Exploration and Development (E&D) Report, and other MMS and Department decision and option documents. The maps and information also support preparation of the Resource Estimates Report and analyses carried out in the Area Identification and prospect evaluation process. Once an initial Geology Report is prepared for a planning area, it is updated with new or additional data, as appropriate, to prepare geology reports for succeeding sales in the same planning area.

Description of Subelement Products

a. Geology Report

This report consists of the following specific sections:

- (1) The geologic analysis section describes the general geology and geologic history of the planning area. This provides the basic

understanding of the geology and the resource occurrence and potential of the area.

- (2) The petroleum geology section analyzes and provides data and information on the resource potential, probability of hydrocarbon occurrence and items such as source and reservoir rock, traps, and maturation.
- (3) The environmental geology section provides general information over the planning area about potential shallow geologic features, such as shallow faults, accumulations of shallow gas, and slumps which could be hazardous to exploration and development operations. This section also provides information on the occurrence of ice and ice hazards, if any, and seismic and volcanic activity.

b. Determinations of Area of Hydrocarbon Potential

Maps and associated documents are required prior to the issuance of the Call for Information and Nominations to identify those portions of the planning area having various ranges of hydrocarbon potential. This information represents a significant refinement to that contained in the Geology Report, which describes general geologic aspects of the entire planning area.

To initiate action on a lease offering, it is necessary to determine which specific areas, within a planning area, have potential for oil and gas accumulation. This effort goes beyond the analysis of G&G data. The identification of the Area of Hydrocarbon Potential provides a basis for industry and public reaction during the Call for Information and Nominations and must be completed several months prior to its issuance.

c. Recommendations for Area Identification

A significant step in the leasing decision process is the identification of the prospective portion of the planning area proposed to be offered for lease from a hydrocarbon occurrence and leasing interest perspective. Area Identification typically occurs 3 months after the Call for Information and Nominations is issued. In response to the Call, industry, the public, and other interested parties submit information to the MMS on any areas within the Call area which should or should not be included in the proposed sale.

The information and knowledge of the hydrocarbon potential in the planning area developed in the MMS Resource Evaluation Program are combined with information on industry interest and priorities and then weighed against environmental, economic, and defense concerns to identify the specific area to be included in the proposed sale. This area is the focus of the analysis in the NEPA documents.

Recent activities and accomplishments for this subelement include:

- o Resource Evaluation scientists have published a series of regional cross-sections and maps in the Gulf of Mexico OCS. The publication was presented at the American Association of Petroleum Geologists

convention and received significant attention from industry and the scientific community. Over 40 oil companies and geophysical contracting companies active in the Gulf of Mexico granted permission for use of their proprietary data in support of this effort.

- o MMS report entitled "United States Outer Continental Shelf Basins: Maps and Descriptions" has been completed. The report identifies the location of potential hydrocarbon bearing basins in OCS planning areas, discusses their geologic history and summarizes new information based on recent exploration activities.

3. Production of Tract and Prospect Specific Maps and Analyses (\$6,535,000)

This subelement consists of detailed G&G mapping and analysis of tracts, either individually or by prospects, in order to estimate their resource potential. Maps, data, and analyses form the basis for determining parameters that serve as inputs to the resource estimation process and the post-sale evaluation process for assessing bid adequacy.

Description of Subelement Products

- a. Completed sales: Maps and analyses associated with those oil and gas lease sales which will be completed during FY 1989.
- b. Sales in progress: Maps and analyses for oil and gas lease sales proposed beyond FY 1989. Generally, work devoted to mapping and analysis of tracts commences 2 years prior to a proposed lease sale, with the exception of sales in the Gulf of Mexico, where mapping and analysis begin 1 year prior to the sale.

4. Development of Estimates of Undiscovered Resources for Planning Areas (\$1,013,000)

Economic and engineering analyses, supplemented by geologic and geophysical analyses, are carried out to develop estimates of undiscovered technologically and economically recoverable resources for planning areas, lease sales and alternatives, Secretarial Issue Documents (SID's), and the OCS Information Program. These activities include the economic and engineering analyses needed for resource assessment. Products can be divided into those related to planning areas and those related to lease sale areas. Those initially developed for planning areas are updated, as appropriate, with new or additional data for succeeding sales in the same planning area.

Description of Subelement Products

- a. Section 606 Reports: Resource estimates are developed for biennial reports to Congress containing estimates of undiscovered recoverable oil and gas resources in the OCS as required by Section 606 of the OCSLAA.
- b. Review of 5-Year Leasing Schedule: Planning area resource estimates are also developed for use in the annual review of the 5-Year OCS Oil and Gas Leasing Schedule and any subsequent development of a new 5-year leasing schedule.

- c. NEPA and Decision Documents: Lease sale area resource estimates are developed for use in E&D reports, NEPA documents and other decision documents, as well as summary reports and updates produced by the OCS information program.

Recent activities and accomplishments for this subelement include:

- o A report entitled "Estimates of Undiscovered Economically Recoverable Oil and Gas Resources for the Outer Continental Shelf as of January 1987" is in progress. This publication scheduled for release in the summer of 1988, will present updated offshore resource estimates and describes technology used in performing the assessment.
- o In May 1986, a Committee of the National Academy of Sciences completed a comprehensive study of the resource assessment methodology utilized by MMS. A final report entitled "Offshore Hydrocarbon Resource Estimation: The Minerals Management Service's Methodology" reaffirms the technical approach and resultant accuracy of the methodology and outlines enhancements for future consideration.
- o MMS and the U.S. Geological Survey are participating in a national assessment of undiscovered oil and gas resources for the U.S. The investigation will utilize new geologic information and technology, economic changes, and new and refined methods of performing resource assessments. Results will be made public in the Spring of 1988.
- o Estimates were derived for numerous leasing options and subareas of the OCS being addressed by the new 5-Year Leasing Program for the period commencing in mid-1987 and ending in 1992. In addition to estimates of the occurrence of oil and gas in the areas being addressed by the various alternatives, estimates of the potential amounts of oil and gas to be leased in each proposed sale were developed.

5. Reserve Inventory (\$1,594,000)

The primary objective of the reserve inventory subelement is to develop and maintain estimates of oil and gas reserves as mandated by the OCSLAA. Reserve inventories are generated from well and reservoir data and tabulated by individual field, reservoir, and lease. The analyses and mapping associated with reserve estimates directly support field and reservoir development and provide geological and engineering data required for lease sale evaluations.

In FY 1989, the Reserve Inventory functions will continue the function of providing estimates of new field discoveries and updated reserve estimates in those fields previously inventoried. As additional geologic, engineering, and production data are obtained, updated statistics will lend support to the leasing process, future energy leasing policy analyses and decisions, and oil and gas assessment for projecting energy supplies as they relate to the national security of the United States.

Description of Subelement Products

Field Reserve Estimates: Estimates of oil and gas reserves are developed for new field discoveries as well as the updating of information on remaining reserves in previously inventoried fields.

Recent activities and accomplishments for this subelement include:

- o Remaining recoverable reserves for the Federal portion of the Gulf of Mexico as of December 31, 1986, are estimated at 3.88 billion barrels of oil and 45.8 trillion cubic feet of gas.
- o Remaining recoverable reserves for the Federal portion of the Pacific OCS as of December 31, 1986, are estimated at 1.3 billion barrels of oil and 2.14 trillion cubic feet of gas.

6. Economic and Engineering Evaluations for Lease Sales (\$1,303,000)

Economic and engineering parameters, on a lease sale and tract-specific basis, are analyzed, developed, and designed for the purpose of determining bid adequacy and assessing impacts on the objectives of the OCSLAA. These parameters include oil and gas prices; inflation and discount rates; exploration, development, production, and transportation costs; supply and demand, and number of platforms, wells, and subsea completions.

Description of Subelement Products

- a. E&D Reports: These reports contain infrastructure and exploration, development, and production scenarios that serve as the basis of the analyses related to the NEPA process. The reports are updated during the leasing process and are used for the design of the specific bidding system to be used in the sale.
- b. Cost Estimates and Price Assumptions: These are prepared for each lease sale and include: oil and gas prices; transportation costs (pipeline, tanker, etc.); real price increases; inflation and discount rates; windfall profits tax rates; and exploration, development, and production costs.
- c. Bidding System Design: This activity consists of analyses to support designation of bidding systems, lease terms, rental policies, and minimum bid requirements for a particular lease sale. Alternative bidding systems provided for in the OCSLAA are also considered. Unique lease-sale costs and market conditions require examination of the various revenue components which comprise a bidding system. An analysis is made of the impacts of alternative royalty rates, minimum bid requirements, rental policy, length of lease terms, various bidding systems, etc., on the multiple goals of the OCSLAA, such as the maintenance of competition and expeditious exploration, development and production. In addition, an analysis of the impacts of existing leases issued under alternative systems are reviewed in terms of newly arising information on exploration and development effects.
- d. Fair Market Value Determinations: These are decisions regarding the adequacy of high bids received at a sale. This includes determinations of viable prospects and tract types, tract-specific resource economic values, when required, and the development and analysis of economic criteria to determine the final acceptance or rejection of high bids.

- e. Economic Value Estimates: This product includes cost/benefit analyses and economic and social value estimates for SID's, the formulation of the 5-Year Leasing Schedule, each lease sale, revenue projections for budget purposes, and other estimates associated with statutory or policy changes.

Recent activities and accomplishments for this subelement include:

- o Development of draft leasing regulations for marine minerals and procedures for the potential leasing of salt and sulphur.
 - o Implementation of modifications to procedures for the determination of bid adequacy which increase reliance on MMS resource economic evaluations in assuring receipt of fair market value.
 - o Initiation of numerous studies which focus on encouraging exploration in frontier areas. New strategies will be required because of current market conditions and earlier exploration disappointments.
 - o Resource assessment models normally utilized for estimating potential oil and gas accumulations have been modified for use in estimating potential undiscovered amounts of sulphur in the Gulf of Mexico. In a similar manner, a model has been developed incorporating MMS evaluation policies to evaluate industry bids for sulphur and salt leases.
 - o Several studies have been carried out to evaluate the future economic viability of natural gas from offshore areas in the Alaska OCS in support of the MMS leasing decisions.
7. Economic and Engineering Methodologies and Studies for the OCS Leasing Program (\$1,587,000)

Advanced computer models and ADP systems and data bases are analyzed, designed, maintained, and updated to serve as the primary support for the conduct of economic and engineering studies that are used throughout the lease-sale process and for overall OCS program and policy issues. Activities in this support function are generic in nature and are described below.

Description of Subelement Products

a. Economic Studies.

- o Development, refinement, modification, and maintenance of discounted cash flow and resource assessment computer models and methodologies, including the design of new computer models for resource assessment and resource economic evaluation.
- o Design, development, refinement, maintenance, and update of ADP data bases and systems to support lease sale fair market value determinations, and to provide a historical data base for economic studies, other analyses, and reports such as the Annual Report to Congress on alternative bidding systems and competition.
- o Economic Studies. To make recommendations on leasing policy for the overall program and for each offering, economic studies are

conducted on specific bidding system parameters such as viable royalty rates, minimum bid levels, regulatory changes, lease terms, rental policies, and tract size.

- o Various generic programwide studies applicable to the entire leasing process are performed. Study issues include the costs and benefits associated with the OCS program, bid adequacy procedures, and effects of various policies on Government receipts.
 - o Economic Value Estimates and Cost/Benefit Studies for Formulation of the 5-year OCS Leasing Schedule. These are economic value estimates and cost/benefit studies for use in developing new 5-year leasing schedules or the required annual review.
- b. Engineering Studies: Consistent and pertinent programwide technological procedures are designed, developed, and implemented, and technology for adverse and severe conditions is assessed.

Recent activities and accomplishments for this subelement include:

- o A modification to the Post Sale Analysis System (PSAS) model has been completed to support bid acceptance procedures. The model generates reports on high bid amounts, area figures, company bids, and total monies spent. These reports are used for developing recommendations to accept/reject bids and for review by the Department of Justice of possible antitrust problems.
- o A new data base of lease data has been developed and incorporates data from several historical data bases no longer in use. The Offshore Lease Data System (OLDS) is used in the economic analysis of historical lease bid data and subsequent production data. Inquiries from Congress, the Secretary, the General Accounting Office, and other agencies are handled through ad hoc queries to OLDS.
- o An economic model (TSL80) has been enhanced with new algorithms and tax tables and modified to run on microcomputers. This leasing simulation model permits costs, resource levels, minimum bid levels, risk factors, etc., to be input and then recommends the preferable bidding system that should be considered on specific tracts for updating sales. The model is extremely important in the preparation of SID's.
- o A generic industry model (IMODEL) has been developed to forecast the response of the oil and gas industry to various proposed schedules for OCS lease sales. Given a proposed schedule, IMODEL estimates the number of tracts that will be required and the total bonus that will be received in each sale.
- o A computer model (REVENUE MODEL) has been developed to understand how the economic measures of a tract are affected when there is a change in an economic parameter in the timing of a leasing or exploration activity. These changes are parameters such as transportation costs, royalty rate, tax rate, discount rate, price growth and numerous other parameters. This includes estimates for bonus, royalties and taxes.
- o Development of computer models for estimating lease revenues, optimal length of lease terms and forms of diligence requirements, effects of

changes in economic conditions on tract values, and the influence of new leasing systems (e.g., work commitment, two-stage, etc.) on bidding and production behavior.

- o Numerous improvements have been incorporated into the MONTCAR model to enhance its use in the Resource Evaluation Program. Efforts are also underway to adapt MONTCAR for use on specially configured personal computers, thereby ensuring greater security of the data associated with tract evaluation as well as accommodating a significant decrease in mainframe ADP expenditures.
- o The PRESTO III computer model has been modified to develop estimates for noneconomic accumulations of oil and gas. The methodology and changes to PRESTO III were developed in response to a 1986 recommendation by the National Academy of Sciences that MMS should expand its estimation and reporting procedures to address the entire oil and gas resource base. The model and methodology are being incorporated in the national oil and gas assessment project currently in progress.

8. Program Management and Support (\$3,858,000)

This subelement provides program guidance and direction, internal and external coordination of OCS program activities and program and technical support for the work of the Resource Evaluation Program. Policy guidance and program direction are provided by the Associate Director for Offshore Minerals Management, the Deputy Associate Director for Offshore Leasing, Regional Directors, the Office of Information and Publications, and the Office of Offshore Management Support. Included in the Office of Offshore Management Support is the Offshore Systems Center which centrally reviews all of Offshore's ADP procurement and major systems design, standardizes data elements for all Offshore regions and headquarters offices, prepares activity reports and develops the ADP Strategic Plan. Cartographic, editorial, and other program support duties are provided by support staffs within each region and are funded within this subelement.

Other Programs

Cooperative Agreement: Texas Bureau of Economic Geology (\$540,000)

In an effort to broaden the base of data and information available to MMS on offshore lands, the MMS entered into a cooperative agreement with the Texas Bureau of Economic Geology (BEG), University of Texas at Austin, in September 1983. The BEG acts as a central contact between the MMS and the geological surveys of coastal States and monitors multidiscipline, scientific activities conducted by the surveys for the MMS. The general area that the cooperative effort addresses is geologic studies relating to hydrocarbon and solid mineral resources. In FY 1986, approximately 21 coastal States participated in the program.

Strategic and Other Minerals (\$1,834,000)

In 1989, the primary thrust of this program will be the continuation of studies on strategic and other mineral resources, such as polymetallic sulfides, sand and gravel, heavy minerals, carbonate sands, phosphate and Pacific Ocean cobalt crusts to determine whether future lease sales of these resources are indicated.

Mineral exploration may lead to discovery of new deposits of strategic minerals or to greater knowledge of the quality and quantity of known deposits. Additionally, MMS will combine technical support to the State Department for minerals including oil, gas and strategic/international resources for areas beyond national jurisdiction including the Arctic and Antarctic.

The Minerals Management Service has established cooperative arrangements with the States of North Carolina, Oregon, California, Hawaii, Georgia, Mississippi, Alabama, Louisiana, and Texas for the joint analysis of resource potential and environmental consequences of potential OCS solid mineral leasing and the development of the NEPA requirements for mineral development offshore those States. Offshore areas within the jurisdiction of the United States are identified and investigated for the development potential of minerals other than oil, gas, and sulphur. Various mineral commodities (e.g., cobalt-rich manganese crusts, polymetallic sulfides, placers, construction materials, carbonate sands, and phosphates) are being examined to determine their commercial viability.

The leasing activities of this program are expected to be similar to the offshore oil and gas prelease steps. Appropriate documents for complying with NEPA requirements will be prepared. After receiving comments, decision material would be prepared, decisions made, and a notice of sale published in the Federal Register. Comments from affected States and interested parties would be solicited through the Notice of Intent and the publication and hearings on NEPA documents.

The planning, evaluation, and development of leasing procedures and the identification of potential and viable lease areas for marine mineral commodities typically will be accomplished by joint Federal/State working groups. These working groups include interested Federal agencies and affected States. In addition, new mapping and computation work will be done for the areas where marine minerals might be offered for lease.

Three new initiatives are planned for FY 1989. The MMS has received inquiries in the New York-New Jersey, Mid-Atlantic (Virginia) and Alaska offshore areas that will most likely result in the formation of three joint Federal/State task forces. Once formed, the New York-New Jersey task force will address development of sand and gravel resources in the New York Bight area; the Virginia task force would address titanium bearing placer deposits which are known to occur near the mouth of the Chesapeake Bay; and the Alaska task force will initially examine development of the gold placer deposits occurring in the Norton Basin. An agreement in principal has been reached to create the Alaska task force following a request for such an arrangement from the governor of Alaska.

Studies to be performed by task forces are used to evaluate the economic and environmental feasibility of leasing these minerals. Each leasing proposal will be subjected to an assessment of its economic feasibility before a decision is made to commit additional higher levels of resources for supplemental mineral resource studies or the preparation of an environmental document. The initial task force studies in this pre-planning process are focused on determining the economic feasibility of recovering these resources given the variety of technologies, market conditions and the offshore marine environment.

WORKLOAD SUMMARY

A summary of the major workloads in the Resource Evaluation Program by sub-element is presented in the following table.

	<u>FY 1987</u> <u>Actual</u>	<u>FY 1988</u> <u>Estimate</u>	<u>FY 1989</u> <u>Estimate</u>	<u>Inc. (+)</u> <u>Dec. (-)</u>
1. Acquisition of G&G Data:				
o G&G permits processed and approved	267	275	260	-15
o G&G data acquisition actions	94	60	70	+10
o Line miles of CDP data acquired	116,700	68,000	82,000	+14,000
2. Production of regional G&G maps and analyses:				
o Geology reports	4	7	6	-1
o Determination of area of hydrocarbon potential	7	7	6	-1
o Area identification recommendations	3	8	8	---
3. Production of tract- and prospect-specific maps & analyses:				
o Completed sales	2	4	8	+4
o Sales in progress	14	21	26	+5
4. Development of estimates of undiscovered resources for planning areas:				
o Section 606 reports	---	1	---	-1
o Review of 5-Year Leasing Schedule	1	1	1	---
o NEPA and decision documents	8	10	16	+6
5. Reserve inventory:				
o Field reserve estimates	95	100	105	+5
6. Economic and engineering evaluations for lease sales:				
o E&D reports	5	7	7	---
o Cost estimates and price assumptions	2	4	8	+4
o Bidding system design analyses	4	7	7	---
o Fair market value determinations	2	4	6	+2
o Economic value estimates	16	16	16	---
7. Economic and engineering methodologies and studies for the OCS leasing program:				

	<u>FY 1987</u> <u>Actual</u>	<u>FY 1988</u> <u>Estimate</u>	<u>FY 1989</u> <u>Estimate</u>	<u>Inc. (+)</u> <u>Dec. (-)</u>
o Economic studies	25	25	25	---
o Engineering studies	6	6	6	---

Decrease from 1989 Base

(Dollar amounts in thousands)

	<u>FY 1989</u> <u>Base</u>	<u>FY 1989</u> <u>Estimate</u>	<u>Difference</u>
\$	23,722	23,022	-700
(FTE)	(352)	(352)	(---)

G&G Data Acquisition (-\$700,000)

Fiscal Year 1989 represents the final year of the phase-out of additional funds required to reimburse industry for processing costs of data and information acquired from permits issued on or before September 30, 1985. This permits a decrease of \$0.7 million from the FY 1988 funding level available for reimbursing industry for pre-FY 1986 data processing costs.

The FY 1989 budget request of \$2.0 million is required to cover reimbursement for data reproduction, special processing requested by MMS, acquisition of G&G data not available under permit to support litigation, Section 8(g) actions, and boundary disputes, and reimbursement costs for data acquired under permits issued on or before September 30, 1985. The following table demonstrates the phase-out of funds required to acquire pre-FY 1986 permit data and projected G&G data acquisition costs through FY 1989.

(In millions of dollars)

<u>Fiscal</u> <u>Year</u>	<u>Base</u>	<u>Additional 1/</u> <u>Funds Required</u>	<u>Total</u> <u>Funding</u>
1986	2.0	2.66	4.66
1987	2.0	3.80	5.80
1988	2.0	0.70	2.70
1989	2.0	---	2.00

1/Funds required to reimburse permittees for seismic data acquired under permits issued on or before September 30, 1985.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Other Services:	
G&G Acquisition.....	-700

Justification of Program and Performance

Activity: Outer Continental Shelf Lands
Subactivity: Regulatory Program

(Dollar amounts in thousands)

<u>Program Element</u>		<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-) from 1988</u>	<u>Inc.(+) Dec.(-) from Base</u>
Regulation of Operations	\$ (FTE)	27,670 (409)	27,438 (409)	27,438 (409)	-232 (---)	---
Technology Assessment and Research	\$ (FTE)	864 (---)	864 (---)	864 (---)	---	---
Oil and Gas Information	\$ (FTE)	888 (7)	898 (7)	898 (7)	+10 (---)	---
=====						
Total Requirements	\$ (FTE)	29,422 (416)	29,200 (416)	29,200 (416)	-222 (---)	---

Objectives

- o Regulate OCS oil, gas and marine minerals exploration, development, and production operations in a manner that ensures protection of the environment, protection of the natural resources, and prompt and efficient exploration and development.
- o Provide a comprehensive technology base for the supervision of leasehold operations, including the use of best available and safest technologies (OCSLAA Sec. 21(b)). Provide a technical basis and methodology for the determination of reliability and risk associated with OCS operations.
- o Provide information concerning OCS oil and gas and other mineral activities to affected State and local governments.

The Regulatory Program consists of the following separate program elements: Regulation of Operations; Technology Assessment and Research; and Oil and Gas Information.

Regulation of Operations

Objectives

- o Work toward developing a safe and pollution-free environment through careful regulation of activities such as exploration, development, and production

operations, the transportation of production to shore, and pipeline design and maintenance.

- o Identify and report the cause of major fires, oilspills, deaths, or significant injuries.
- o Conduct an effective inspection and enforcement program.
- o Assure ample opportunity for participation by affected States, other Federal Agencies, and the public in the decisionmaking process during the review and approval of lessee-submitted exploration plans and development and production plans.
- o Assure that affected States are provided with copies of exploration plans and development and production plans to enable them to deal with actual and potential onshore effects of OCS activities.
- o Assure that industry personnel engaged in activities on the OCS are properly trained in safety, environmental protection, and natural resource protection.
- o Provide technology support to MMS operations personnel as the industry moves into the hostile frontiers of the deep oceans and ice infested Arctic.
- o Provide assurance of structural integrity of drilling, exploration, and production platforms, especially those located in deep waters or hostile environments.
- o Assure proper lease development and prevention of hydrocarbons waste in the reservoir through unitization and review of maximum efficient rates of production, verification of shut-in wells, reviewing requests for flaring of gas, reviewing requests for suspension of production, and evaluating opportunities for enhanced recovery.
- o Determine pricing categories for natural gas production from new leases, new reservoirs on existing leases, high cost natural gas reservoirs, and stripper wells.
- o Assure that appropriate Minerals Management Service regulations and management systems are in place so that procedures for leasing and mining operations for nonenergy minerals are available.
- o Inventory and maintain information for release to the public.
- o Provide technical and operational support for Environmental Impact Statements and other environmental documents, including Coastal Zone Management plans and draft study proposals.

Base Program

Regulation of the OCS oil, gas, and marine minerals Operations Program provides for the comprehensive and systematic review, approval, and oversight of lessee-conducted exploration, development, and production operations on the OCS. This is accomplished through the review and approval or disapproval, if appropriate, of exploration plans, development and production plans, and development operations coordination documents; and through the issuance of permits, the

inspection of lessee-conducted activities to ensure compliance with governing requirements, and the taking of appropriate enforcement actions when requirements are not met.

Mandated responsibilities require: Coordination of approvals of OCS exploration plans and development and production plans with the affected States; conducting scheduled inspections for each facility annually (with intermittent unscheduled inspections to ensure regulatory compliance); and the establishment of a civil penalties program through which the Minerals Management Service may assess and collect monetary penalties.

Oil and gas produced from the OCS contribute significantly to the Nation's current and future energy supplies and to the Nation's plans to reduce its dependency on foreign sources of energy. Production from the OCS has only been established in the Gulf of Mexico and in the Pacific Ocean off southern California. Exploration drilling has been conducted off Alaska with some success and off the Atlantic coast with noneconomic results. However, exploratory activity is expected to continue. Off the coast of California, production is on the increase. Discoveries made in the Santa Maria Basin have given rise to even more exploratory drilling and to the submission of additional development and production plans.

Oil and gas reserves are increasing in the Gulf of Mexico. Significant discoveries in deep water areas of the Gulf of Mexico are expected to continue to contribute to these reserves. Leases off the Alaskan Arctic coast will continue to be subjects of near term exploration drilling. The Arctic area is highly promising and could lead to prolific discoveries ready for development and production in the 1990's.

The four major subelements of the Regulation of Operations program element and their products are described on the following pages.

Major Subelements and Subelement Products:

1. Exploration and Production Review and Approval (\$5,043,000)

The objective of this subelement is the review and approval of plans and applications related to all aspects of drilling, producing, development, flaring, commingling, unitization, etc., in the interest of ensuring the conduct of safe, pollution-free, and workmanlike operations. This work is also conducted in the interest of ensuring that responsible and prudent production and conservation practices are followed in the production, depletion, drainage, transportation, and measurement of produced hydrocarbons, in accordance with applicable OCS Orders, Regulations, and Notices to Lessees and Operators.

Description of Subelement Products

a. Exploration and Development Plans Processed

o Lease Plans

The OCS Lands Act, as amended, and the implementing Regulation 30 CFR 250.34 require OCS operators to prepare and submit to the MMS, for approval, a Plan of Exploration (POE) or a Plan of

Development/Production (POD/P) prior to commencing exploratory or development operations, respectively.

Generally, after an operator acquires an OCS lease, the initial step to be taken is the drilling of one or more wells in an attempt to determine whether the lease contains oil or natural gas in commercial quantities. However, such exploration of a lease can begin only after the operator has submitted a POE and received approval of it by MMS.

A POE is required to address many topics related to safety and environmental protection. A typical POE includes a description of the proposal together with a schedule of activities to be undertaken, a description of the major equipment to be used, a discussion of safety and pollution-control features and the oil spill contingency plan, a map showing the location of each well, a map showing appropriate geological formations, and a discussion of potential geological or man-made drilling hazards. An Environmental Report (ER) is submitted with each POE which addresses the potential environmental effects of the proposed activity.

After a POE is received, the MMS performs a technical review of the plan. This review includes, in part, verification that the operations are to be conducted using sound engineering practices, that the proposed locations for drilling activities are free of potential hazards, and that the operations will not interfere unduly with other uses of the OCS, such as shipping, fishing, and military activities.

The MMS also performs an environmental review of each plan. This review ensures that potential impacts on air and water quality, endangered species, cultural resources, undersea biological features, and live-bottom areas are minimized. MMS environmental scientists prepare appropriate documentation for each plan to determine compliance of the proposed activities with the requirements of the National Environmental Policy Act of 1969. Any modifications of a plan required as a result of the technical or environmental review must be made by the operator prior to its approval.

If an exploratory program is successful, the operator then must submit to the MMS for approval a POD/P prior to drilling development wells or installing fixed production platforms, pipelines, or production equipment. In the Western Gulf of Mexico, a Development Operators Coordination Document (DOCD) is required in lieu of a POD/P.

A typical POD/P or DOCD for lease operations in the Gulf of Mexico includes most of the items which are required for a POE in addition to a description of any fixed structures and production equipment to be used and a discussion of the hydrocarbons discovered, including expected production rates and the anticipated time to produce the reserves. As with POEs, the MMS performs an extensive technical and environmental review

of POD/Ps and DOCDs. Any modifications to a plan required as a result of this review must be made prior to approval.

Another important function of the POE, POD/P, and DOCD program is to satisfy the requirements of the Coastal Zone Management (CZM) Act of 1972, as amended. The CZM Act requires all Federal Agencies which regulate activities that affect the coastal zone to cooperate and participate with State and local governments by assisting them to effectively exercise their responsibilities of managing the coastal zone. The ER contains information that is utilized by State officials in the formulation of decisions pertaining to the use of land and water resources of their coastal zone, with full consideration being given in such decisions to ecological, cultural, historic, and esthetic values, as well as economic development. During the MMS review process, plans and accompanying ERs are transmitted to the affected States. The MMS does not approve POD/P or DOCD's until the State has concurred that the activities proposed in the plan are consistent with its CZM plan. The MMS may approve the POE prior to the plan receiving a consistency concurrence, but no drilling is permitted until concurrence is received.

Approval of a plan does not constitute final approval to conduct any specific operations associated with the plan. An operator must file with the MMS an individual permit application for each activity, which describes in detail how the activity is to be performed, and receive approval from the MMS before actual operations can begin. The activities permitted must agree with those in the approved plan.

- o Unit Plans

The unitization agreement is the contract that modifies the terms of the committed lease contracts and consolidates them to form the unit. This agreement provides for exploration, development, and production of minerals from OCS land, as a single consolidated entity without regard to separate ownership, and for the allocation of costs and benefits on a basis defined in the agreement.

The unit operator for each approved unit is required to submit, annually, a plan of exploration or development and production, depending on the type of agreement. The MMS monitors unit activity by reviewing these plans to ensure proper and timely exploration or development.

- o Production Verification

The Gulf of Mexico Region has begun a nationwide production verification program by assigning additional responsibilities to an existing organizational unit. This nationwide program has been designed to be phased into the current OCS program over a 3-year period commencing in FY 1987.

Objectives of the Verification Program

- o Annual inspection of all (currently 1,019) onshore and offshore custody transfer meter locations for site security, verification of sales volumes, and compliance with regulations.
- o Perform onsite production verification and inspections as needed to respond to discrepancies noted in the records being reviewed.
- o Start up an automated system that would verify crude oil production by analyzing run tickets, meter proving reports and system sales allocation reports on a continuous basis. The system is being designed to detect underreported crude oil production.

b. Permitting

- o Processing of Applications for Permit to Drill, Workover, Recomplete, and Abandon

Applications for Permit to Drill require completion and submittal of MMS Form 331-C, Permit to Drill, Deepen, or Plug Back, supported by a detailed well plan including procedures and schematic drawings giving well location, directional plan casing procedures, cementing program, mud program, etc. Applications to workover, recomplete, or abandon require completion and submittal of Form MMS-331, Sundry Notices and Reports on Wells, supported by detailed plans, procedures, depths, drawings, etc. Prior to approval, each such application or proposal is thoroughly reviewed from the technical, engineering, and regulatory viewpoints to ascertain compliance with regulations in order to ensure safety and protection of both personnel and the environment.

Although the number of drilling applications currently being received is less than the number during the peak oil price period, it is anticipated that drilling activity will continue to increase along with oil prices in FY 1989. The workload related to workovers will continue to increase in FY 1989 as a result of more strenuous workover requirements contained in the Regulatory Consolidation Package.

- o Platform Installation Applications Processed

OCS Order No. 8 requires that an operator submit to the MMS for approval, applications for the installation of new bottom founded or fixed platforms and applications for significant modifications to applications already approved. All new platforms or other structures shall be designed, fabricated, installed, and inspected in accordance with the requirements of OCS Order No. 8 in the interest of minimizing occurrences of platform failures that may endanger life or health or cause damage to property or the environment.

Each platform application or significant modification to an approved application is reviewed by geologists, geophysicists, structural engineers, and other appropriate staff, including oceanographers. They review the design and design criteria of the platform to ensure that it is appropriate for the expected environmental and operating conditions, to ensure that the platform can withstand the loads to which it may be exposed, both during and after its transportation and installation, to ascertain the projected influence of the soil conditions and other factors on the stability of the platform, and the steps to be taken to protect against corrosion.

In addition to the preceding, platforms which are to be installed in water depths exceeding 400 feet, which have natural wave periods greater than three seconds, which are to be installed in areas of unstable bottom conditions, which have designs not previously proven for use, or are to be installed in seismically active areas, are subject to the requirements of the Platform Verification Program. This program requires the involvement of a third-party verification agent who provides an independent assessment of the design, fabrication, and installation of the platform.

o Pipeline Applications Processed

OCS Order No. 9 and 30 CFR 256 require that an operator or right-of-way holder submit to the MMS for approval applications for the design, other features, and plan of installation of all pipelines authorized under any lease or pipeline right-of-way. All pipelines and associated valves, flanges, and fittings shall be designed, installed, operated, maintained, and abandoned in a manner which provides for the safe and pollution-free transportation of fluids without unduly interfering with other uses of the OCS.

Each new pipeline application is reviewed by a petroleum engineer and environmental scientist. The petroleum engineer reviews the design of the pipeline to ensure that it is appropriate for the expected environmental and operating conditions, the proposed safety equipment to ensure that leaks and breaks and abnormal operating pressures can be detected, and to ensure that the pipeline will shut in when leaks are detected, the adequacy of projected corrosion protection system, and the analysis of potential hazards along the proposed pipeline route. The environmental scientist prepares appropriate documentation to determine compliance with the requirements of the National Environmental Policy Act of 1969.

In addition to the preceding requirements, when a pipeline qualifies as a right-of-way pipeline, the pipeline shall not be installed until a right-of-way has been requested and granted. Right-of-way grants are issued pursuant to Section 5(e) of the OCS Lands Act.

In addition to applications for new pipelines, operators and right-of-way holders are required to submit applications for approval for actions on existing pipelines.

- o Suspension of Production

Suspensions of production (SOPs) which have the effect of extending a lease beyond its primary term are to be granted when in the national interest, with due consideration given to difficult or unforeseen problems. These suspensions are approved with the understanding that all deadlines within approved activity schedules will be met. Once a schedule has been approved, the deadlines are closely monitored to make certain that the lease is placed on production at the earliest possible date.

- o Gas Flaring Approvals

Requests for flaring or venting are reviewed and only operations which are according to OCS Order No. 11, paragraph 10, and according to MMS policies developed to minimize flaring, are approved. Long-term requests are made by written application and are approved in writing for periods up to 1 year. Short-term, emergency requests (e.g., equipment failure, testing, well purging, etc.) are handled by telephone and confirmed with a letter.

- o Enhanced Recovery Operation Analysis

Operators submit secondary and tertiary enhanced oil recovery projects consisting of applications together with supporting geologic and engineering data showing that the projects are in the interest of conservation of the natural resources on the OCS. Operators are required to submit annual reports for each approved injection project, including information on the number of days and volume of gas injected and volume in oil, gas, and water produced. These data is used in reservoir analyses and statistical reports, as well as in monitoring individual injection projects to ensure maximum recovery of hydrocarbons.

- o Approval of Safety Systems on New Platforms

Drawings and schematics of new platform facilities showing production and process equipment, as well as safety and anti-pollution controls and devices, are reviewed for compliance with applicable OCS orders and regulations and are utilized to verify that the production system equipment is installed in the field in conformance with the approval granted.

- c. Determination and Agreements

- o Determination of Maximum Production Rates by Reservoir (MER) and by Well Maximum Producing Rate (MPR)

Requests and supporting information (eg., structure maps, tests, etc.) to establish reservoir MERs and well MPRs are reviewed. Operations are only approved according to OCS Order No. 11 and according to rate control policies developed to prevent waste and ensure conservation of oil and gas. MERs are redetermined at least annually for each producing reservoir. MPRs are redetermined for oil wells at least quarterly and for gas wells at least twice a year.

- o NGPA Category Determinations

The NGPA category determinations are made on the applications of gas producers, based on engineering and geological evidence, which must conform to specific requirements of the Federal Energy Regulatory Commission (FERC). This office makes three categories of determinations which in effect, set the maximum price a producer can receive for gas produced from the well receiving the category determination. This, in turn, affects the royalty received by the Government from OCS leases. Without a final category approval, the gas must be sold for a lower price as specified in the regulations.

- o Commingling Agreements

Commingling applications are submitted to the Surface Commingling and Production Measurement Section when a lessee or lease operator intends to move production from multiple leases to a central facility for the purpose of treating, measuring, and storing this production. In response, the MMS approves or disapproves the commingling or mixing for the above purposes. Further, commingling may involve the mixing of production from different wells, leases, and fields, with production of other operators.

- o Review Development Activities/Lease Drainage

Development and production activities are monitored within and around all Federal leases with royalty rates other than the normal one-sixth and those leases along the State/Federal line to ensure the prevention of Federal royalty drainage.

Recent Activities and Accomplishments for this Subelement Include:

- o The Gulf of Mexico OCS Region is currently monitoring the development and production of 150 active units in the Gulf of Mexico through the processing of annual and supplemental unit plans.
- o During FY 1987, the regional supervisor for Production and Development in the GOM OCS Region approved 14 unit agreements (12 for exploration and 2 for production and development).
- o For FY 1987, 174 SOPs and 366 Suspension of Operations (SOOs) were approved in the Gulf of Mexico Region. As of September 30, 1987, there were 200 leases beyond their primary term with approved activity schedules. Three hundred SOOs were issued due to NTL 86-12; 5 SOOs were issued due to NTL 86-7; and 61 SOOs were issued due to Lease Stipulation 5, which directs extension of operations for Eastern Gulf of Mexico Region.
- o There are currently 250 active secondary and tertiary enhanced oil recovery projects on the Gulf of Mexico OCS.
- o To date, the Reservoir Analysis Unit in the GOM Region has processed over 9,500 applications, approximately 60 percent of them requesting the 102(d) category. This category permits the highest regulated price but also is the most difficult and time-consuming to determine. At the present time, the unit is processing 20 to 25 applications per month.

- o In the Gulf of Mexico OCS Region as of September 30, 1987, the following had been accomplished:

Number of existing and expired varied
royalty leases reviewed. 190

Number of existing and expired leases
adjacent to State/Federal line reviewed. 50

2. Inspection and Certification (\$12,946,000)

The objective of this subelement is the inspection of all OCS oil and gas exploration, development, and production activities, the certification of well-control and safety device training programs, and accreditation of safety and pollution prevention equipment. The inspection of OCS operations is required by the OCS Lands Act to ensure compliance with all applicable safety and environmental protection laws and regulations. The certification and accreditation programs are intended to ensure that personnel working on the OCS are properly trained and that the equipment used on the OCS is reliable. These programs have provided positive results in ensuring safe operations on the OCS as well as ensuring that the environment is protected.

a. Inspection Activities

- (1) Inspections - The inspection of OCS operations is a major work unit of the regulatory program. All drilling and production facilities on the OCS are inspected annually on a scheduled basis. In addition, unannounced inspections are conducted on at least 10 percent of all facilities annually. Inspections are conducted utilizing the National Potential Incident of Noncompliance (PINC) inspection characteristics list. In the scheduled annual inspection, all inspection characteristics pertaining to the operation being inspected are utilized. In the unannounced inspections, a minimum of 25 percent of the pertinent PINC's are used.

Inspections are conducted on drilling, production, measurement, pipeline, workover and completion, and abandonment operations. In addition, there are PINC's which pertain to environmental requirements and other general requirements pertinent to all operations. Drilling inspections are conducted to ensure that the proper equipment is used, sufficient supplies are on location, and proper techniques are followed to maintain control of the well and prevent blowouts, spills, and other accidents.

Production inspections are conducted to ensure that the proper equipment is used and that it is installed and calibrated correctly to prevent accidents and pollution. Measurement inspections are performed to ensure that the disposition of oil and gas production resources is accomplished in accordance with applicable requirements. Pipeline inspections are performed to ensure that pipelines are constructed and operated safely. Workover, completion, and abandonment inspections are conducted to ensure that those operations are performed safely and according to approved plans and regulations.

Inspections are conducted by petroleum engineering technicians located in district offices near the offshore facilities. The MMS

has four district offices and two sub-district offices in the Gulf of Mexico OCS Region, two district offices in the Pacific OCS Region, and one district office in the Alaska OCS Region. The number of inspections that are completed must be viewed in an overall context as representing a compilation of numerous checks and examinations performed by MMS inspection personnel. Some of the inspections conducted may take as long as 30 hours to complete. These inspections are highly technical in nature and consist of inspecting a number of small individual items that in the aggregate, measure the overall condition and compliance record of the particular operation being examined. The difference in drilling and production equipment, and environmental conditions in the three regions must also be taken into account when considering individual inspections and overall statistics. In the Gulf of Mexico and Pacific OCS Regions, conventional drilling facilities are utilized and environmental conditions are generally mild. In Alaska, the facilities are usually state-of-the-art rigs designed for Arctic ice and severe weather conditions. The weather conditions frequently affect travel involved with inspection efforts. Due to logistical constraints, the level of environmental concerns and the unique conditions imposed on lessee activities, the Alaska OCS Region maintains a near continuous inspection presence at the drill site.

- (2) Accident Investigation - The OCS Lands Act requires that major fires, explosions, and oil spills be investigated and that a public report be prepared for each such incident. The MMS is notified of every accident occurring on the OCS. Major accidents are investigated by a panel of experienced personnel and a public report is prepared.
- (3) Safety Award for Excellence - The Safety Award for Excellence (SAFE) Program was developed to recognize and commend those operating companies that expend extra effort and conduct their operations in a safe and pollution-free manner by adhering to all regulatory requirements, employing trained and motivated personnel, and taking that extra step to enhance safety of operations and environmental protection.

The Safety Award for Excellence is presented on both district and national levels and is judged on the criteria outlined below. The District Safety Award for Excellence is given to a lessee or company and is based on exemplary performance on a single platform or rig, lease, or field or throughout an entire district. The National Safety Award for Excellence is given to a lessee or company selected from the winners of the district awards. The District Safety Award for Excellence is presented semi-annually by the regional manager or Director, MMS, and it covers the periods January 1 through June 30 and July 1 through December 31 of each calendar year. The National Safety Award for Excellence is presented annually by the Secretary of the Interior or his representative.

Recent activities and accomplishments for this subelement include:

- o During FY 1987, the MMS conducted 9,502 inspections of drilling, production, meter, pipeline, workover, and abandonment operations.

- o In the Arctic, inspections are conducted on a spray-ice island and on other unique structures to evaluate the construction integrity and technology for exploratory drilling structures. Annual inspections are also made of the abandoned gravel islands to assess damage to the islands after breakup and to note the presence of oil, trash, or other debris which may have been uncovered.

b. Certification Activities

- (1) Certified Training - The MMS certifies drilling well control training schools and in FY 1989 is considering the certification of training schools in completion/workover well control and in production safety systems. In certifying the training schools, the MMS first reviews the schools' proposed program and curriculum. Once the program is deemed to conform with the appropriate set of training standards, the MMS grants approval of the documented program, subject to an onsite evaluation of a class in training. Final certification is given after the onsite evaluation if the school is conducted in accordance with the set of standards and the approved documented program. All certified schools are subject to unannounced audits by the MMS.
 - (a) Drilling Well Control Training - Certain industry personnel who work in drilling operations on the OCS are required by OCS Order No. 2 to attend and successfully complete a certified course in drilling well-control operations. The MMS certifies drilling well-control training schools in accordance with MMS Standard OCS-T-1, titled "Training and Qualifications of Personnel in Well-Control Equipment and Techniques for Drilling on Offshore Locations." The Standard is applicable to personnel classified as Rotary Helpers, Derrickmen, Drillers, Toolpushers and Operator's Representatives.
 - (b) Completion/Workover Well Control Training - Certain industry personnel who work in completion or workover operations on the OCS will be required to attend and successfully complete a certified course in completion/workover well control operations. The MMS will begin certifying completion/ workover well control training schools in FY 1989 in accordance with an MMS standard which is currently being developed. The standard will be applicable, beginning in FY 1989, to personnel engaged in the removal of the "christmas tree" (i.e., the wellhead control valves manifold), the installation of the blow-out preventer (BOP), or the use of snubbing, coiled tubing, or wireline units. Applicable personnel will include floorhands, completion/workover supervisors, and well servicing operators and supervisors.
 - (c) Production Safety System Training - In FY 1989 certain industry personnel who work with production safety systems on the OCS will be required to attend and successfully complete a certified course on production safety system in accordance with an MMS standard which is currently being developed. The standard will be applicable, beginning in FY 1989, to all OCS production personnel engaged in the installation, testing,

maintenance, and operation of production safety systems. Applicable personnel will also include platform supervisors and platform operators.

- (2) Safety and Pollution Prevention Equipment Accreditation- Certain safety and pollution prevention equipment (SPPE) used on the OCS must conform to the American National Safety Standards Institute/American Society of Mechanical Engineers Standard "Quality Assurance and Certification of Safety and Pollution Prevention Equipment Used in Offshore Oil and Gas Operations," (ANSI/ASME SPPE-1). The MMS participates with the ASME in the accreditation program by attending and monitoring ASME surveys of manufacturers and by serving on ASME committees.

Recent activities and accomplishments for this subelement include:

- o During FY 1987, the MMS certified or recertified 25 well control training schools. Unannounced audits were conducted on 26 schools. At the end of the year, there were 191 certified well-control training schools (60 basic, 59 refresher, and 72 rotary helper/derrickmen).

3. Operations Supervision (\$4,416,000)

The objective of this subelement is to provide support for MMS Regulation of Operations responsibilities for OCS lease management. This support includes:

- o Training of MMS personnel in the performance of their duties and in the improvement of technical capabilities.
- o Development and/or assembly of technology and equipment capabilities information for use during the review and approval of oil and gas exploration, development, and production plans.
- o Development and/or assembly of technology and equipment capabilities information for use in conjunction with Government inspection and certification activities.
- o Development preparation, promulgation, and review of rules and regulations, safety alerts, Notices to Lessees, and internal operating procedures.
- o Review, analysis, and improvement of the MMS safety and pollution prevention inspections of oil and gas drilling and production operations and facilities.
- o Other associated operations support.

Description of Subelement Products

a. Training

A variety of technical and safety training courses are attended by all employees. As a technically oriented Agency, training is an integral

part of the MMS operations. Training to enhance professionals and managerial capabilities is considered vital to maintaining a workforce capable of monitoring the expanding technology of the petroleum industry. Equally important is the spectrum of safety training to make the work environment reasonably safe for MMS employees and to ensure that MMS inspectors recognize unsafe equipment and unsafe operating procedures when they occur.

b. Technology and Equipment

The MMS continuously assesses the offshore oil and gas industry's capabilities, procedures, and currently available equipment to conduct oil and gas operations in a safe and pollution-free manner. This is in compliance with OCS Lands Act, Section 21(b) which requires that the best available and safest technologies (BAST) be used in offshore minerals drilling and production operations. To assess BAST, the MMS has established a technology information coordination network which makes use of Operations Technology Assessment Committees (OTAC's) at each MMS regional office. These groups review problems, new procedures and technologies, and evaluate potential solutions to a variety of regulatory related problems.

The MMS participates with other interested Federal Agencies and the Canadian Government in the evaluation of capabilities for oil spill containment and cleanup equipment and procedures. Testing is conducted both offshore and in an Environmental Protection Agency test tank for open-ocean and broken-ice conditions.

Recent tests in the laboratory and in-situ of the burning of oil spills have contributed significantly to the approval of drilling operations during broken-ice periods in the Beaufort Sea. Other information is being used to quantify the effectiveness of manufactured equipment and operational procedures and to assist in the evaluation of oil spill contingency plans submitted to the MMS for approval. Oil spill technology equipment and procedures, continue to represent a significant issue for OCS activities.

A formal contract research program (i.e., Technology Assessment and Research) is administered by the MMS which addresses operational needs for permitting OCS drilling and production, safety and pollution inspections, enforcement actions, accident investigations, and well control requirements. Program planning is guided by lease sale plans and by inferences drawn from industry research. Examples of MMS administered studies include:

- o Diverting shallow gas blowouts away from drilling vessels.
- o Environmental effects of removing old OCS platforms with explosives.
- o Critical technical concerns relative to new types of OCS platforms for deep water areas (i.e., tension leg platforms and floating production systems).
- o Cleanup of oil spills by in-situ burning.

- o Validation of standardized procedures for testing the performance of oil containment booms without using spilled oil.

Technical material developed via this program is transferred to MMS regulatory personnel through conferences, workshops, OTAC meetings, briefings, and written reports.

c. Rules and Regulations

In association with studies of technology and equipment, the adequacy of current orders, regulations, and standards are continually reviewed relative to new and emerging technology and information gained from analysis of accident reports. Internal directives and operating procedures establish consistency in MMS operations. Notices to operators and lessees add specific regulatory explanation and guidance. Safety Alert Notices result from detailed analysis of particular accidents and provide recommendations to prevent recurrence of these types of accidents.

d. Inspection Analysis

A new Offshore Inspection Program (OIP) has been developed utilizing a national potential incidence of noncompliance (PINC) list and incorporating a computer system whereby the data and results of all inspections are entered into an automated data base. The OIP involves the development of internal review procedures and inspection procedures at each organizational level within MMS.

In late FY 1984, the MMS approved the Offshore Inspection Program Handbook. The Handbook requires that documented procedures be developed for all aspects of the inspection program. In addition, the Handbook requires the establishment of a formal "Internal Review" process so that all elements of the MMS offshore inspection program are reviewed at least annually. With the establishment of the formal documented program and the internal review follow-up, the MMS inspection program will be implemented in a more consistent and effective manner on a national basis. Full implementation of this program is anticipated during FY 1988.

The OIP has been implemented and the computer systems for drilling and production are being revised based on user input. The computer systems are expected to be completed at the beginning of FY 1988.

Recent activities and accomplishments include the development and finalization of the following OIP documents:

- o Regional Supervisor Instructions - Alaska OCS Region
- o Regional Supervisor Instructions - Gulf of Mexico OCS Region
- o District Instructions - Alaska OCS Region
- o District Instructions - Gulf of Mexico OCS Region
- o District Instructions - Pacific OCS Region

e. Associated Operations Support

These support activities include a "plethora" of requests from local, State, and other Federal agencies for information and meetings relative to regulations, terms, and conditions which affect OCS operations. Additionally, they involve providing support to MMS inspection and enforcement related activities. These support activities include the generation of weekly, monthly, semi-annual, and annual reports of various kinds and types, review of requests for departure or variance from specific regulatory requirements, and review of particular problems related to OCS drilling and production operations.

Recent activities include:

- o Preparation of responses to Freedom of Information Act requests.
- o Maintenance of public and proprietary information files.
- o Implementation of an ongoing coordination program with military installation in locations where military activities may conflict with OCS oil and gas exploration and development activities.
- o Providing technical support and information for highly sensitive environmental and political negotiations relating to OCS activities.

4. Program Management and Support (\$5,033,000)

This subelement provides program guidance and direction, internal and external coordination of program activities, and program and technical support for the work of the Regulation of Operations Program. Policy guidance and program direction are provided by the Associate Director for Offshore Minerals Management, the Deputy Associate Director for Offshore Operations, Regional Directors, the Office of Information and Publications, and the Office of Offshore Management Support. Included in the Office of Offshore Management Support is the Offshore Systems Center which centrally reviews all of Offshore's ADP procurement and major systems design, standardizes data elements for all Offshore regions and headquarters offices, prepares activity reports and develops the ADP Strategic Plan. Cartographic, editorial, and other program support duties are provided by support staffs within each region and are funded within this subelement.

Selected outputs for the Regulation of Operations program are:

	FY 1987 <u>Actual</u>	FY 1988 <u>Estimate</u>	FY 1989 <u>Estimate</u>	Inc.(+) Dec.(-)
Inspections.....	9,502	12,400	13,400	+1000
Exploration/Development and Production				
Plans Processed.....	826	880	928	+48
Applications for Permit to Drill				
Processed.....	737	854	968	+114
Platform Installation Applications				
Processed.....	101	123	144	+21
Pipeline Applications Processed.....	176 ^{1/}	251	352	+101
Production Rate Control(MER,MPR,MAR)....	15,523	15,710	15,786	+76
NGPA Category Determinations.....	402	590	646	+56
Commingleing Agreements.....	169	150	177	+27
Unitizations and Other Agreements				
Processed.....	549	591	622	+31
Review Development Activity/				
Lease Drainage.....	230	245	260	+15
Accident Investigations.....	172	163	166	+3
Applications for Workover, Recompletion,				
and Abandonments.....	6,205	6,649	7,166	+517
Suspensions of Operations/Production....	566	420	426	+6
Enhanced Recovery Operation Analyses....	10	16	17	+1
Gas Flaring Approvals.....	491	579	605	+26
Verification of New Platforms.....	20	14	17	+3
Civil Penalty Proceedings.....	---	---	4	+4
Well Control School Certification				
Activities.....	51	60	100	+40
Water Survival Training Actions.....	39	34	36	+2
Inspector Training Program Activities...	---	2	10	+8

^{1/}The definition of a pipeline application has been revised to include all revisions to and re-applications for an application as part of the original applications.

Technology Assessment and Research (TA&R)

Objectives

- o Conduct independent analyses of the OCS technologies to identify technology gaps and to assure the use of the Best Available and Safest Technologies (OCSLAA Section 21(b)-BAST). The program provides MMS personnel a continuing engineering dialogue with the industry and the research community on the operational technologies.
- o Assist in the development of technical and operational requirements for leaseholders to assure safe, pollution-free operations. These requirements are incorporated in OCS orders, regulations, and the conditions for granting permits.

Base Program (\$864,000)

Offshore operations conducted by oil and gas leasees and monitored by the MMS are becoming increasingly involved in pioneering efforts in a number of complex technologies as exploration and production move into deeper and more hostile environments of the open oceans and the ice-infested Arctic. The Technology Assessment and Research (TA&R) Program provides a comprehensive technological base for the MMS in the supervision of leasehold operations. This support is stated within the OCS Lands Act Amendments of 1978 (OCSLAA), Section 21(b), which requires the use of the BAST on all offshore operations.

The TA&R Program operates through contracts with universities, private firms, and Government laboratories. It takes advantage of participatory or collaborative studies with industry, other agencies, and with other countries such as Canada, the United Kingdom, and Norway, where similar operations, programs, and concerns exist.

Examples of activities and accomplishments:

1. Theoretical analyses and large-scale tests at Louisiana State University (LSU) of shallow gas blowout diverter (piping) systems, used when blowout preventors are not installed, are being run to develop an improved understanding of design and operational parameters. This information is needed to improve MMS regulations on the usage of these safety systems which have heretofore proven generally less than successful in operation.
2. Theoretical and experimental investigations are being conducted at LSU into improved methods of controlling well kicks (potential blowouts) in deep water drilling operations where the long flow lines between the rig and the blowout preventor on the ocean floor hamper effective control operations. A signalling device has been developed which can digitally transmit bottom hole pressure readings, while drilling, to the rig, and through the use of a computer, actuate a surface choke to control these blowout pressures in a timely manner.
3. Experimental investigations of the physics of burning various crude oils on the ocean surface are being conducted at the National Bureau of Standards in collaboration with the U.S. Coast Guard and the Canadian government. These studies have resulted in recent encouraging test findings pertaining to confined areas of broken ice.

4. MMS is participating with industry on the evaluation of verification procedures for deep water platforms and of reverification procedures for aging platforms.
5. In collaboration with industry, MMS is determining the mechanical properties of multi-year sea ice and the forces which the ice packs exert against structures.
6. MMS is participating with industry and the U.S. Coast Guard in evaluating the inspection approaches and monitoring techniques for the tendons (tensioned legs) of buoyant tension leg platforms. The first platform of this type in U.S. waters will be installed in the Gulf of Mexico in 1987-1988.
7. MMS has conducted international workshops on subjects such as concrete technology for Arctic structures, underwater welding repairs of structures, and the use of risk analysis in OCS operations.
8. Oilspill containment and cleanup technologies are being investigated in collaboration with North Sea and Canadian government agencies.
9. Investigations are being conducted on the behavior of various types of spilled oil, covering a range of environmental conditions.

Selected outputs for the Technology Assessment and Research Program are:

	FY 1987 <u>Actual</u>	FY 1988 <u>Estimate</u>	FY 1989 <u>Estimate</u>	Inc.(+) Dec.(-)
Technological Investigations	14	9	9	---
Technological Assessments	5	3	3	---
Technology Seminars Conducted	1	2	2	---
Technical Reports Published	1	1	1	---

Oil and Gas Information

Objectives

- Provide State and local officials with a summary of scientific, technical, and policy data to assist them in planning for the potential offshore, nearshore, and onshore impacts of the Outer Continental Shelf (OCS) mineral exploration, development, and production.
- Compile, organize, print, and disseminate OCS laws and regulations on a current and continuing basis.

Base Program: (\$898,000)

This program has the prime responsibility for providing State and local officials with summary information regarding the potential impacts of OCS mineral exploration, development, and production as mandated by the OCS Lands Act Amendments of 1978 (OCSLAA) (P.L. 95-372).

Major Subelements and Subelement Products

1. OCS Oil and Gas Information Program

- a. Provide continuing coordination with MMS headquarters and regional personnel, other Federal Agencies, State agencies, industry representatives, and local government officials regarding data needs and acquisition.
- b. Develop Summary Reports/Indexes from analysis and synthesis of available data.
- c. Develop and maintain current automated mailing list of State and local officials and other interested parties, and provide Summary Reports/Indexes and other data upon request.

2. OCS Regulations (Section 21(f) OCSLAA).

Compile, organize, format, print, and disseminate the compilation of OCS regulations.

3. OCS Laws

Compile, organize, format, print, and disseminate the compilation of OCS laws.

4. Program Management and Support

This subelement provides program guidance and direction, internal and external coordination of program activities, and program and technical support for the work of the Oil and Gas Information Program. The function of the Office of Information and Publications includes:

- a. Overall management, development, and coordination of publication and information policies and activities related to the OCS program.
- b. Development and implementation of policies, procedures, and products that support these activities to meet the objectives of MMS in providing State and local officials, industry, and the public with critical scientific, technical, and policy information for the planning of OCS mineral activities.

Policy guidance and program direction are provided by the Associate Director for Offshore Minerals Management, the Deputy Associate Directors, and the Office of Offshore Management Support.

Recent Activities and Accomplishments Include:

- Preparation of the Alaska Summary/Index Report on Offshore and Onshore Oil and Gas Activities as mandated by section 26 of the OCS Lands Act, as amended.
- Preparation of the Pacific Summary/Index Report on Offshore and Onshore Oil and Gas Activities as mandated by section 26 of the OCS Lands Act, as amended.

Selected Oil and Gas Information Program Outputs are:

	<u>FY 1987</u> <u>Actual</u>	<u>FY 1988</u> <u>Estimate</u>	<u>FY 1989</u> <u>Estimate</u>	<u>Inc. (+)</u> <u>Dec. (-)</u>
Annual Update of Regional Indexes and Summary Reports	2	4	4	---
OCS Regulations Document	---	1	---	-1
OCS Regulations Revision	---	---	1	+1
OCS Laws Update	---	---	1	+1

Activity Summary

Activity: Royalty Management

(In thousands of dollars)

<u>Subactivity</u>	<u>FY 1987 Actual</u>	<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-) from 1988</u>	<u>Inc.(+) Dec.(-) from Base</u>
Mineral Revenue Collections	14,652	15,829	15,681	17,738	+1,909	+2,057
Mineral Revenue Compliance	13,526	14,912	14,701	14,701	-211	---
Systems Development and Operation	17,206	19,199	19,178	20,166	+967	+988
Interest on Late Payments	320	---	---	---	---	---
Total Requirements	45,704	49,940	49,560	52,605	+2,665	+3,045

Authorizations

25 U.S.C. 397, <u>et seq.</u>	The <u>Indian Mineral Leasing Act of 1891</u> , as amended, authorizes mineral leasing on lands bought and paid for by Indians.
25 U.S.C. 396, <u>et seq.</u>	The <u>Indian Mineral Leasing Act of 1909</u> , authorizes oil and gas leases on Indian allotted lands.
25 U.S.C. 396-396(g), <u>et seq.</u>	The <u>Indian Mineral Leasing Act of 1938</u> , authorizes oil and gas leases on Indian tribes lands and provides uniformity with respect to leasing of tribal lands for mining purposes.
30 U.S.C. 181, <u>et seq.</u>	The <u>Mineral Lands Leasing Act of 1920</u> , as amended, provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulphur, and sodium and the payment of bonuses, rents, and royalties on such leases.
43 U.S.C. 1331, <u>et seq.</u>	The <u>Outer Continental Shelf Lands Act of 1953</u> , as amended, extended the jurisdiction of the United States to the Outer Continental Shelf; provided for granting of leases to develop offshore energy and minerals; and provided for bonuses, rents, and royalties to be paid in connection with such leases.

- 30 U.S.C. 1001, et seq. The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.
- 30 U.S.C. 181, et seq. The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
- 25 U.S.C. 2101, et seq. The Indian Mineral Development Act of 1982 provides that any Indian tribe may enter into lease agreements for mineral resources within their boundaries with the approval of the Secretary. Allotted land owners may join tribal mineral agreements.
- 30 U.S.C. 1701, et seq. The Federal Oil and Gas Royalty Management Act of 1982 provides for comprehensive fiscal and production accounting and auditing systems to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed and to collect for such amounts in a timely manner.

The Royalty Management Program (RMP) is responsible for the determination, collection, accounting for, and distribution of all royalty and other revenue from Federal onshore and Outer Continental Shelf Lands mineral leases and most producing Indian leases. The program is a major source of revenue to the Federal Government, to Indian tribes and allottees, and to those States which share in revenues from Federal onshore and certain offshore mineral leases.

All royalty accounting operations are located in the Lakewood Accounting Center to provide efficiency and economies of scale in the financial and data collection process and to assure consistent guidance to lessees and operators. However, functions are clearly separated to provide essential counterchecks for proper internal control (see Mineral Revenue Collections subactivity). Auditors are located geographically close to major workload areas to provide a more efficient audit capability (see Mineral Revenue Compliance subactivity). A systems function is responsible for the development, operation, and maintenance of the complex automated systems (see Systems Development and Operation subactivity).

Recent program initiatives are serving to enhance the accomplishment of program responsibilities. Among the most important initiatives are:

- o The Royalty Compliance audit workforce was expanded in FY 1987 by 50 positions provided by Congress in the FY 1987 Continuing Resolution. Once these new staff are fully trained, MMS will experience a significant improvement in its audit coverage, providing for the audit of most royalty payments on Federal and Indian leases on a 6-year cycle.
- o Changes in regulations in FY 1987 expanded the use of Electronic Funds Transfer (EFT) in the payment of royalties to the Government and provided industry with a more efficient and responsive Royalty-in-Kind (RIK) program.

- o On January 15, 1988, MMS published final regulations for determining the value for royalty purposes of oil and natural gas produced from Federal and Indian leases. These regulations go into effect March 1, 1988. Final rulemaking for coal product valuation is expected later in FY 1988.
- o During FY's 1988 and 1989, the MMS plans to convert all remaining onshore leases to a centralized production accounting system. When the conversion is completed, MMS will be able to systematically and comprehensively compare sales reported by operators on production reports to sales reported by payors on royalty reports.
- o In FY 1985, MMS initiated work to convert the Auditing and Financial System (AFS) from a minicomputer environment to a mainframe. The mainframe hardware was successfully installed in the fall of 1986, and MMS placed the AFS into production on the mainframe in the fall of 1987. Now that the AFS is in operation on the mainframe, sufficient capacity exists for the first time to provide on-line support for data correction and update processes.
- o The Office of External Affairs participated in 36 outreach meetings with RMP clientele during FY 1987. It also performed 31 desk accounting reviews on Indian leases, double the number completed in FY 1986. During the first 3 months of FY 1988 the number of desk accounting review requests received by the office was 18.
- o A contract with a major accounting firm for accounting and systems advice was awarded in September 1987. The contractor's first tasks include reviews of AFS and Bonus and Rental Accounting Support System (BRASS) for operation in accordance with generally accepted accounting principles.
- o The MMS audit strategy has been revised to provide improved audit coverage of Federal and Indian leases. The MMS will direct the majority of its audit resources toward major payor company audits. Also, MMS will assure audit coverage of the balance of Indian leases through major company audits, payor audits and specific audit requests through the BIA/MMS Indian Lease Audit Strategy.
- o During the FY 1987, MMS gathered recommendations from users, the Royalty Management Advisory Committee, and other interested parties regarding possible enhancements to be made to the AFS. During FY 1988, systems personnel will be analyzing the feasibility and cost-benefit yield of each suggested enhancement and will begin implementation of the highest priority initiatives during the second half of the fiscal year.

Justification of Program and Performance

Activity: Royalty Management
Subactivity: Mineral Revenue Collections

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc. (+) Dec. (-) from 1988</u>	<u>Inc. (+) Dec. (-) from Base</u>
Mineral Revenue Collections	\$ (FTE)	15,829 (295)	15,681 (295)	17,738 (295)	+1,909 (---)	+2,057 (---)
=====						
Total Requirements	\$ (FTE)	15,829 (295)	15,681 (295)	17,738 (295)	+1,909 (---)	+2,057 (---)

Mineral Revenue Collections

Objective

- o To efficiently carry out the provisions of legislation providing for collection and distribution of mineral revenues. In particular, the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) requires the timely collection of revenues due, the detection of incorrect payments, and the enforcement of the penalty and assessment provisions for noncomplying royalty payors and reporters.

Base Program

The Mineral Revenue Collections subactivity provides funds to collect, process, account for, and distribute bonuses, rents, royalties, penalties, interest, associated fees, and other payments received by the Minerals Management Service. This activity supports the review and calculation of windfall profits taxes. In addition, this subactivity provides funds for the Royalty-In-Kind (RIK) Program, which was instituted to provide a long-term secure supply of crude oil at a reasonable price to small, independent refiners. The MMS charges a fee to recover the administrative costs of the RIK Program and deposits this revenue in the General Fund of the Treasury.

Accurate and efficient collection of royalties is an important matter of equity and good government. In FY 1989, it is estimated that the Royalty Management Program will collect and account for approximately \$5.3 billion in mineral leasing revenues. To further verify payments and guard against underreporting of sales volumes, production data from the remaining onshore Federal and Indian leases is scheduled to be converted to a centralized production accounting system beginning in FY 1988. This system will compare production data to royalty data to verify that proper royalties have been reported and paid. The RMP was developed to minimize potential undercollections and will continue to work toward improving collection and reporting mechanisms in FY 1989.

The collection of mineral revenues in part mirrors the complex business and accounting practices of the energy industry, which is responsible for reporting and paying royalties and other revenues to the Government. Recent trends in this industry which have impacted the royalty collection process and increased its complexity are as follows:

- o Corporate consolidations and mergers have significantly increased the number of lease reassignments. This in turn has increased the reference data base maintenance workload by requiring additional revisions to the payor information forms.
- o The number of energy companies reorganizing or terminating business has increased substantially. The RMP must assure that the Government's interest is protected in these cases and that all feasible steps are being taken to assure proper payment.
- o The restructuring of energy markets over the last several years has created a large number of complex ownership patterns which have complicated the royalty paying and collection process.

For the MMS staff to carry out their objective of accurate and timely collection and disbursement of mineral revenues, three accounting systems have been developed. They are the Auditing and Financial System (AFS), the Production Accounting and Auditing System (PAAS), and the Bonus and Rental Accounting Support System (BRASS). The operation and maintenance of these systems is supported under the Systems Development and Operation subactivity. The primary user of the information and data provided by the systems, however, is the staff funded through the Mineral Revenue Collections subactivity. These systems and their functions are detailed below. In addition, MMS has also developed an information access system, the State and Tribal Support System (STATSS), to provide States and Indian tribes with remote access to MMS data.

Auditing and Financial System (AFS)

The AFS is designed to fulfill eight principal objectives: (1) Process royalties reported by the payors promptly and efficiently; (2) distribute mineral revenues to State, Indian, and General Treasury accounts on a monthly basis in accordance with the FOGDRA; (3) calculate, distribute, and disburse interest and penalty payments to States and Indians in those instances where it is required by FOGDRA; (4) using data provided by the payors, identify underreporting and nonreporting at a level of detail which enables MMS to effectively and quickly communicate with payors and promptly collect revenues due; (5) account for all mineral revenues due, collected, and disbursed in a system of accounts which enhances MMS's ability to control and report on the RMP; (6) provide royalty accounting and statistical information to those parties, including States and Indian tribes, which have a need for such information; (7) build and maintain a data base which can effectively be matched with production data in the production accounting system; and (8) create an automated billing process for all receivables generated by the system.

Recognizing that the existing hardware was clearly undersized to meet the Department's needs in mineral revenue accounting, MMS proceeded in FY 1985 with the procurement of a new computer. As a result, the AFS was reimplemented during FY 1987 on a mainframe computer with sufficient on-line capacity to allow for interactive error correction and file updating. Data in the system is available to States, Indian tribes, and other Interior Department users such as the Bureau of Indian Affairs (BIA) through the STATSS, which is an information access system. Minor modifications are occasionally made to STATSS to maintain efficient report production and to keep the STATSS applications responsive to user needs.

Exception Processing: The purposes of the exception processing program are to identify payor noncompliance in royalty reporting and paying and to point out recurring problems in order to improve reporting and paying accuracy. Billable exceptions are generated by comparing what a payor reports and pays to what the system expects the payor to report and pay. Although the AFS generates these exceptions each month, a manual effort is necessary to assure that a true discrepancy exists and that the royalty payor is in fact responsible for the problem.

Starting in FY 1986, the exception processing effort was heavily augmented by contractor employees because the volume of exceptions exceeded MMS staff resources. Through the contractual effort, MMS issues current billings on Federal and Indian leases for late reporting, late payments, underpaid royalties (Forms MMS-2014), and insufficient estimated payments on Indian leases, as well as some billings from the retroactive period. The decrease from the estimated to the actual FY 1987 warnings/billings issued was caused by (1) the inability to process and issue all exception processing bills due to VAX limitations; and (2) a change in policy that reduced the number of exceptions that could be billed. Although the funding for the prior periods was intended to be a 2-year effort, budget reductions in FY's 1986 and 1987 and greater workload volumes in the prospective (current) periods have stretched the retroactive period effort into FY 1989. Annual contractor and in-house costs to carry out the exception processing program are projected to total approximately \$2.2 million in FY 1988, decreasing to approximately \$1.9 million in FY 1989 when exception processing of prior year data is expected to be completed and fewer nonreporting warnings will be issued. After payors receive all of the current and prior-period billings, a decline in the number of exceptions is expected in FY 1990.

Although exception processing has the primary goal of increasing compliance with the law and implementing regulations, increased revenues is a secondary benefit of this activity. As of November 1987, gross revenues have increased by a total of \$25.0 million as a result of exception processing. In FY 1987 MMS collected additional gross revenues of \$10.7 million with \$6.6 million posted as surety pending outcome of appeals on exception processing bills. In FY's 1988 and 1989, anticipated gross receipts are estimated at \$12 million per year.

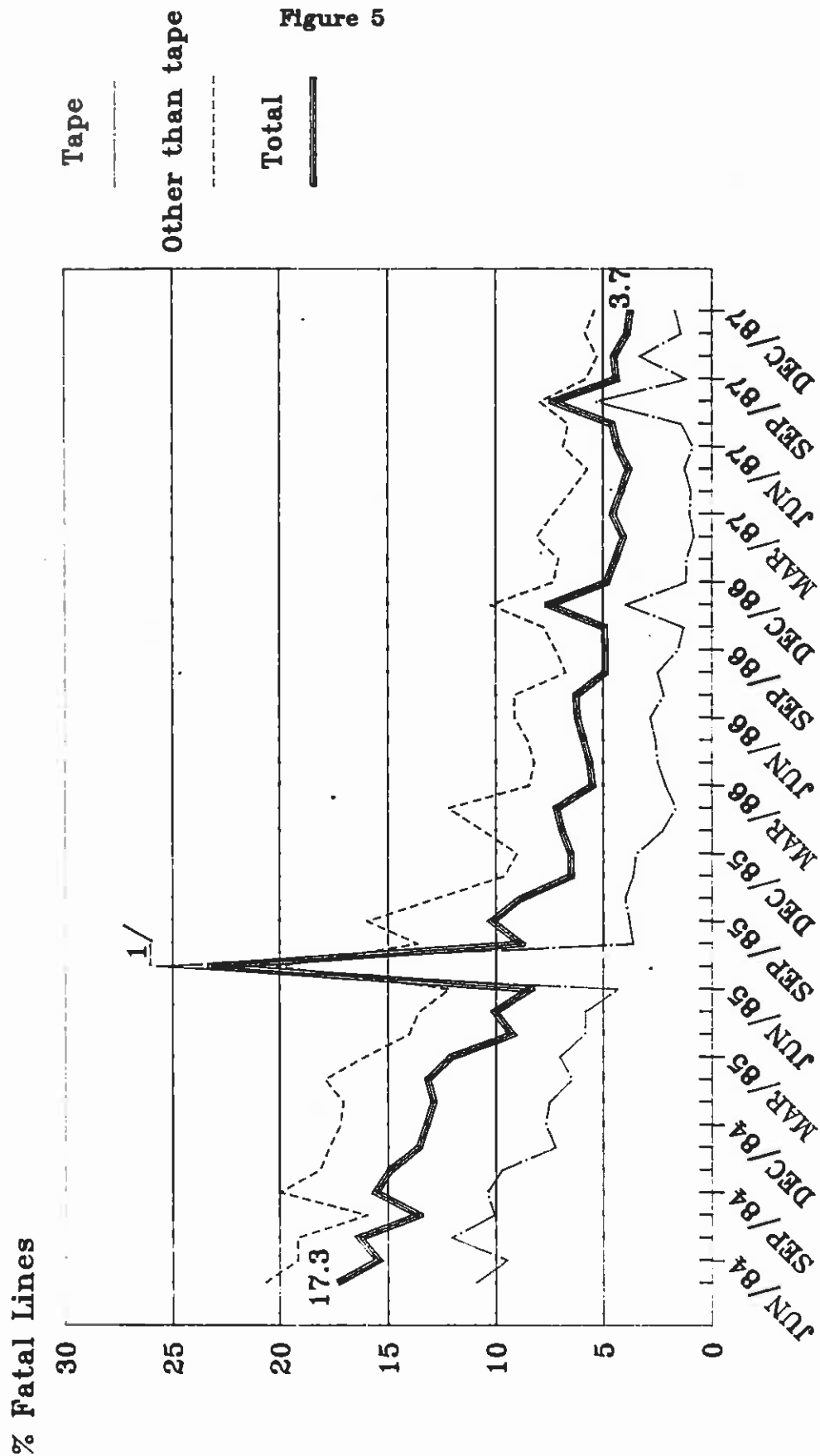
The revenue will be shared, as appropriate, with States and Indian tribes and allottees. Assuming that exception processing has the desired deterrent effect, the amount of revenues which can be directly associated with the process itself should decline in FY 1990.

Error Correction: Significant progress has been made in reducing payor error rates in the AFS and in improving payor compliance. The MMS completed a systematic review of royalty payors needing additional training on how to report and pay to the AFS. Based on industry input, a training curriculum and plan was developed to provide this training. Eighteen 2-day training sessions for approximately 226 royalty payors were conducted in FY 1987. Improved reporting accuracy by many of these companies has been noted. In addition to this training, the Payor Handbook (the official guide to royalty payors on how to report to the AFS) was updated and substantially improved. The Handbook was distributed to industry in December 1986. Payor compliance is also being obtained through a vigorous program of assessments and penalties (i.e., for incorrect reporting and failure to submit payor information forms) levied under the provisions of the OCSLAA, the MLLA, the FOGPMA, and other implementing regulations. The improvement in payor compliance with paying and reporting requirements as a result of these assessments can be seen in the continuing drop in the percent of total fatal lines as reflected in Figure 5. The number of error corrections completed in FY 1987 is substantially lower than previously estimated because of: (1) a drop in the payor error rate from 6.3 percent in FY 1986 to 4.8 percent in FY 1987, and (2) a delay in the anticipated conversion of a large single payor to the AFS. The conversion of this payor, beginning in FY 1988, will produce increased AFS reporting error corrections in FY's 1988 and 1989. Conversion of the payor to the AFS will also result in a substantial increase in the number of payor information forms processed.

As displayed in Figure 5, the percentage of rejected fatal lines (those data lines with errors which make it impossible to accurately disburse funds until corrected) is depicted by type of data input -- tape, other than tape, and total lines -- for a 44-month period. The general trend over this time period has been a steady decline in the percent of total fatal lines, from 17.3 percent to 3.7 percent in December 1987. Moreover, the percentage of fatal lines relative to all lines submitted has been below 5 percent for 14 out of the last 16 months.

Electronic Funds Transfer: In an effort to run an efficient accounting operation and realize savings to the Federal Government, MMS initiated the use of Electronic Funds Transfer (EFT) to expedite royalty payments to the Government. As a result of the effectiveness demonstrated, the use of EFT for payors will be accelerated. Regulations now in place require all payors with transactions in excess of \$50,000 to use EFT. Complete transition to EFT for all companies that pay at the \$50,000 threshold or above was completed in April 1986. MMS reduced the EFT threshold to \$10,000 during FY 1987 in keeping with Treasury Department goals. In addition, MMS extended the use of EFT to solid mineral and geothermal leases and certain deferred bonus payments. As a result of these two changes, RMP has identified about 150 additional payors to be converted to the EFT payment method. The RMP expects this conversion to be completed by June 1988.

ROYALTY REPORTING ERROR RATES BY TYPE OF DATA INPUT



Report Month

1/ Error rate increase was due to single payor's incorrect reporting of 34,806 adjustment lines.

Selected Program Outputs Relative to the AFS are:

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
AFS Warnings/Billings Issued	7,855	13,000	10,000	-3,000
AFS Reporting Error Corrections Completed	115,289	160,000	205,000	+45,000
Checks Deposited	35,758	33,800	33,800	---
Payor Information Forms Processed				
(New and Revised)	30,336	42,000	48,000	+6,000
EFT Messages Received	5,313	7,000	7,000	---
Percentage of Collections by EFT	88	92	92	---

Production Accounting

The RMP's automated production accounting system is designed to accomplish the following objectives: (1) Support lease management functions by supplying accurate and timely production data to MMS Offshore Regional Offices, the Bureau of Land Management (BLM), and the Bureau of Indian Affairs (BIA); (2) identify potential royalty underpayments by comparing production volumes reported by operators to sales data reported by royalty payors; (3) trace mineral production from point of origin to point of sale for offshore and solid mineral leases; (4) account for all volumes produced on the lease; (5) identify inconsistencies in production data to target leases and operators for audit or on-site inspection; and (6) provide production data on a lease-by-lease basis to States and Indian tribes.

The Production Accounting and Auditing System (PAAS) became operational as a pilot program in January 1984. Currently, three groups of operators have been brought into the system: (1) The original pilot group of oil and gas operators; (2) all offshore oil and gas operators; and (3) all solid minerals operators. All offshore and solid minerals leases plus approximately 5 percent of onshore oil and gas leases have been converted to PAAS. Yet to be converted to an automated reporting system are the remaining 95% of onshore oil and gas leases.

At present, the system collects data on over 75 percent of all production as measured by royalties paid. Comparisons of AFS/PAAS data are being made on a regular basis and exceptions representing differences between sales and production data are being examined and reconciled. Payors and operators are being contacted to assure reports are corrected and additional royalties are paid. From June 1985 through January 1988, this effort has resulted in additional royalty collections of \$18.6 million.

The decision to convert the remaining onshore leases to a production accounting system was made in June 1987, and it is estimated that the conversion of all onshore leases will be complete by May 1989. To limit the reporting burden on industry and the need for training, production data for onshore leases will

be reported to MMS on a modified version of the existing onshore production report. In order to further reduce industry burden, those operators reporting pilot and offshore production to PAAS on the MMS reporting form have been given an option for reporting onshore production. They may elect to report their onshore production data on the detailed MMS form that they already use for offshore reporting, or they may elect to use the modified version of the existing BLM onshore production report. The first option will accommodate operators who wish to report both offshore and onshore production data using only one reporting system. To date, nine operators have chosen this option and will begin reporting their onshore production to PAAS in April 1988.

The MMS is planning to accomplish the entire conversion using a phased approach during FY's 1988 and 1989. The schedule is based in large part on the fact that industry will continue reporting production data on existing forms with minor modifications. However, the schedule for completion of the conversion could be delayed if difficulties are experienced in bringing reporters onto the automated system.

Conversion will be initiated with onshore leases from one BLM district office scheduled to report on June 10, 1988. Additional offices will then periodically convert to the automated production reporting system until the onshore conversion is completed. The tentative target date for completion of this conversion effort is May 1989. As companies begin reporting, the error rate will be monitored closely to determine that it is at an acceptable level prior to additional conversions. All additional personnel required by MMS to automate and centralize onshore production reporting and to operate the expanded system will be provided through contractor support. Contract personnel will be hired and trained in the fourth quarter of FY 1988.

Initial comparisons between the royalty and production data will begin in October 1988. Software improvements are planned to provide enhanced exception processing that will increase efficiency by eliminating several manual research, follow-up, and tracking activities, and prevent generation of erroneous exceptions.

The initial error rate resulting from the conversion is estimated at 15 percent, decreasing to about 5 percent within 5 months. The effect of the conversion and higher initial error rate is to dramatically increase the error correction workload in FY 1989. In mid-FY 1989, MMS will complete the conversion of onshore leases resulting in a further increase in errors and exceptions. A departmental task group estimated the additional collections resulting from the onshore initiative to be \$11.1 million for the first full year of production/sales comparisons after completion of the conversion.

Data verification requests from the BLM are increasing at the present time as BLM increases its efforts to manually compare AFS royalty data to BLM production reports. This MMS workload should decrease over a period of years as the production system begins to provide computer generated reports to BLM and as BLM completes any retrospective comparisons that it may conduct.

Selected Program Outputs Relative to Production Accounting are:

	<u>FY 1987</u> <u>Actual</u>	<u>FY 1988</u> <u>Estimate</u>	<u>FY 1989</u> <u>Estimate</u>	<u>Inc. (+)</u> <u>Dec. (-)</u>
o Technical Assistance Projects Operators	56	50	50	---
-- Other DOI Offices	58	50	50	---
o Error Corrections				
-- Reference Document Errors	1,967	2,500	9,300	+6,800
-- Operation Document Errors	23,913	30,100	141,000	+110,900
o Exception Resolution				
-- AFS/PAAS Comparison Exceptions	16,300	17,000	33,000	+16,000
-- Other PAAS Exceptions	14,217	18,000	83,500	+65,500
o Data Verification Requests	494	900	450	-450

Bonus and Rental Accounting Support System (BRASS)

In FY 1984, MMS became responsible for the collection of bonuses from onshore lease sales and rental from Federal onshore nonproducing leases. Currently, there are 65,236 active leases in rental status. For this function to be compatible with the AFS and to meet the requirements of the FOGPMA, an automated Bonus and Rental Accounting Support System (BRASS) was designed and installed. Operation of this system began in April 1984.

The principal functions of BRASS are: (1) Collect and account for lease bonuses and create new lease records as a result of bonuses paid; (2) generate courtesy notices for annual rentals and deferred bonuses; (3) collect, deposit, and account for annual rental payments; (4) feed financial update and general ledger functions of the AFS; (5) provide rental accounting data to BLM State offices which manage the leases; (6) support monthly distribution and disbursement requirements as specified in the FOGPMA; and (7) provide lease data to AFS when leases go into production.

The number of BRASS refunds processed is projected to decrease in FY's 1988 and 1989 due to progress of the joint MMS/BLM initiative to clean up accumulated backlogs. Contractor resources were used in this effort and will continue until May 1988, when the backlog is projected to be eliminated. In addition, the number of BRASS data base maintenance actions is projected to increase in FY 1989 due to operation of the Interagency Database Verification System (IDVS) which compares and highlights variances between the MMS and BLM lease data bases.

Selected Program Outputs Relative to the BRASS are:

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
Unidentified Checks	11,157	11,100	11,100	---
Refunds Processed	3,248	2,100	1,500	-600
Lease Financial Adjustments	7,777	8,400	8,400	---
Industry Inquiries	17,064	17,000	17,000	---
Data Base Maintenance Actions	49,817	54,000	61,500	+7,500
Checks Deposited	53,166	53,000	53,000	---

After 5 years of operation, the RMP systems have stabilized and are performing the major functions for which they were designed. The systems have the following characteristics:

- o While payor and system error rates have dropped to systems integrity levels, sustaining these levels has required a continuing resource-intensive effort on the part of RMP staff.
- o Ninety-five percent of all dollars collected each month are disbursed within the following month.
- o The penalty and assessment procedures contained in MMS regulations have been helpful in reducing error rates and improving payor and reporter compliance.

Increase from 1989 Base

	(Dollar amounts in thousands)		
	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Difference</u>
\$	15,681	17,738	+2,057
(FTE)	(295)	(295)	(---

Exception Processing for Prior Periods (-\$309,000)

A reduction of \$309,000 in the contract for exception processing reflects the completion in FY 1989 of retroactive exception processing for the prior period backlogs dating back to October 1983. The request for FY 1989 includes \$1.0 million to continue to fund the contract to perform ongoing exception processing and \$300,000 to complete the backlogs.

Onshore Production Reporting (+\$2,366,000)

An increase of \$2,366,000 is proposed for contractual costs and other related expenses to carry out the Department of the Interior plans to centralize and automate all mineral production reporting within the RMP. In

addition to solid mineral leases and offshore oil and gas leases, which are currently reported on RMP's Production Accounting and Auditing System (PAAS), RMP will begin receiving and processing production reports for all onshore oil and gas leases as well. The MMS is planning to accomplish a phased conversion, bringing on contractor personnel resources as required to perform error correction and exception resolution for the converted leases. The conversion is currently expected to be completed by mid-FY 1989, although some slippage is possible if error rates in the initial phases are considered excessive.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Travel.....	+50
Other Services.....	+1,957
Supplies.....	<u>+50</u>
Total	+2,057

Justification of Program and Performance

Activity: Royalty Management
Subactivity: Mineral Revenue Compliance

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-) from 1988</u>	<u>Inc.(+) Dec.(-) from Base</u>
Mineral Revenue Compliance	\$ (FTE)	14,912 (256)	14,701 (256)	14,701 (256)	-211 (---)	--- (---)
=====						
Total Requirements	\$ (FTE)	14,912 (256)	14,701 (256)	14,701 (256)	-211 (---)	--- (---)

Mineral Revenue Compliance

Objectives

- o To provide accurate and effective product value guidance to royalty payors which will better assure that royalties paid on all products removed from Federal and Indian lands are in accord with law and applicable regulations.
- o To assure that those who report and pay to MMS are in compliance with statutes and regulations governing royalty payments and that revenue due from mineral production on Federal and Indian lands has been properly reported and paid.

Base Program

The Mineral Revenue Compliance subactivity consists of three functions:
(1) Product Valuation, (2) Audit, and (3) other Compliance activities.

The product valuation function is responsible for: providing the technical support, including product valuation and allowance monitoring and review, needed by the RMP to assure that royalties are being calculated on the market value of minerals produced on Federal, Indian, and Outer Continental Shelf Lands; preparing regulations and guidelines to be used in valuing minerals for royalty purposes; providing regulatory training to RMP and industry on new and revised product valuation and allowance regulations and guidelines; approving certain transportation and processing allowances authorized under the proposed regulations which are deducted by payors from royalty payments; and providing advice and assistance on valuation, appeals, and allowance issues.

The audit function performs continuing audits of lessee and payor activities. This activity also resolves exceptions noted through the automated royalty management systems, and undertakes special audits and reviews in support of MMS (OCS) and BLM lease management activities. Audit activities delegated

to States or carried out under the provisions of FOGRMA are monitored to assure that audit work is being performed in accord with consistent standards and applicable regulations and statutes.

The other compliance activities function is responsible for an outreach effort to provide continuing contact and assistance between RMP and the external user community (e.g., States, Indians, industry, the public, and other Government entities) and the development and promulgation of regulations.

Product Valuation

Royalty payments due are based on the value of the commodity produced, the volume of production sold, and the royalty rate applicable to the lease. In the past, the product value reported by the lessee--normally the sales price--was usually accepted as the value for royalty purposes. The value of the commodity, however, cannot always be determined by the reported sales price. Several factors add to the complexity in determining the value of the commodity sold, such as: vertically integrated companies selling to themselves; Government price controls; long-term sales contracts; complicated marketing agreements; and complex relationships among the various owners and operators of producing leases. As a result of these complexities, new product value regulations for oil and gas have been published and will go into effect on March 1, 1988. The new regulations provide more definitive and consistent guidance to industry for valuing production from Federal and Indian leases for royalty purposes.

Another effect of the new regulations will be in the nature and scope of product value and allowance reviews. Currently, MMS reviews all allowance and valuation requests using summary data provided by the lessee. Under the new regulations MMS will review only selected allowances and product value determinations, but will conduct its reviews in much greater detail. For example, MMS will review data for an entire pipeline system rather than for a pipeline segment, and will examine invoices, run tickets, and other detailed information necessary for actual cost verification. These in-depth reviews will each require more time than current procedure requires, and consequently, a decline is expected in the number of program outputs. However, by focusing on allowance and valuation projects having the potential for the greatest discrepancies, MMS expects to increase the overall effectiveness of its valuation and allowance program and to provide greater assurance to the States and tribes that royalties are being properly and timely paid.

MMS will be monitoring lessee compliance with the new oil and gas regulations. To meet this requirement, MMS will develop oil, gas, and allowance data bases and perform automated comparisons of values contained in the data bases to values reported by royalty payors on form MMS 2014. MMS will then use the information produced by the automated comparisons to identify and select projects for detailed review. MMS will select only that number of projects that can be reviewed by available staff resources, giving first priority to appeals, advice and assistance, and valuation and allowance reviews, and second priority to other projects.

The impact on MMS workload of implementing the new regulations is significant. Beginning in FY 1988, MMS will: (1) process its existing backlog of reviews that are covered under the old regulations; (2) process new reviews that still refer back to the old regulations, and (3) process new reviews that are covered under the new regulations. Reviews that are affected by the old regulations

can take place for a period of 6 years following the implementation of the new regulations, or until FY 1994. The current backlog of required reviews (as established by the old regulations) is expected to be eliminated by FY 1989.

On January 15, 1987, the Department issued a notice of proposed rulemaking for coal product valuation. During a second comment period in July 1987, the Department received significant comments from principal interested parties meriting further consideration. Therefore, the Department reopened the comment period for 60 days on August 12, 1987. Final rulemaking for coal product valuation is expected during FY 1988.

Selected Program Outputs for Product Valuation are:

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
Valuation Determinations	95	135	105	-30
Advice and Assistance	235	265	230	-35
Processing Allowance Applications Reviewed	184	70	50	-20
Transportation Allowance Applications Reviewed	559	430	70	-360
Appeals of Royalty Valuation Determinations	55	65	65	---
Valuation/Allowance Regulatory Training	---	12	6	-6

Audit

Since the inception of the MMS audit program in October 1981 through November 1987, approximately \$409.0 million has been recovered in collections from previously unpaid or underpaid royalties, interest payments, liquidated damages, and refund denials. In the 61 years prior to that time, audit collections totaled \$33.6 million.

The MMS audit strategy has been revised to provide improved audit coverage of Federal and Indian leases. The MMS will direct the vast majority of its audit resources toward major payor company audits. The MMS plans to audit on a 6-year cycle the top 225-250 payors, who submit about 95 percent of Federal and Indian revenues. Audit coverage of payors on other leases will be reviewed using sampling, system monitoring, and other special audit techniques. Also, the MMS will assure audit coverage of the balance of Indian leases through major company audits, payor audits and specific audit requests through the BIA/MMS Indian Lease Audit Strategy.

The delegation of audit authority to eight States under the provisions of Section 205 of FOGRMA has brought a change in audit strategy and approach for the MMS compliance program. With a Federally funded audit effort under way in States containing over two-thirds of Federal onshore leases, the Department has delegated most onshore Federal compliance audit activities except for

potential criminal matters. The MMS audit effort has in turn been focused largely on offshore lease activity, Indian leases, and the remaining onshore Federal leases.

In FY 1987, the Royalty Compliance audit workforce was expanded by 50 positions or approximately one-third. These new auditors are being used to augment ongoing audit activities in such areas as company audits, support of AFS/production accounting system exception caseload, and referrals from BIA, BLM, and others. Once these new staff are fully trained, MMS will experience a significant improvement of its audit coverage providing for the audit of most of the major payors that pay the majority (about 95%) of the Federal and Indian royalties on a 6-year cycle.

Because of the complexity of royalty payment procedures, all new auditors need training to bridge the gap between basic accounting and auditing education and experience, and the application of audit principles to royalty compliance situations. The MMS auditors receive both classroom and on-the-job training to develop their abilities to apply audit procedures in a royalty audit situation. The complete transition from a new, inexperienced auditor to a fully competent journeyman auditor can take several years.

Between FY's 1988 and 1989, the decrease in lease/subject audits will be offset by an increase in company audits. Each company audit results in multiple lease audit coverage and has been found to be a more efficient means of applying audit resources.

In 1982, the Royalty Compliance Division (RCD) began devoting considerable staff years of effort toward the follow-up support of Office of Inspector General (OIG) audits performed in FY 1982 through 1986. Through November 1987 these activities have resulted in the collection of \$21.2 million. The OIG case load has been greatly diminished and it is expected that this support will be completed by the end of FY 1988. RCD is starting a second audit cycle for some companies originally audited by the OIG. Some were initiated in late FY 1987 and many more will be initiated in FY 1988.

The Royalty Compliance program audit strategy covers the following areas: (1) Company audits; (2) residency audits; (3) State and tribal audit activities; (4) Indian audits; (5) net profit and Indian joint ventures; (6) exception resolution; (7) litigation support; (8) referrals and requests from other organizations; and (9) refund request reviews.

Company Audits

Company audits encompass a broad range of compliance review activities to assure that mineral revenues are accurately reported and paid.

Company audits begin with a systematic compliance review to test the accuracy and validity of the payors' automated or manual reporting systems. After these payor systems have been evaluated, audit work is directed toward specific leases to cover the 6-year audit period. In FY's 1988 and 1989, 45 company audits are planned each year to meet the 6-year audit cycle.

Leases are targeted for audit by using various selection criteria to ensure effective coverage of the payor's lease universe. Among the selection criteria are total value of royalties, previously identified exceptions, referrals, and identified problem areas. Detailed testing for accounting accuracy is then

conducted for a sample of monthly transactions for each targeted lease and addresses the three aspects of royalty determination (value, volume, and royalty rate) on individual leases or leases in unitized areas. Both standard and non-standard (net profit share) Federal and Indian leases are targeted for detailed testing. Monthly transactions selected for testing are audited to determine that royalties were accurately calculated and paid. If systemic errors are identified in the company's royalty calculation, the MMS may direct the company to recalculate all affected royalties on all leases to correct the error.

Residency Audits

MMS maintains "on-site" resident audit staffs located at 13 individual major companies. These audit teams are responsible for:

- o Conducting ongoing audits of the company's royalty payment and reporting activities, providing guidance and technical assistance to the company in reporting through MMS accounting and auditing systems, and resolving policy and procedural questions which may arise;
- o Resolving exceptions identified by AFS, PAAS, and BRASS;
- o Resolving royalty payment problems identified by field operations' inspection program (for both the MMS Offshore and the BLM Onshore inspection programs), OIG, or other sources;
- o Coordinating requests for information related to audit work at the company from MMS auditors and from States and Indian tribes involved in cooperative and delegated audit activities;
- o Conducting financial reviews of royalty rate reduction requests and making recommendations regarding acceptance or rejection;
- o Performing continuous audit of the company's records covering functional areas such as valuation, allocation, production, gas plants, and accuracy of reporting; and
- o Identifying and resolving special problems unique to individual leases.

The residency audit approach accomplishes an important purpose by coordinating all requests for information related to audit work (including requests from States involved in joint or delegated audit activities) through the central point of the team manager of the residency audit team. This reduces the impact on a payor company, eliminates overlap, and provides the assurance that the Department is conducting its audit activities in a planned and efficient manner.

The MMS has residency audit teams in place at the 13 largest royalty payors, which are responsible for the payment of approximately 75 percent of all royalties. The major focus of the residency program has been on the follow-up to findings contained in the OIG audit reports. The resident audit work force also reviews refund requests from the company. During FY 1988, the residency audits will also focus on exceptions generated by comparison of data from the AFS and production accounting systems. While the MMS feels that the residency audit program is extremely effective, it is, as directed

by the House Appropriations Committee, reviewing the program to determine what improvements can be made to make it more effective. Once this review is completed, adjustments to the program may be implemented.

State and Tribal Audit Activities

As of FY 1988, eight States (Alaska, California, Colorado, Montana, North Dakota, Oklahoma, Utah, and Wyoming) have executed delegated audit agreements under the provisions of Section 205 of FOGRMA. One Indian tribe, the Navajo, has executed an agreement under the provisions of Section 202. Based upon expressions of interest from tribal representatives, MMS may enter into an estimated three additional Section 202 cooperative agreements with tribes by FY 1989. Also, one additional State may enter into a Section 205 delegated audit agreement. In addition, the Southern Ute and Jicarilla Apache Indian tribes and the State of New Mexico have unfunded cooperative audit activities under way with MMS.

In all instances, audit work is cooperatively performed by MMS and the State and tribal auditors under standards developed by MMS. Enforcement action is reserved to MMS staff who take action on the basis of the audit work done by the States and tribes. The Office of State and Tribal Support in the Royalty Compliance function monitors State and tribal audit activities and provides technical assistance to States and tribes involved in the program.

The RMAC developed and recommended funding guidelines for audit agreements issued under Sections 202 and 205 of FOGRMA. These funding guidelines were implemented in FY 1987.

Through the funding guidelines, funds are distributed based on a two-step formula. The first distribution calls for a minimum funding level for each participant, plus a pro rata share of the funding available based on oil and gas royalty revenues at risk within the State or Indian tribal boundaries. The second distribution allocates a portion of the funding based on a ratio of previous audit results to the amount of Federal reimbursement, thereby rewarding audit programs with a successful cost versus benefit ratio.

In FY 1986, MMS provided \$1.9 million to States and Indian tribes for the cooperative and delegated audit program under Sections 202 and 205 of FOGRMA and the Intergovernmental Personnel Act program. In FY 1987, MMS has added \$0.34 million to this activity's resources bringing total funding to approximately \$2.24 million. In FY 1988, the funding level was increased by \$0.25 million, which will bring the funding level of 202/205 activities to almost \$2.5 million. The MMS proposes to continue this level of funding in FY 1989.

Indian Audits

While Indian royalties represent about 2 percent of the royalties collected, the workload associated with Indian royalty management is complex and resource intensive.

The Department's role in auditing Indian mineral revenues originates from the Federal Government's trust responsibility to Indians and Tribes. By treaty and law, the Federal Government has the duty to protect Native Americans and their property. In order to accomplish the trust responsibility for Indian revenues, a 2-tiered approach has been developed for Indian revenue compliance activities that combines systematic audit coverage of Indian revenues and resolution of specific problems that are identified and referred to the RCD. The approach to auditing revenues from Indian mineral leases is comprised of the following elements.

- Residency audits at 13 major companies will provide audit coverage for about 60 percent of the total revenue from Indian mineral leases.
- Company audits of major non-resident companies will provide audit coverage for about 15 percent of the revenue from Indian leases.
- Audits targeted on other predominant Indian payors provide coverage of about 20 percent of the total revenue from Indian mineral leases.
- Special audit techniques, such as statistical sampling and compliance monitoring through exception processing, will provide additional coverage so that all Indian royalty payors will have an opportunity for audit.
- Periodic audits of negotiated nonstandard mineral lease agreements that contain unique terms and conditions for the calculation and payment of mineral revenues.
- Review of specific royalty payment issues/problems on tribal or allotted leases that are identified and referred to RCD for resolution.

This strategy that includes combining periodic audits with investigation of identified problems provides a high level of audit coverage for the revenue from Indian tribal and allotted mineral leases. This strategy maximizes audit coverage of the total Indian mineral revenues. Audit targeting is designed to consider maximum coverage of the revenue from Indian leases while reserving resources that can be responsive to specific issues and problems identified by Indian tribes, allottees, and the BIA. This approach provides a framework to enforce compliance with the laws, rules, and regulations that govern the payment of royalties on Indian mineral leases.

Net Profits and Indian Joint Venture Agreements

Special mineral lease agreements for production from the OCS and Indian lands provide for sharing of the net profits from lease operations. These agreements differ significantly from the standard lease royalty calculation provisions in that they require special accounting procedures for capital accounts and allowable expenditures for lease operations. These agreements require special auditing techniques to verify the accuracy of net profit determinations and pay-out periods for development and operating costs. Since the OCS net profit leases involve major oil and gas exploration and

development companies, MMS will provide audit coverage through the residency teams and company audits for the major offshore payor companies. Audit coverage of the Indian Joint Venture Agreements can be provided through the mobile audit teams responsible for the major Indian payor companies and the audit resources allocated for referrals from the BIA to resolve royalty issues on tribal and allotted leases.

Exception Resolution

During FY 1988, an effort will be made to increase the audit effort associated with the resolution of exceptions produced by AFS/product accounting system comparisons. To a great extent, exceptions from these systems will be resolved by the staff supported in the Mineral Revenue Collections subactivity. However, where exceptions indicate systemic problems of a payor's compliance with the regulations, resolution of the exceptions will be referred to Compliance offices to do a thorough on-site review of the underlying problems causing ongoing instances of noncompliance. The conversion of onshore and Indian leases to a centralized production reporting system is expected to increase the number of referrals from that system beginning late in FY 1988 and continuing into future years. These referrals will be reviewed for possible audit action.

Litigation Support

Litigation support is a compliance workload which continues to grow due to: (1) testing in court by industry of MMS positions expressed in demand letters, (2) implementing regulations of FOGDMA, and (3) applying product valuation regulations. Litigation support entails staff efforts such as responding to requests for documents, preparing responses to interrogatories, gathering statistical royalty data, preparing position papers in defense of the Government's position in appeals and legal actions, and preparing for and undergoing deposition. MMS estimates that support for litigation, appeals, and Freedom of Information Act (FOIA) requests will be necessary for approximately 325 cases during FY 1989, many of which will involve new product value regulations and other new or unique issues.

Referrals and Requests From Other Organizations

Among its commitments, Royalty Compliance responds to special requests and referrals regarding potential underpayments of royalties. These requests and referrals come from the BIA, the BLM, the OIG, the General Accounting Office, other MMS units, and industry. The RCD anticipates certain increases in other workload/outputs in FY 1989. If these increases occur, a reduction of outputs in referrals may be a spontaneous result. Referral workload outputs are also expected to decrease naturally due to: (1) the development and continued execution of our 6-year audit cycle with the resulting higher level of audit coverage of the majority of royalty paying companies and (2) the inclusion of many referrals in routine company audits.

Refund Request Reviews

Royalty payors file formal requests with MMS for recoupment or refund of royalty overpayments in the royalty refund process. Refund requests result primarily from overpayments on offshore leases that are governed by Section 10

of the OCSLAA. However, they can result from changes in Federal Energy Regulatory Commission orders and from other overpayments on onshore Federal and Indian leases. The RCD reviews certain requests to assess the validity of the claim for overpayment and the correctness of the royalty overpayment computations. In FY's 1988 and 1989, many refund request reviews are included in routine company audits.

Selected Workload and Activity Indicators for the Compliance function are:

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc. (+) Dec. (-)</u>
Company Audits <u>1/</u>	75	45	45	---
Lease/Subject Audits <u>2/</u>	223	250	150	-100
Refund Request Reviews	553	240	240	---
Referrals	191	100	100	---
AFS/Production Accounting System (Case Load)	36	75	125	+50
OIG Support (Case Load)	177	150	---	-150
Special Projects (Compliance Enforcement)	43	50	50	---
Litigation/Appeals/FOIA (Case Load)	297	300	325	+25
Cooperative Audit Agreements				
-- Section 202 of FOGDMA	1	3	4	+1
-- Unfunded Cooperative	3	3	3	---
Delegated Audit Agreements	8	8	9	+1
Residency Audit Teams	13	13	13	---

1/ The total number of company audits in process at the close of FY 1987 was 75. Normal expectations are to complete about 45 company audits annually; however, due to valuation reconsiderations, such as NTL-5, few company audits were completed during the year and several additional ones had to be initiated near year-end to protect the 6-year audit period.

2/ Decrease associated with emphasis on comprehensive company audit approach in audit strategy.

Justification of Program and Performance

Activity: Royalty Management
Subactivity: Systems Development and Operation

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1988 Enacted To Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-) from 1988</u>	<u>Inc.(+) Dec.(-) from Base</u>
Systems Development and Operation	\$ (FTE)	19,199 (86)	19,178 (86)	20,166 (86)	+967 (---)	+988 (---)
=====						
Total Requirements	\$ (FTE)	19,199 (86)	19,178 (86)	20,166 (86)	+967 (---)	+988 (---)

Systems Development and Operation

Objectives

- o To maintain and operate an effective and cost efficient Automated Data Processing (ADP) environment in which the RMP systems can operate.
- o To devise and manage a program for assuring that the RMP systems operate at maximum production levels to accomplish within statutory timeframes the collection and distribution of mineral revenues.
- o To continually review the condition of the four large-scale automated systems (AFS, PAAS, BRASS, and STATSS) to determine the need for enhancements and changes to reflect modified program requirements.

Base Program

The Systems Development and Operation subactivity provides computer and related high-technology systems support for the Royalty Management operating programs. This includes: (1) Planning, designing, and installing new software systems; (2) modifying and enhancing operating systems to meet changing needs or to increase efficiency; (3) operating and maintaining the systems; and (4) determining, obtaining, installing and maintaining necessary hardware.

Planning, designing, and installing software systems.

Royalty Management has three major operating systems, plus one major data access system. The design, development, installation, maintenance, and hardware operations of these systems is provided for in this subactivity.

After the AFS began operation in FY 1983, it became evident that the mini-computer configuration initially purchased to handle the AFS would be inadequate. Hence, after a 2-year procurement process a contract was awarded in April 1985 to install a new mainframe computer and to reimplement the AFS applications software on the new computer. The mainframe hardware was successfully installed in the fall of 1985 and the AFS was reimplemented in the fall of 1987. For the first time, the AFS ran on the mainframe with sufficient capacity to provide on-line support for data correction and update processes.

A major element of the Royalty Management Action Plan was to improve access by States and Indian tribes to data available on the MMS systems. On April 30, 1986, AFS data from individual leases was made available to States and Indian tribes through STATSS. Additionally, training and equipment were provided to Indian tribes and States to allow interaction with the MMS computer. As of November 1987, 9 States, 10 tribes, and 14 BIA offices were accessing AFS data through STATSS. There were approximately 350 individual users of STATSS in FY 1987, and in FY 1988 participation is expected to increase by 50 to 100 users when the MMS offshore program begins accessing STATSS.

Modifying and enhancing operating systems to meet changing needs or increase efficiency.

All four RMP systems continue to need enhancement and software improvements as the systems operate in the production mode. In the case of the AFS, the system was "frozen" for over 2 years during the software reimplementations process. Many user changes were pending at the time the reimplementations process started and many other improvements have been identified since. As a result, numerous enhancements to the AFS are being made in the mainframe environment. These enhancements are being assigned priorities and made ready for development. Most of the changes will improve the production cycle or produce reports in the mainframe operating environment which were not possible on the minicomputer configuration.

Enhancement of the BRASS and PAAS systems is also an ongoing process as these systems develop new or different user needs once they have been in the production environment for a period of time. These improvements, or enhancements, make the system run better and, in the long run, minimize the further escalation of operational costs by improving hardware, software and user efficiency.

Operating and maintaining the systems.

As additional functions and payors/reporters are placed in operation, the operation and maintenance function takes on increasing importance. The following operation and maintenance functions are performed by contract:

- o Computer operations - Computer operations are performed in two operating environments. The mainframe computer has been running STATSS software since April 1986 and the AFS since October 1987. A minicomputer configuration runs the PAAS and BRASS software.
- o Data entry - Data entry and data validation services for the three operating systems.

- o Software maintenance - Maintenance of all software for all RMP applications, systems testing, and the installation of fully tested software into the production mode.
- o Additional support services - In addition, support services, such as micrographics, reproduction, tape storage, and similar services, are provided.

The RMP systems are complex to maintain and operate, considering the amount of data stored, manipulated, and processed and the number of integrated programs which are used during each monthly processing cycle.

Systems Improvement

Since the implementation of the AFS, PAAS, and BRASS on minicomputers and the subsequent decision to reimplement AFS to a mainframe computer, discussion has focused on the RMP's long-term systems requirements. Although the mainframe computer is expected to help resolve many of the Department's system and operational needs, experience has demonstrated the need for intensive, long-term strategic planning to address data processing, accounting, auditing, internal control, and management information needs into the 1990's. To meet these needs, the RMP initiated a systems improvement effort to perform long-range strategic planning and to make appropriate recommendations as to the type and degree of systems modifications, enhancements, and overhaul needed to accomplish program goals in the most resource-effective method.

Systems improvement efforts have utilized IBM's Business Systems Planning Methodology (BSP) to evaluate the effectiveness of current systems, to identify both short-term and long-term functional improvements, and to develop a long-term strategic plan for future systems design and implementation. This project has also incorporated detailed input from the Royalty Management Advisory Committee's Improvement Panel, a group comprised of representatives from States, Tribes, and industry. In Phase I of the project, completed in September 1987, areas for improvement in the current systems were identified. Now in Phase II, RMP is analyzing and examining the cost effectiveness of the identified improvements, and will design or modify software and implement necessary systems changes. Systems personnel will begin implementation of the highest priority improvements during the second half of the fiscal year. In an extensive outreach program, MMS is consulting with RMP clientele on the proposed improvements.

Determining, obtaining, and installing necessary hardware.

Systems capacity and program requirements have changed frequently since the reimplementaion of the AFS began a few years ago. The systems development staff must continually examine the adequacy of current hardware in meeting the short- and long-term needs of the RMP. This staff is responsible for determining the need for, acquiring, and installing any necessary equipment.

Increase from 1989 Base

(Dollar amounts in thousands)

	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Difference</u>
\$	19,178	20,166	+988
(FTE)	(86)	(86)	(---

Telecommunications Equipment (-\$175,000)

A reduction of \$175,000 is proposed for one-time telecommunications equipment purchases. In FY 1988, the RMP will enhance its telecommunications capability to handle a significant increase in demand for on-line access by remote users. In FY 1988, the RMP requested \$300,000 to fund telecommunications equipment purchases and telecommunications line charges. In FY 1989, only \$125,000 is required to fund recurring line charges.

Changes in Costs of Ongoing Activities (-\$832,000)

A reduction of \$607,000 in computer systems operations and maintenance (O&M) costs and \$225,000 in mainframe leasing costs is proposed. With the completion of the AFS reimplementation to the more efficient mainframe computer and the elimination of multiple computer sites, the RMP will recognize a saving in computer O&M. A contract was awarded on April 27, 1987, to provide comprehensive O&M support for current RMP systems from June 1, 1987, through September 30, 1992, assuming all five 1-year contract options are exercised. Negotiation of this O&M contract results in a saving of \$607,000 in FY 1989. The new contract has incorporated the ongoing operational costs of the STATSS for which funding was initially authorized in FY 1986. Additional savings of \$225,000 will be realized in FY 1989 through a decrease in leasing costs for the mainframe computer, as provided in the original contract.

Onshore Production Reporting (+\$1,995,000)

An increase of \$1,995,000 is proposed to carry out the Department of the Interior plans to centralize and automate all mineral production reporting within the RMP. In addition to solid mineral leases and offshore oil and gas leases, which are currently reported on RMP's PAAS, RMP will begin receiving and processing production reports for all onshore oil and gas leases as well. The MMS is planning to accomplish a phased conversion by mid-FY 1989. The funding requested in this subactivity is required in FY 1989 for computer operations, data entry, document processing, and one-time software improvements to provide for enhanced exception processing. Additional personnel needed will be provided by contractor support.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Other Services.....	+1,005
Equipment.....	<u>-17</u>
Total	+988

Activity Summary

Activity: General Administration

(In thousands of dollars)

<u>Subactivity</u>	<u>FY 1987 Actual</u>	<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-) from 1988</u>	<u>Inc.(+) Dec.(-) from Base</u>
Executive Direction	3,153	3,517	3,550	3,550	+33	---
Administrative Operations	9,207	10,186	10,044	10,044	-42	---
General Support Services	10,737	11,994	13,990	13,822	+1,828	-168
=====						
Total Requirements	23,097	25,597	27,504	27,416	+1,819	-168

The General Administration activity provides support for the program responsibilities of MMS and is divided into three subactivities: Executive Direction, Administrative Operations, and General Support Services.

Executive Direction. The Executive Direction subactivity provides budget authority for the Office of the Director and immediate staff, the Office of Congressional and Legislative Affairs, the Office of Minerals Management Information, the Office of Equal Employment Opportunity, and the Office of the Assistant Director for Program Review. These functions provide for overall program leadership, direction and policy guidance, budget formulation and execution, program review and evaluation, and management coordination of all the responsibilities of MMS.

Administrative Operations. The Assistant Director for Administration is responsible for the administrative activities of MMS. These administrative functions include financial management; personnel management and training; safety and health program management; procurement; property and space management; office services; personnel and physical security; and information resources management functions, such as automated data processing, management analysis, records and paperwork management, and printing. In carrying out these responsibilities, the Assistant Director is supported by four headquarters divisions and three Field Administrative Service Centers. The four headquarters divisions are Financial Management, Personnel, Procurement and General Services, and Information Resources Management.

General Support Services. The General Support Services activity includes funding for costs such as Federal space rental, Federal Telecommunications System (FTS), postal services, commercial communications, and support services for all of MMS.

Justification of Program and Performance

Activity: General Administration
Subactivity: Executive Direction

(Dollar amounts in thousands)

<u>Subactivity</u>		FY 1988 Enacted to Date	FY 1989 Base	FY 1989 Estimate	Inc. (+) Dec. (-) from 1988	Inc. (+) Dec. (-) from Base
Executive Direction	\$ (FTE)	3,517 (72)	3,550 (72)	3,550 (72)	+33 (---)	--- (---)
Total Requirements	\$ (FTE)	3,517 (72)	3,550 (72)	3,550 (72)	+33 (---)	--- (---)

Authorization

Secretarial Order No. 3071 The order established the Minerals Management Service under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

Executive Direction

Objective

- o Provide executive leadership, policy direction, and program management for all programs and mission responsibilities of the Minerals Management Service.

Base Program

The Executive Direction subactivity is comprised organizationally of the Director and his immediate staff, the Office of Congressional and Legislative Affairs, the Office of Minerals Management Information, the Office of Equal Employment Opportunity, and the Office of the Assistant Director for Program Review.

The Office of the Director is responsible for providing general policy guidance and management of the organization.

The Office of Congressional and Legislative Affairs serves as the primary point of contact between the Minerals Management Service and the Congress and provides information and assistance in response to inquiries by Members of Congress or congressional staff and committee personnel. Specifically, the Office evaluates, or coordinates the evaluation of, legislative proposals affecting MMS responsibilities, maintains continuing communications regarding programs and policies, items of legislative action, statements of positions on matters under consideration by the Congress, legislative initiatives,

preparation and coordination of testimony for witnesses, coordinating arrangements for congressional authorizing committee hearings and meetings, and congressional activity that affects or may affect the Minerals Management Service.

The Office of Minerals Management Information provides advice to the Director and other officials on policy and procedures for disseminating information about program activities and products to the public through the press and news media. The office also prepares and distributes news releases to the print and electronic media and responds to inquiries from the media and the public or refers such inquiries to other officials. Close liaison with the Secretary's Office of Public Affairs and counterpart offices within the Department and other agencies is maintained.

The Office of Equal Employment Opportunity develops, directs, monitors, and operates the Equal Employment Opportunity (EEO) Program in compliance with the Civil Rights Act of 1964, the Equal Employment Opportunity Act of 1972, Executive Order 11478, Departmental directives, and other related statutes and orders. Specifically, these duties include the discrimination complaint system, counseling, development and implementation of equal employment opportunity and affirmative action plans, special emphasis programs, and EEO-related training. The Office also provides expertise and leadership for other civil rights matters and technical assistance to supervisors and managers.

The Assistant Director for Program Review is responsible for assuring that resources are utilized effectively in support of the missions of the Minerals Management Service. The functions of this organization include planning for and allocating budgetary resources for operating and support programs; delineating objectives; developing and evaluating policy initiatives; determining the effectiveness of management and internal controls in meeting program objectives; preparing recommended decisions in appeals arising from the decisions of operating officials; and maintaining liaison with Department offices and other Government agencies regarding program planning, budget and program execution, and program evaluation. In carrying out these responsibilities, the Assistant Director is supported by three headquarters divisions: Budget, Internal Review, and Appeals.

Budget. The Budget Division provides analysis, policy guidance, and recommendations regarding budget and program formulation and justification; assures proper funding and staffing allocation and budget execution in accordance with the law, congressional, departmental, and bureau program directives, goals, and objectives; and develops, prepares, and maintains budget data and provides analysis of financial and other resource use reports. Other specific tasks include coordinating the Bureau's management-by-objectives program and other tracking systems; and assisting in the presentation and explanation of budget submissions to the Department, the Office of Management and Budget (OMB), and the Congress.

Internal Review. The Internal Review Division conducts evaluations of MMS programs to determine the degree of program performance and conducts special studies and analyses of Minerals Management Service programs and policies. It provides an analytical consultation and review capability within the agency to assure proper policy analysis and development of programs.

It is responsible for monitoring follow-up and implementation of internal review and evaluation recommendations.

The Internal Review Division also serves as the central point of contact, control, and coordination for comments and actions resulting from General Accounting Office and Office of the Inspector General reports. The development, installation, and monitoring of internal control systems to prevent fraud, waste, and abuse is another responsibility as prescribed in the provisions of OMB Circular A-123.

Appeals. The Appeals Division is responsible for the administration of the appeals process within the MMS through direct staff support of the appellate responsibilities of the Director (and the Deputy Assistant Secretary for Indian Affairs when Indian lands or other matters are involved) pursuant to 30 CFR Part 290 - Appeals Procedures. Specifically, the Division of Appeals is the authorized representative of the Director for the purpose of reviewing, considering, and preparing recommended decisions on matters within the jurisdiction of the MMS in accordance with existing policies, regulations, and procedures involving appeals from final orders or decisions of MMS officials. These responsibilities include program and policy liaison and coordination between the various MMS programs, other Bureaus and Department offices, and various segments of the Federal Government and the private sector.

Justification of Program and Performance

Activity: General Administration
Subactivity: Administrative Operations

(Dollar amounts in thousands)

Program Element		FY 1988 Enacted to Date	FY 1989 Base	FY 1989 Estimate	Inc.(+) Dec.(-) from 1988	Inc.(+) Dec.(-) from Base
Administrative Direction and Coordination	\$ (FTE)	210 (4)	211 (4)	211 (4)	+1 (---)	--- (---)
Financial Management	\$ (FTE)	960 (20)	959 (20)	959 (20)	-1 (---)	--- (---)
Personnel Management	\$ (FTE)	1,433 (29)	1,430 (29)	1,430 (29)	-3 (---)	--- (---)
Procurement and General Services	\$ (FTE)	2,038 (47)	2,032 (47)	2,032 (47)	-6 (---)	--- (---)
Information Resources Management	\$ (FTE)	1,952 (31)	1,939 (31)	1,939 (31)	-13 (---)	--- (---)
Field Administrative Services	\$ (FTE)	3,493 (92)	3,473 (92)	3,473 (92)	-20 (---)	--- (---)
=====						
Total Requirements	\$ (FTE)	10,086 (223)	10,044 (223)	10,044 (223)	-42 (---)	--- (---)

Authorizations

31 U.S.C. 65	<u>Budget and Accounting Procedures Act of 1950</u>
31 U.S.C. 3901-3906	<u>Prompt Payment Act of 1982</u>
31 U.S.C. 3512(c)	<u>Federal Managers' Financial Integrity Act of 1982</u>
5 U.S.C. 552	<u>Freedom of Information Act of 1966, as amended</u>
31 U.S.C 7501-7507	<u>Single Audit Act of 1984</u>
41 U.S.C. 35-45	<u>Walsh Healy Public Contracts Act of 1936</u>
41 U.S.C. 351-357	<u>Service Contract Act of 1965</u>
41 U.S.C. 601-613	<u>Contract Disputes Act of 1978</u>

Authorizations

44 U.S.C. 35	<u>Paperwork Reduction Act of 1980</u>
44 U.S.C. 2101	<u>Federal Records Act of 1950</u>
40 U.S.C. 486(c)	<u>Federal Acquisition Regulation of 1984</u>
31 U.S.C. 3501	<u>Privacy Act of 1974</u>
31 U.S.C. 3501	Accounting and Collection
31 U.S.C. 3711,3716-19	Claims
31 U.S.C. 1501-1557	Appropriation Accounting
5 U.S.C. 1104 <u>et seq.</u>	Delegation of Personnel Management Authority
31 U.S.C. 665-665(a)	<u>Anti-Deficiency Act of 1905, as amended</u>
41 U.S.C. 252	<u>Competition in Contracting Act of 1984</u>
18 U.S.C. 1001	<u>False Claims Act of 1982</u>
18 U.S.C. 287	<u>False Statements Act of 1962</u>
41 U.S.C. 501-509	<u>Federal Grant and Cooperative Agreement Act of 1977</u>
41 U.S.C. 253	<u>Federal Property and Administrative Services Act of 1949</u>
41 U.S.C. 401	<u>Office of Federal Procurement Policy Act of 1974, as amended</u>
15 U.S.C. 631	<u>Small Business Act of 1953, as amended</u>
15 U.S.C. 637	<u>Small Business Act Amendments of 1978</u>
10 U.S.C. 137	<u>Small Business and Federal Competition Enhancement Act of 1984</u>
15 U.S.C. 638	<u>Small Business Innovation Research Program of 1983</u>
10 U.S.C. 2306(f)	<u>Truth in Negotiations Act of 1962</u>

Administrative Operations

Objective

- o Provide continuing administrative direction and coordination to support the technical and mineral revenue collection programs of the MMS.

Base Program

The Administrative Operations subactivity consists of the following functions: Administrative Direction and Coordination, Financial Management, Personnel Management, Procurement and General Services, and Information Resources Management. These functions are directed and carried out at headquarters and nationwide through three Field Administrative Service Centers (ASC's) and a satellite office.

Administrative Direction and Coordination is carried out by the Assistant Director for Administration and his immediate staff. The staff is responsible for (1) compliance with laws relating to administrative activities; (2) the review, interpretation, and implementation of Federal executive branch administrative policies and procedures; and (3) the development of appropriate organizational guidance to assure compliance with Department, Office of Management and Budget, General Services Administration, and other executive branch administrative policies and regulations. The Assistant Director is also responsible for the oversight of administrative activities of the MMS, including financial management, personnel management and training, management analysis, management of automated data processing, procurement, property and space management, office services, records management, personnel and physical security, safety, and the printing of publications. Liaison is maintained with departmental offices in order to effect a coordinated and unified administrative program consistent with the mission and goals of the Department of the Interior. The Assistant Director for Administration provides direct administrative support to managers nationwide through three Field Administrative Service Centers and a satellite office.

Financial Management is performed by the Financial Management Division (FMD). The FMD develops and implements policies, procedures, guidelines, and standards related to financial management and provides liaison with the Department on financial management activities. This program includes central coordination and control of an integrated expenditure and obligation reports system; control and implementation of cost, allotment, and general ledger accounting; voucher and claims examination and processing; and technical guidance on fiscal activities performed throughout MMS.

Secretarial Order No. 3111, dated December 20, 1985, consolidated in the Bureau of Reclamation (BOR) all responsibility for the maintenance and operation of the Department's payroll system. The MMS reimburses BOR for the costs associated with the program. The FMD provides processing support for the entry of data and serves as liaison for the Bureau.

The FMD continues to support the Office of Surface Mining Reclamation and Enforcement's (OSMRE) effort on MMS's Advanced Budget/Accounting Control and Information Systems (ABACIS). The OSMRE converted to the system in October 1986. The MMS provides computer time, systems maintenance, programming support, and other services to OSMRE on a reimbursable basis. This effort will continue through FY 1989.

In concert with the Department's Financial Integration Review for Management (FIRM) project, the MMS is providing support to the U.S. Geological Survey (USGS) for the conversion effort to one departmental accounting system.

While the MMS is scheduled for conversion in FY 1991, development will be ongoing during FY 1989-1990.

Major selected program outputs for the FMD are:

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc. (+) Dec. (-)</u>
Recording Obligations	16,000	20,000	18,000	-2,000
Auditing & Paying				
Invoices	24,200	24,200	24,200	---
Auditing & Paying				
Travel Vouchers	8,000	8,500	8,500	---
Miscellaneous Financial				
Document Processed	4,200	5,000	5,000	---
Cash Management Reports				
Processed	16	16	16	---
Debt Management Reports				
Processed	16	16	16	---
Financial Policies &				
Procedures Developed	10	8	8	---
Internal Reports Prepared	100	100	100	---
External Reports Prepared	60	60	60	---

Personnel Management is carried out by the Personnel Division. This organization develops and implements Bureauwide policies, procedures, guidelines, and standards relating to general personnel management; recruitment and employment; position management, classification, and utilization; training and career development; personnel planning; personnel program evaluation; labor management relations; employee relations and services; conflict of interest and ethics; incentive awards; the Federal Equal Opportunity Recruitment Program (FEORP); and public policy programs. The Division also provides assistance and guidance related to personnel matters to all levels of management in developing and administering personnel programs as well as personnel program direction to field personnel offices. This involves day-to-day and long-range personnel planning, evaluation, and operational activities in: examining; recruitment and selection; placement; retention; pay administration; employee development; employee relations and services; labor relations; special interest programs; affirmative action; conflict of interest; motivation; discipline; performance evaluation; monetary awards; insurance and annuities; attendance and leave; appointments and processing; and a variety of personnel reports, records, and statistics. Liaison with the Office of Personnel Management, the Department of the Interior, Office of the Inspector General, and the Federal Labor Relations Authority on personnel management and related issues is required.

The Personnel Division will continue to accomplish its basic personnel support mission for MMS in FY 1989. In addition, several personnel management projects and programs will receive increased emphasis. Two personnel management evaluations are scheduled. These evaluations will follow-up on earlier evaluations to measure improvement. They will cover operating practices; merit promotion and recruitment; classification accuracy; performance management; compliance with governing policies, regulations, and guidelines; management assistance activities; and personnel processing. The development of supervisors, managers, and executives will receive continued attention. Training courses in technical and administrative areas will be arranged for employees and supervisors. Policies, guidance, and programs will be reviewed and modified, as necessary,

to meet the needs and objectives of the MMS as well as departmental and Office of Personnel Management guidelines. Portions of the Minerals Management Service Manual (MMSM) will need to be revised because there are continual changes to the Federal personnel regulations. Chapters will be developed or revised and implemented to provide policy and guidance for use throughout the organization in FY 1989.

Selected program outputs for Personnel Management are:

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc. (+) Dec. (-)</u>
Positions Reviewed	437	500	450	-50
Vacancy Announcements Processed	94	100	100	---
Classification Audits Conducted and Positions Reviewed	263	275	275	---
Personnel Actions Processed	2,496	2,500	2,500	---
PAY/PERS Processing <u>1/</u>	3,394	3,500	3,500	---
Employment and Financial Interest and Public Disclosure Statements Processed	2,000	2,000	2,000	---
Personnel Management Evaluations Conducted	2	3	2	-1
Personnel Policies/ Procedures Issued	50	50	45	-5
Training Requests Processed & Reviewed	506	550	550	---
Executive/Managerial Training Processed	141	175	175	---
Training Courses Developed/Presented	27	20	16	-4
Performance Appraisal/ Merit Pay Reviews Conducted	1,200	1,000	900	-100
Employees Relations Cases Processed/ Guidance Given	795	775	775	---

1/PAY/PERS - Payroll/Personnel.

	FY 1987 <u>Actual</u>	FY 1988 <u>Estimate</u>	FY 1989 <u>Estimate</u>	Inc. (+) Dec. (-)
Labor Relations Cases				
Processed/Guidance				
Given	104	90	75	-15
Worker Compensation Cases,				
Incentive Awards, Beneficial				
Suggestions, and				
Retirements Processed	510	460	460	---

Procurement and General Services. The Procurement and General Services Division develops and implements policies, procedures, and standards for the execution and administration of the MMS's procurement and general services programs. The programs are designed to ensure the formulation and implementation of practices and procedures that will produce effective, economical project results in compliance with applicable laws, regulations, and sound business decisions. Technical direction is also provided to the Field Administrative Service Centers and a satellite office through the issuance of policy and by field reviews and visits.

The Division is responsible for six distinct programs which will be performed in FY 1989 in support of MMS:

1. Procurement. The procurement program includes entering into and administering contracts, small purchases, grants, cooperative agreements, and interagency agreements essential for fulfilling the mission of the MMS. Other responsibilities include managing the Small and Disadvantaged Business Utilization Program and Historically Black College and University Program; conducting acquisition management reviews of field offices; conducting cost and price analyses; developing annual Advance Procurement Plans; and issuing procurement policy guidance to a variety of target groups, including private industry, senior management, contracting officers, and the Offshore and Royalty Management Programs.
2. Facilities Management. The facilities program manages or oversees 763,488 square feet of assigned space in 37 buildings in 23 cities. Other responsibilities include processing space requests, conducting space utilization surveys, processing reimbursable work authorizations, conducting annual space inventories, and issuing facilities management policy and guidelines Bureauwide. At headquarters, the program is also responsible for the day-to-day operations of the space management program which includes office moves and telephone design and ordering.
3. Property Management. The property program maintains accountability records for over 10,000 line items of property valued at approximately \$30 million. Specific responsibilities include conducting an annual inventory of property assigned to over 190 accountable and custodial property officers; managing a nationwide data system, including property in the possession or control of contractors; managing a printing and publications activity; managing a warehouse facility; and managing

a duplicating and copying program; and issuing policy guidance on property, supplies, and printing, duplicating, and copying Bureauwide.

An Intra-Agency Agreement between the MMS and the Office of Surface Mining Reclamation and Enforcement (OSMRE) provides for the implementation of a property management system for the OSMRE and provides for future specific services in maintaining the system on a reimbursable basis each fiscal year.

4. Security. The security program encompasses personnel security, physical security, and document security Bureauwide. Specific duties include identifying sensitive positions; initiating, through the Office of Personnel Management, personnel background investigations; adjudicating completed investigative reports; issuing suitability certifications and ADP authorizations; granting national security clearances; providing guidance to collateral duty security personnel and security training for employees; investigating security violations, incidents, and thefts; and conducting security inspections.
5. Safety. The safety program ensures that employees are provided safe and healthful working conditions. Specific duties include conducting safety inspections of facilities, providing guidance to collateral duty safety officers Bureauwide, developing a water survival safety program, providing employees with safety training, overseeing the disposal of toxic materials, investigating accidents and incidents, and developing and implementing a safety program.
6. Office Services. The office services program supports headquarters activities. The program provides mail delivery services to two buildings in the Washington metropolitan area, airline tickets, messenger services, mail shipments, household goods, and bulk shipments, etc.

Selected program outputs for Procurement and General Services are:

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
Award Contracts	313	300	300	---
Award Small Purchases	4,725	4,800	4,800	---
Administer Contracts	450	500	490	-10
Conduct Space Utilization Studies Layouts	---	2	2	---
Conduct Acquisition Management Reviews:				
Primary	2	1	1	---
Follow-up	---	1	1	---
Design Office Space Layouts	217	868	350	-518

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc. (+) Dec. (-)</u>
Inhouse Office Moves	217	868	375	-493
Process Telephone Orders <u>1/</u>	563	2,000	700	-1,300
Process Telephone Complaints	275	450	500	+50
Update Property Management Records	9,242	7,500	7,500	---
OSM Transactions	---	5,000	1,000	-4,000
Contractor-Property Transactions	---	800	1,300	+500
Conduct Property Management Reviews of ASC's	1	2	3	+1
Issue Individual Inventories of Controlled Property <u>2/</u>	187	200	200	---
Review Property Survey Board Actions	30	20	20	---
Review and Adjudicate Completed Reports of Investigation	417	355	355	---
Printing Requests	573	600	600	---
Grant ADP Security Authorizations	514	250	210	-40
Conduct Security Reviews	29	23	19	-4
Conduct Safety Inspections	8	7	7	---
Investigate Accidents/Incidents	56	45	45	---
Develop Procurement Policy Directives	22	25	25	---
Issue Information Requests or Transmittals	95	100	100	---
Review and Adjudicate GAO/OIG/Departmental (PAM) Audit Investigations	3	5	5	---
Respond to GAO/GSA/CO Protests	2	2	5	+3
Conduct Internal Control Reviews	2	2	2	---

1/Includes installation and removal of telephone equipment.

2/Inventories issued only to supervisors/managers.

Information Resources Management (IRM). The IRM Division is responsible for direction and review of the MMS's IRM programs. These include analyses and direction for data administration and telecommunications; office automation; security of data, systems, and equipment; and maintenance and improvement of the administrative systems, such as the Advanced Budget/Accounting Control and Information System (ABACIS) and Payroll/Personnel System (PAY/PERS). Other information resources issues for which the Division has responsibility fall under the general terms of management and records analyses; studies of the organization to aid better management; and management of oversight activities for such acts as the Paperwork Reduction Act of 1980, the Federal Records Act of 1950, the Privacy Act of 1974, and the Freedom of Information Act of 1966, as amended.

In FY 1989, the Division will issue the MMS Automated Data Processing (ADP) Strategic Plan as an ongoing process providing the Department consolidated budgetary and planning information on the MMS's ADP activities and future programs. The Division will continue to provide administrative and technical support to the ADP Review Council in the planning and oversight of ADP projects. It will participate in Bureauwide efforts identified in the MMS ADP Strategic Plan such as cyclical reviews of current systems; telecommunications activities; common data elements and standards between program areas; awareness of and analysis of ADP costs; future ADP hardware, microcomputer, and electronic mail policy; and analysis of ADP roles and responsibilities. The plan also calls for development of a number of new administrative systems. Some of these tasks will be initiated in FY 1989, and others will be continued. The system life cycle management program will continue as well as the ADP security program. Maintenance efforts and improvements to existing administrative systems will continue. Support of the Office of Surface Mining's fiscal accounting requirements will be provided using ABACIS, and their controlled property tracking requirements will be satisfied using the Property Management System. Assistance will be given, as required, in the conversion efforts to a single departmental accounting system and the new payroll/personnel system.

Management reviews, systems studies, analyses, productivity initiatives, and special projects will be conducted; for instance, one or more reviews will be conducted under productivity improvement initiatives. The Division will continue to provide advice, counsel, and direction on organizational activities and will analyze and process for implementation organizational structures; provide guidance to program offices on the preparation, review, and issuance of Federal Register documents and delegations of authorities; manage the directives system; and provide policy and procedural review to ensure compliance with regulations and utilization of enhanced records and information management technologies. Emphasis will continue on efforts to aid the Bureau in meeting its Information Collection Budget.

Selected program outputs for Information Resources Management are:

	FY 1987 <u>Actual</u>	FY 1988 <u>Estimate</u>	FY 1989 <u>Estimate</u>	Inc. (+) Dec. (-)
Maintain/Operate				
Administrative Systems	11	17	18	+1

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
Develop/Enhance (Major) Administrative Systems	11	13	7	-6
Operate Vendor-Supplied Systems	8	8	8	---
Conduct Management Reviews/ Studies	8	6	6	---
Review Policy Documents (Directive System)	180	180	180	---
Process Other Documents <u>1/</u>	388	375	429	+54
Conduct Records Management Training	2	3	3	---
Issue MMS ADP Strategic Plan	1	1	1	---
Conduct ADP Security Reviews	3	3	2	-1
Participate in Departmental IRM Projects	8	6	6	---
Respond to Requests for ADP Data	12	12	10	-2
Perform Studies of Bureau ADP/Telecommunications Operations	6	7	7	---
Prepare Planning Documents (5 yr. ADP/Telecommunication Plan)	2	3	3	---
ADP Acquisition Reviews	200	225	215	-10

Field Administrative Services. Direct administrative support is provided to program managers through three Field Administrative Centers (ASC's) and a satellite office, located in proximity to major program offices in the field. These ASC's provide services to all field activities of the MMS, except for the Atlantic OCS Region, which receives support directly from the Office of Administration in Herndon, Virginia.

The Office of the Assistant Director for Administration and the ASC's are structured to assist managers in matters related to personnel, safety, security, space and property management, procurement and contracting, information resources management activities, and financial management. The ASC's in the field operate under the direction of a service center manager who reports to the Assistant Director for Administration. The administrative service organizations and their service areas are:

1/Includes documents such as the Freedom of Information Act (FOIA), Federal Register, Information Collection Budget (ICB), Privacy Act, and file plans, etc.

<u>Service Organizations</u>	<u>Region/Activity</u>	<u>Location</u>
Office of the Assistant Director for Administration	MMS Headquarters Atlantic OCS Region	Herndon, Virginia
Alaska Administrative Service Center	Alaska OCS Region	Anchorage, Alaska
Central Administrative Service Center	Royalty Management	Lakewood, Colorado
Administrative Satellite Office	Pacific OCS Region	Los Angeles, California
Southern Administrative Service Center	Gulf of Mexico OCS Region Royalty Management	New Orleans, Louisiana

Selected program outputs for the Field Administrative Service Centers are:

	<u>FY 1987 Actual</u>	<u>FY 1988 Estimate</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
Small Purchases Processed	4,083	4,075	4,240	+165
Contracts Awarded	176	150	160	+10
Contracts Administered	190	199	194	-5
Property Actions	12,575	5,680	6,500	+820
Property Inventoried	7,408	7,960	8,095	+135
Space Utilization Studies/Layouts	71	67	56	-11
Work Authorizations/ Building Repairs	249	315	305	-10
Telephone Connects/ Disconnects Processed	928	634	585	-49
Safety Inspections/Accident Investigations	60	69	69	---
Security Clearances	469	505	350	-155
Positions Reviewed	572	800	750	-50
Vacancy Announcements Processed	207	185	190	+5

	<u>FY 1987</u> <u>Actual</u>	<u>FY 1988</u> <u>Estimate</u>	<u>FY 1989</u> <u>Estimate</u>	<u>Inc. (+)</u> <u>Dec. (-)</u>
Training Courses Developed/Presented	13	15	14	-1
Training Requests Processed & Reviewed	3,309	2,800	2,900	+100
Personnel Actions Processed	2,876	5,800	5,800	---
Employee Relations Cases Processed/ Guidance Given	2,370	2,200	2,300	+100
BPA Calls Processed <u>1/</u>	1,740	2,300	2,335	+35
Invoices Processed	5,605	6,200	6,450	+250
Mail Processed	1,049,370	1,132,405	1,133,060	+655
Reproduction Work	7,071,367	4,500,000	4,750,000	+250,000
Imprest Fund Actions	2,318	2,520	2,735	+215
PAY/PERS Input <u>2/</u>	56,762	55,075	54,575	-500

1/ BPA - Blanket Purchase Agreement

2/ PAY/PERS - Payroll/Personnel

Justification of Program and Performance

Activity: General Administration
Subactivity: General Support Services

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc. (+) Dec. (-) from 1988</u>	<u>Inc. (+) Dec. (-) from Base</u>
General Support Services	\$ (FTE)	11,994 (---)	13,990 (---)	13,822 (---)	+1,828 (---)	-168 (---)
Total Requirements	\$ (FTE)	11,994 (---)	13,990 (---)	13,822 (---)	+1,828 (---)	-168 (---)

Authorization

Secretarial Order No. 3071 The order established the Minerals Management Service (MMS) under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

General Support Services

Objectives

- o Provide adequate and safe work space and facilities that will contribute to the productivity and efficiency of the employees of the MMS in achieving goals and objectives.
- o Provide appropriate services to support the operating programs.

Base Program

The General Support Services subactivity includes funding for fixed costs and related support services for all of the MMS. Fixed costs include expenses for rental of office space and other required physical facilities, Federal Telecommunications System (FTS) service, and postage, etc. Rent, which is estimated at \$10.222 million in FY 1989, is the payment for all Federal building space rental and associated expenses for the normal 40 hour, 5-day workweek.

The FTS cost of \$1.485 million is based on estimates developed by the Department. Commercial communication expenses of \$190,000 are based on FY 1988 estimates and include local and long distance telephone and telecommunications expenses for headquarters offices located in the Washington, D.C. area.

A summary of the expenses for General Support Services is displayed below:
(In thousands of dollars)

<u>Estimated FY 1989 Expenses</u>	<u>Cost</u>
Rent	10,222
Postage	500
Commercial Communications.....	190
Department of Interior Working Capital Fund and Miscellaneous Charges	630
Federal Telecommunications System	1,485
Reimbursable Services	251
Employees' Compensation Fund	226
Miscellaneous Services	206
Unemployment Compensation	<u>112</u>
Total.....	13,822

Decrease from 1989 Base

(Dollar amounts in thousands)

	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Difference</u>
\$	13,990	13,822	-168
(FTE)	(---)	(---)	(---)

The proposed decrease of \$168,000 is caused by two factors. First, an increase of \$45,000 is needed for FTS costs associated with automating and centralizing onshore production reporting in the Royalty Management Program. Second, the proposed increase will be offset by a decrease of \$213,000. This reflects a nonrecurring need for funds expended in FY 1988 for telecommunications needs for the consolidation of the Northern Virginia offices.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Rents, communications, and utilities.....	-168

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Leasing and Royalty Management
Program and Financing (In thousands of dollars)

14-1917-0-1-302	FY 1987 Actual	FY 1988 Estimate	FY 1989 Estimate
<u>Program by activities:</u>			
Direct program:			
00.0101 Outer Continental Shelf Lands.	92,789	93,180	91,296
00.0201 Royalty Management.....	45,584	49,940	52,605
00.0301 General Administration.....	22,862	25,597	27,416
00.9101 Total direct program.....	161,235	168,717	171,317
01.0101 Reimbursable program.....	---	200	200
10.0001 Total obligations	161,235	168,917	171,517
<u>Financing:</u>			
Offsetting collections from:			
11.0001 Federal funds.....	---	(100)	(100)
14.0001 Non-Federal sources.....	---	(100)	(100)
25.0001 Unobligated balance lapsing...	262	---	---
40.0001 Budget authority (appropriation)	161,497	168,717	171,317
<u>Relation of obligations to outlays:</u>			
71.0001 Obligations incurred, net.....	161,235	168,717	171,317
72.4001 Obligated balance, start of year.....	76,246	70,700	74,258
74.4001 Obligated balance, end of year.....	(70,700)	(74,258)	(75,170)
77.0001 Adjustments to expired accounts.....	(804)	---	---
90.0001 Outlays.....	165,977	165,159	170,405

Summary of Requirements by Object Class

Appropriation: Leasing and Royalty Management	(Dollar amounts in thousands)			
	FY 1989 Base		FY 1989 Estimate	
Object Class	FTE	Amount	FTE	Amount
				Difference
			FTE	Amount
11. Personnel compensation:				
11.1 Full-time permanent.....	1,905	70,946	1,905	70,946
11.3 Other than full-time permanent.....	137	2,701	137	2,701
11.5 Other personnel compensation.....	9	1,364	9	1,364
11.8 Special personal services payments....	---	55	---	55
11.9 Total personnel compensation..	2,051	75,066	2,051	75,066
Other Objects:				
12.1 Personnel benefits: civilian.....		12,996		12,996
13.0 Benefits for former personnel.....		100		100
21.0 Travel and transportation of persons.....		4,006		4,056
22.0 Transportation of things.....		429		429
23.1 Standard level user charges.....		9,609		9,609
23.2 Rental payments to others.....		110		110
23.3 Communications, utilities and miscellaneous charges.....		3,693		3,525
24.0 Printing & reproduction.....		1,538		1,538
25.0 Other services.....		57,795		59,157
26.0 Supplies and materials.....		1,812		1,862
31.0 Equipment.....		2,882		2,865
41.0 Grants, subsidies and contributions....		---		---
42.0 Insurance claims and indemnities.....		4		4
Total Requirements.....		170,040		171,317
				+1,277

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Leasing and Royalty Management
Object Classification

14-1917-0-1-302	FY 1987 Actual	FY 1988 Estimate	FY 1989 Estimate
<u>Direct Obligations:</u>			
	(In thousands of dollars)		
Personnel compensation			
111.101 Full-time permanent.....	64,159	69,535	70,946
111.301 Other than full-time permanent.....	2,441	2,646	2,701
111.501 Other personnel compensation.....	1,234	1,337	1,364
111.801 Special personal services payments..	50	54	55
111.901 Total personnel compensation.....	67,884	73,572	75,066
112.101 Personnel benefits: civilian.....	11,328	15,154	12,996
11A.001 Benefits for former personnel.....	136	100	100
121.001 Travel and transportation of persons.....	3,243	4,006	4,056
122.001 Transportation of things.....	361	429	429
123.101 Standard level user charges.....	6,752	8,297	9,609
123.201 Rental payments to others.....	114	110	110
123.301 Communications, utilities and miscellaneous charges.....	2,985	2,630	3,525
124.001 Printing and reproduction.....	1,565	1,538	1,538
125.001 Other services.....	59,659	58,183	59,157
126.001 Supplies and materials.....	1,846	1,812	1,862
131.001 Equipment.....	5,037	2,882	2,865
141.001 Grants, subsidies and contributions..	320	0	0
142.001 Insurance claims and indemnities....	5	4	4
199.001 Subtotal, direct obligations.....	161,235	168,717	171,317
<u>Reimbursable Obligations:</u>			
225.001 Other services.....	---	200	200
299.001 Subtotal, reimbursable obligations..	---	200	200
999.901 Total obligations.....	161,235	168,917	171,517

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Leasing and Royalty Management
Personnel Summary

14-1917-0-1-302	FY 1987 Actual	FY 1988 Estimate	FY 1989 Estimate
Direct:			
Total number of full-time permanent positions.....	1,799	1,891	1,891
Total compensable workyears:			
Full-time equivalent employment....	2,019	2,042	2,042
Full-time equivalent of overtime and holiday hours.....	9	9	9
Average ES salary.....	\$72,890	\$73,069	\$73,069
Average GS grade.....	10.48	10.49	10.49
Average GS salary.....	\$35,395	\$36,522	\$36,522
Average salary of ungraded positions.....	\$ 9,327	\$ 9,514	\$ 9,514

DEPARTMENT OF INTERIOR
Mineral Management Service
Leasing and Royalty Management
Detail of Permanent Positions

	FY 1987 Actual	FY 1988 Estimate	FY 1989 Estimate
ES-6.....	2	2	2
ES-5.....	2	2	2
ES-4.....	6	6	6
ES-3.....	3	3	3
ES-2.....	2	2	2
ES-1.....	0	0	0
Subtotal	15	15	15
GS/GM-15.....	67	67	67
GS/GM-14.....	175	175	175
GS/GM-13.....	379	379	379
GS-12.....	441	441	441
GS-11.....	160	160	160
GS-10.....	39	39	39
GS-9.....	90	90	90
GS-8.....	31	31	31
GS-7.....	138	138	138
GS-6.....	130	130	130
GS-5.....	136	136	136
GS-4.....	79	79	79
GS-3.....	8	8	8
GS-2.....	0	0	0
GS-1.....	0	0	0
Subtotal	1,873	1,873	1,873
Ungraded.....	3	3	3
Total permanent positions.....	1,891	1,891	1,891
Unfilled positions end of year.....	92	---	---
Total permanent employment, end of calendar year....	1,799	1,891	1,891

Appropriation Summary Statement
Minerals Management Service

Appropriation: Payments to States from Receipts under Mineral Leasing Act

Payments to States from Receipts under Mineral Leasing Act: (+\$26,064,000)

In accordance with 30 U.S.C. 191 et seq. (the Mineral Lands Leasing Act of 1920, as amended), all States (except Alaska) are paid 50 percent of the receipts from bonuses, royalties, and rentals resulting from the leasing of mineral resources under the Act, on public lands. Alaska is paid 90 percent of the receipts from leasing outside of the National Petroleum Reserve-Alaska (NPRA). This appropriation provides for monthly payments to all States for their share of revenues realized as a result of mineral leasing activities on Federal lands within their boundaries.

Miscellaneous Payments (+\$600,000)

- Interest on Late Payments. An increase of \$250,000 is requested to pay interest to States and Indian accounts when mineral leasing revenues are not disbursed by the dates prescribed in 30 U.S.C. 191 and 1714.
- Interest on Refunds. An increase of \$150,000 is requested to pay interest to royalty payors who successfully appeal royalty payment orders and are refunded all or part of the principal paid to and held by the Government.
- Rewards. An increase of \$200,000 is requested to reward persons who provide information to the Secretary of the Interior that results in the collection of additional mineral revenues owed to the Government.

Appropriation Language Sheet

PAYMENTS TO STATES FROM RECEIPTS
UNDER MINERAL LEASING ACT

In fiscal year 1989, from moneys received from sales, bonuses, royalties (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982), and rentals of the public lands under the provisions of the Mineral Lands Leasing Act of 1920, as amended, and the Geothermal Steam Act of 1970, which are not payable to a State or to the Reclamation Fund, such amounts as may be necessary shall be available for the payment of interest in accordance with 30 U.S.C. 191 and 1721 (b) and (d) and for the payment of interest on refunds made to royalty payers upon successful appeal of royalty payment orders; in addition, from amounts collected, such amounts as may be necessary shall be paid as rewards to persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government in accordance with 30 U.S.C. 1723.

Appropriation Language Citations

PAYMENTS TO STATES FROM RECEIPTS UNDER MINERAL LEASING ACT

1. In fiscal year 1989, from moneys received from sales, bonuses, royalties, (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982), and rentals of the public lands under the provisions of the Mineral Lands Leasing Act of 1920, as amended,

30 U.S.C. 191 et seq.

The Mineral Lands Leasing Act of 1920, as amended, provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities on Federal lands within their boundaries.

2. and the Geothermal Steam Act of 1970,

The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.

3. which are not payable to a State or to the Reclamation Fund, shall be available for the payment of interest in accordance with 30 U.S.C. 191 and 1721 (b) and (d)

30 U.S.C. 1721 (b) and (d)

The Federal Oil and Gas Royalty Management Act of 1982 provides for timely payments of royalty funds from oil and gas production on Indian lands to Indian accounts and for payments of interest to States and Indian accounts when funds are not disbursed as required by 30 U.S.C. 191 and 1714.

4. and for the payment of interest on refunds made to royalty payors upon successful appeal of royalty payment orders;

This provision is proposed to allow MMS to pay appropriate interest on refunds for the period of time which a disputed amount has been in the accounts of the Government, thus reflecting greater fairness and better business practice toward royalty payors. Authorizing language has been submitted.

5. In addition, from amounts collected, such amounts as may be necessary shall be paid as rewards to persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government in accordance with 30 U.S.C. 1723.

30 U.S.C. 1723

The Federal Oil and Gas Royalty Management Act of 1982 authorizes the reward of not more than 10 percent of recovered amounts when a person provides information to the Secretary of the Interior that results in the collection of additional mineral revenues owed to the Government.

Summary of Requirements

Appropriation: Payments to States from Receipts under Mineral Leasing Act

(Dollar amounts in thousands)

Summary of Base Adjustments	FTE	Amount	FTE	Amount
Enacted to Date, FY 1988.....	---	---	---	412,458
Base Adjustments:				
Total Base Adjustments.....	---	---	---	---
FY 1989 Base Budget.....	---	---	---	412,458

(Dollar amounts in thousands)

Comparison by Activity/Subactivity	FY 1987 Actual		FY 1988 Enacted to Date		FY 1989 Base		FY 1989 Estimate		Inc./Dec. from FY 1988		Inc./Dec. from FY 1989 Base	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Payments to States	---	375,439	---	412,458	---	412,458	---	438,522	---	26,064	---	26,064
Miscellaneous Payments	---	---	---	---	---	---	---	600	---	600	---	600
Total Requirements	---	375,439	---	412,458	---	412,458	---	439,122	---	26,664	---	26,664

Justification of Program and Performance

Activity: Payments to States from Receipts under Mineral Leasing Act

(Dollar amounts in thousands)

<u>Activity</u>		<u>FY 1988 Enacted To Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-) from 1988</u>	<u>Inc.(+) Dec.(-) from Base</u>
Payments to States	\$ (FTE)	412,458 (---)	412,458 (---)	438,522 (---)	26,064 (---)	26,064 (---)

Authorizations

- 30 U.S.C. 191, et seq. The Mineral Lands Leasing Act of 1920, as amended, provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities on Federal lands within their boundaries.
- 30 U.S.C. 355 et seq. The Mineral Leasing Act for Acquired Lands as amended, provides for leasing coal, oil, oil shale, natural gas, phosphate, and sodium on military acquired lands and the sharing of receipts from such leasing with the States on military acquired lands within their boundaries.
- 30 U.S.C. 1001, et seq. The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.
- 30 U.S.C. 181, et seq. The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
- 30 U.S.C. 191 The Federal Oil and Gas Royalty Management Act of 1982 provides for monthly distribution of mineral leasing receipts to the States.

Objective

- o Provide payments to the States on a monthly basis for development of mineral resources on Federal lands within their boundaries.

Base Program

This activity provides for payments to all States due shares of revenues realized as a result of the leasing of minerals on Federal lands located within the boundaries of the States. Revenues for these payments are accrued from bonuses, rentals, and royalties collected from Federal onshore mineral leases. Amounts paid to States are determined in accordance with various laws which specify the percentages of revenues to be paid. The payment a State receives is determined by the total revenues collected from minerals leasing and production within their boundaries.

The Mineral Lands Leasing Act of 1920, as amended, provides that all States (except Alaska) be paid 50 percent of the revenues from bonuses, royalties, and rentals resulting from the leasing of mineral resources on Federal public lands within their borders. Alaska receives 50 percent of the revenues from mineral leases in the National Petroleum Reserve in Alaska (NPRA) and 90 percent of revenues from all other Alaska leases, including those on lands governed by the Alaska National Interest Lands Conservation Act (ANILCA).

Distribution to the States

The method of estimating the mineral revenue distribution to States is displayed on Table 3. First, the estimate of total revenues from onshore minerals production is developed. From this total, the amount collected for distribution by other Federal agencies and Interior bureaus is deducted. This amount is estimated to be 6 percent of the total revenues collected, as historically experienced. Because of Alaska's unique revenue sharing arrangements, Alaska's estimated receipts are then deducted prior to determination of amounts available for the distribution to the Lower 48 States.

The designated amount to be distributed to Alaska under MLA and ANILCA is added to the Lower 48 total to arrive at total distribution amounts to all States (the NPRA receipts are distributed by the Bureau of Land Management).

Under the Federal Oil and Gas Royalty Management Act of 1982, receipts are to be distributed to the States in the month immediately following the month of collection. When estimating the annual amount available for distribution to the States, there is a lag between fiscal years that must be taken into account. Receipts that are collected in September 1988 (the current fiscal year), will be distributed in October 1988 (the following fiscal year). Thus, 91 percent of current fiscal year collections and 9 percent of prior year collections are calculated to derive the current year distribution amount. The estimated distribution of this amount is based on the percentage of total mineral leasing revenues historically generated within the boundaries of each State, as displayed in Table 4.

Table 3

Method of Estimating the FY 1989 Mineral
Revenue Distribution to States

(In millions of dollars)

	<u>Receipts</u>	<u>Payments to States</u>
Estimated onshore mineral leasing receipts for FY 1989-----	929	
<u>Deduct:</u>		
Amounts collected for other distribution (6% of receipts)--	(56)	
SUBTOTAL -----	873	
<u>Deduct:</u>		
Estimated revenues of \$11.8 million for Alaska; \$1.4 million for ANILCA; and \$2.5 million for NPRA (revenue sharing formula uses a different percentage for Alaskan payments, hence, Alaska estimated revenues are deducted prior to lower 48 States distribution)	(16)	
SUBTOTAL-----	857	
91% (11/12) of \$857 million is distributed in FY 1989;-----	780	
plus 9% of FY 1988 collections of \$811.-----	73	
<u>TOTAL</u> Lower 48 States' net receipts to be collected in FY 1989 before distribution between Federal and States' share-----	853	
Less--Federal Government's share (50%). -----	426	
<u>Distribute to Lower 48:</u> -----		427
		=====
<u>Distribute to Alaska:</u>		
91% of Alaska and ANILCA FY 1989 monies of \$13 million;	12	
plus 9% of FY 1988 collections of \$13 million.	1	
<u>TOTAL</u> Alaska and ANILCA net receipts to be collected-----	13	
Less--Federal Government's share (10%). -----	1	
<u>Distribute to Alaska:</u> -----		12
		=====
Mineral leasing receipts distributed to States		439

Table 4

MINERAL REVENUE PAYMENTS TO THE STATES
(In thousands of dollars)

	FY 1987 Actual <u>Payments</u>	FY 1988 Estimated <u>Payments</u>	FY 1989 Estimated <u>Payments</u>
Alabama	151	166	176
Alaska	11,839	13,006	13,828
Arizona	529	581	618
Arkansas	309	339	361
California	27,809	30,551	32,482
Colorado	37,008	40,657	43,226
Florida	27	30	32
Idaho	1,364	1,498	1,593
Kansas	1,356	1,490	1,584
Louisiana	516	567	603
Michigan	56	62	65
Mississippi	184	202	215
Montana	27,394	30,095	31,997
Nebraska	170	187	199
Nevada	5,136	5,642	5,999
New Mexico	75,447	82,886	88,124
North Dakota	6,813	7,485	7,958
Oklahoma	1,589	1,746	1,856
Oregon	687	755	802
South Dakota	905	994	1,057
Utah	24,223	26,611	28,293
Washington	280	308	327
Wyoming	151,618	166,568	177,093
Minnesota	3	3	4
Texas	7	8	8
Virginia	18	20	21
Wisconsin	<u>1</u>	<u>1</u>	<u>1</u>
Total	375,439 <u>1/</u>	412,458	438,522

1/ This amount includes \$23,895 million of FY 1986 obligations sequestered by P.L. 99-177 and distributed to the States at the beginning of FY 1987.

Increase from 1989 Base

(Dollar amounts in thousands)

	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Difference</u>
\$	412,458	438,522	+26,064
(FTE)	(---)	(---)	(---)

The estimated increase in Payments to States results primarily from projected increases in royalties on Federal onshore oil, natural gas, and coal. The estimated increases over 1988 levels are due to higher projected prices for these commodities and an increase in the average coal royalty rate. The coal royalty rate increase reflects a change in royalty computation from a cents-per-ton to a percentage-of-sales-value basis pursuant to the Federal Coal Leasing Amendments Act of 1976. Thirty-one coal leases are scheduled to be readjusted in FY 1989, at which time the revised royalty rate will be implemented. In addition, a small increase in estimated rental receipts from onshore oil and gas leases is projected. The increase reflects a full year of competitive leasing of oil and natural gas under the Federal Onshore Oil and Gas Leasing Reform Act of 1987.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Grants, subsidies, and contributions.....	+26,064

Justification of Program and Performance

Activity: Miscellaneous Payments

(Dollar amounts in thousands)

<u>Activity</u>		<u>FY 1988 Enacted to Date</u>	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Inc.(+) Dec.(-) from 1988</u>	<u>Inc.(+) Dec.(-) from Base</u>
Miscellaneous Payments	\$ (FTE)	--- (---)	--- (---)	600 (---)	+600 (---)	+600 (---)

30 U.S.C. 191, et seq. The Mineral Lands Leasing Act of 1920, as amended, provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities on Federal lands within their boundaries.

30 U.S.C. 1714,
1721(b), 1721(d) The Federal Oil and Gas Royalty Management Act of 1982 provides for timely payments of royalty funds from oil and gas production on Indian lands to Indian accounts and for payments of interest to States and Indian accounts when funds are not disbursed as required by 30 U.S.C. 191 and 1714.

Objectives

- o Provide interest to States and Indian accounts when mineral leasing revenues are not disbursed by the dates prescribed in 30 U.S.C. 191 and 1714.
- o To assure an equitable payment of interest foregone is made to royalty payors who successfully appeal royalty payment orders and are refunded all or part of the principal paid to and held by the Government.
- o To encourage receipt of information that results in the collection of additional mineral revenues owed to the Government.

Increase from 1989 Base

(Dollar amounts in thousands)

	<u>FY 1989 Base</u>	<u>FY 1989 Estimate</u>	<u>Difference</u>
\$	---	600	+600
(FTE)	(---)	(---)	(---)

Indefinite funds are requested for three different types of payments: (1) Interest on Late Payments, (2) Interest on Refunds, and (3) Rewards.

Interest on Late Payments

The Federal Government shares with States, revenues generated from Federal mineral leasing activities within State boundaries. Indian lessors receive all the revenue from mineral leasing activities on their land. The Minerals Management Service collects, processes, accounts for, and audits, bonuses, rents, royalties, and interest due the Federal Government from mineral leasing activities and distributes shares to the Treasury, States, and various Indian accounts. Funding for this service is provided by three subactivities within the Royalty Management budget activity of the Leasing and Royalty Management appropriation--Mineral Revenue Collections, Mineral Revenue Compliance, and Systems Development and Operation. The Payments to States from Receipts under Mineral Leasing Act budget activity provides permanent, indefinite authority to pay the States their share of revenues. This activity, Miscellaneous Payments, is requested to provide funds to make payments of interest to States and Indian accounts when mineral leasing revenues due them are not disbursed within the timeframes prescribed by the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA).

The FOGRMA changed the distribution of payments to the States for their share of mineral leasing revenues from a semi-annual to a monthly schedule. For States, payments must be made by the last business day of the month in which receipts are warranted by the United States Treasury. In addition, FOGRMA provides that deposits of any royalty funds from oil or gas production on Indian lands will be made to appropriate Indian accounts at the earliest practicable date, but in no case later than the last business day of the month in which such funds are received. Section 111 of the Act provides that interest computed at a rate applicable under Section 6621 of the Internal Revenue Code of 1954 is owed if the payment schedules listed above are not met.

However, receipts cannot be disbursed to State accounts until a proper determination can be made of the source of all incoming royalties. Generally, two situations exist which cause this to happen and result in late payment liability: (1) A shortfall within a payor's cash account or (2) an error which prevents a royalty accounting line item from processing through the system. Thus, in the second instance, MMS has the cash available, but cannot determine to whom the cash belongs until the error is corrected.

In contrast to interest due the States, interest on Indian late payments does not generally result from cash shortfalls or royalty errors. Indian cash is deposited in the Treasury the same day it is received and transferred to the Bureau of Indian Affairs (BIA) as soon as practicable (normally within 2 working days). MMS has undertaken several initiatives to reduce errors and keep interest owed on late disbursements to a minimum. These efforts have resulted in late interest payments being reduced from \$1.16 million in FY 1985 to approximately \$0.39 million in 1987 (approximately \$0.14 million from prior years funding and approximately \$0.25 million from FY 1987 funding). Payments for FY 1988 and FY 1989 are estimated at \$0.30 and \$0.25 million, respectively.

Interest on Refunds

Some royalty payors who contest a particular assessment or royalty payment obligation pay the disputed amounts to MMS pending administrative

appeal or judicial review. In some cases, all or some portion of the amount so paid ultimately is determined to be not owing to the United States, an Indian account, or an Alaska Native Corporation.

The MMS believes that paying appropriate interest on the amount refunded for the period of time during which the disputed amount has been in the accounts of the Government would reflect greater fairness and better practice toward the royalty payors. The interest rate provided is one which corresponds closely to the time value of the funds; it is not a punitive interest rate. Refunds for FY 1989 are estimated to be \$0.15 million.

Rewards

The MMS is authorized by Section 113 of the Federal Oil and Gas Royalty Management Act of 1982 to pay a reward of not more than 10 percent of recovered amounts when a person provides information to the Secretary of the Interior that results in the collection of additional mineral revenues owed to the Government. Regulations to implement the reward program were published in the Federal Register in July 1987. The reward percentage will be dependent upon the amount and usefulness of the information provided. The regulations provide a formula similar to that used by the IRS to determine what percentage of the collected amount individuals will receive. These rewards do not apply to information obtained from Federal Government employees, an officer or employee of a State or Indian tribe acting pursuant to a cooperative agreement or delegation under this Act, or any person acting pursuant to a contract authorized by FOGPMA.

This reward program will enhance current royalty collection efforts and lead to increased royalty collections. In FY 1989, \$0.20 million is estimated to be needed for reward payments.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Other services	+200
Grants, subsidies and contributions	+250
Interest and dividends	<u>+150</u>
Total	+600

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Payments to States from Receipts Under Mineral Leasing Act
Program and Financing (In thousands of dollars)

14-5003-0-2-852	FY 1987 Actual	FY 1988 Estimate	FY 1989 Estimate
Program by activities:			
Direct program:			
00.01 Payments to States.....	375,439	412,458	438,522
00.02 Miscellaneous Payments.....	<u>---</u>	<u>---</u>	<u>600</u>
10.00 Total obligations (object class 41.0).....	375,439	412,458	439,122
Financing:			
39.00 Budget authority.....	<u>375,439</u>	<u>412,458</u>	<u>439,122</u>
Budget authority:			
40.00 Appropriation (indefinite).....	---	---	600
60.00 Appropriation (permanent, indefinite).....	375,439	412,458	438,522
Relation of obligations to outlays:			
71.00 Obligations incurred, net.....	<u>375,439</u>	<u>412,458</u>	<u>439,122</u>
90.00 Outlays.....	<u>375,439</u>	<u>412,458</u>	<u>439,122</u>

