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Introduction

Since its formation in 1982, the *Minerals Management Service* (MMS) has been committed to managing America's mineral resources. Moreover, MMS is a leader in managing the Federal Government's assets by creating a process that extends from assessing potential mineral resources and protecting the environment to ensuring that America receives a fair return on its mineral resources.

MMS is responsible for managing the nation's oil, natural gas, and other mineral resources on the Outer Continental Shelf (OCS) and the mineral revenues from OCS, Federal and Indian lands. Within MMS, the *Offshore Minerals Management* (OMM) program is responsible for OCS activities, which range from administering OCS leases and monitoring the safety of offshore facilities to protecting our coastal and marine environments. Through the OMM program, MMS manages the mineral resources on 1.76 billion acres of the OCS, of which, approximately 40 million acres are leased by MMS. Production on the leased OCS acres accounts for 23 percent of America's domestic natural gas production and 30 percent of America's domestic oil production.

> "The Minerals Management Service is committed to the environmentally safe and responsible development of energy and non-energy resources on the Outer Continental Shelf to respond to our Nation's current and future needs and to return fair value to America."
>
> **-R.M. "Johnnie" Burton**
> **MMS Director**

The other MMS program area, the *Minerals Revenue Management* (MRM) program, collects, accounts for, and disburses revenues from mineral leases on OCS, Federal and American Indian lands. Through the work of the MRM program, MMS processes over 250,000 financial transactions per month from more than 26,000 producing OCS, Federal and Indian leases and manages over $6 billion of mineral revenues collected from OCS, Federal and Indian lands annually.

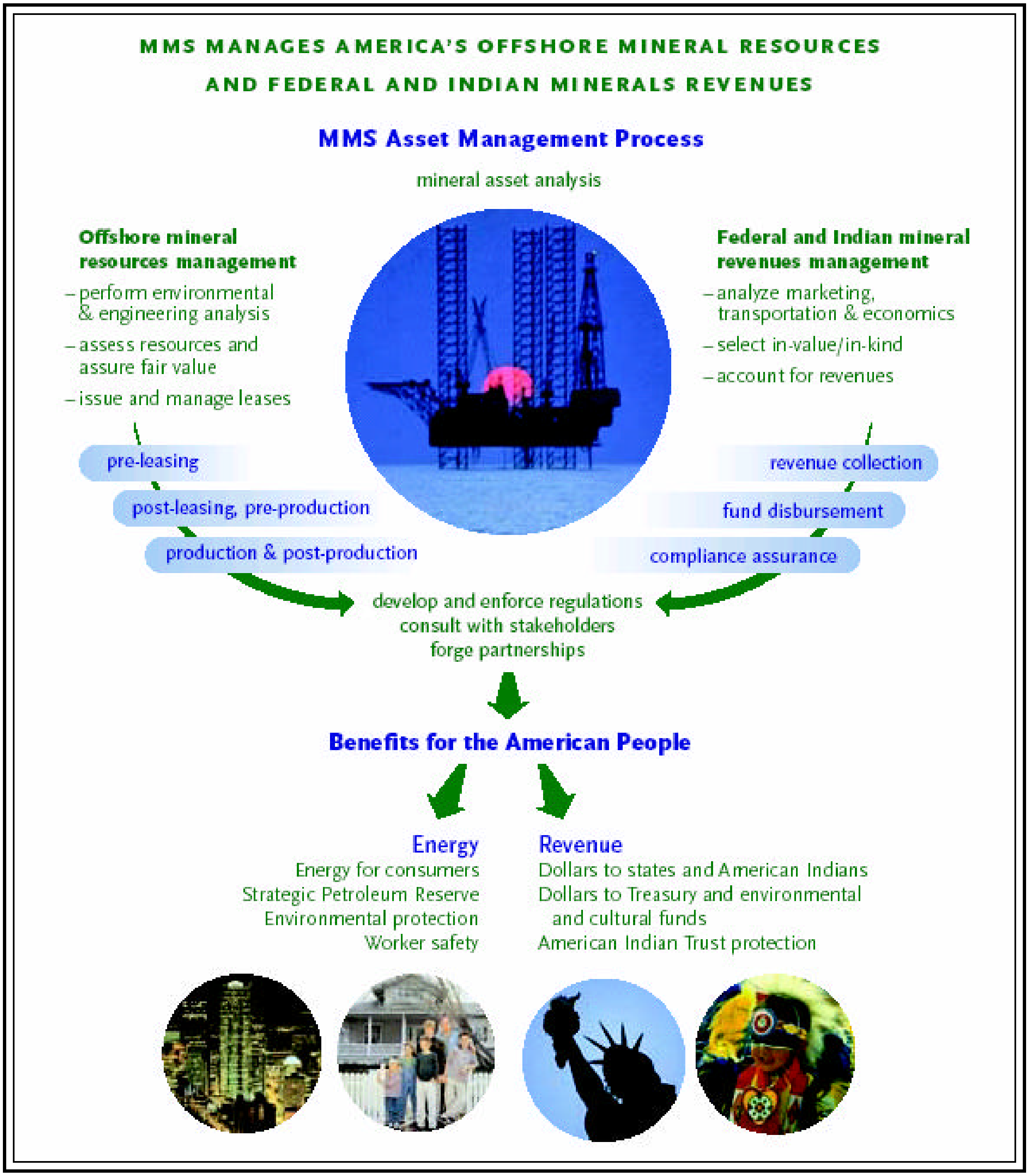
- **THE MINERAL ASSET MANAGEMENT PROCESS**

MMS is one of America's leading mineral asset managers. Almost every American benefits from the work of MMS. From the gasoline that powers our cars and the natural gas that heats our homes to the benefits obtained through the disbursement of collected mineral revenues – the Nation and its citizens benefit from the efforts of MMS.

MMS mineral asset management process can be broken down into six essential mineral assets analysis components: **pre-leasing**, **post-leasing and pre-production**, **production and post-production**, **revenue collection**, **fund disbursement** and **revenue compliance**. MMS employees are engaged in these interconnected mineral assets analysis activities to ensure that America receives a fair return on its mineral resources.

> **Mission Statement**
> MMS manages the mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance public and trust benefits, promote responsible use, and realize fair value.

Our responsibilities as stewards of the physical resources on the OCS begin when MMS conducts **pre-leasing** mineral asset analysis activities, which include the assessment of resource areas that may be offered for lease. While our major area of activity involves oil and natural gas, we also assess and lease other resources as well, such as sand and gravel that can be used for the restoration of beaches or onshore construction projects.



Following the pre-leasing assessment, we develop a plan for offering those resources to developers. In the case of oil and gas development, this planning process is designed to consider both the environmental and economic concerns of the Nation by providing opportunities for input from the public, the private sector, states, and Congress. The planning process results in a *Five-Year Plan* for lease sales. In addition, MMS conducts public planning processes for each individual lease sale.

Once a sale is completed, MMS evaluates the bids to ensure that the government receives fair market value. The evaluation determines whether the bid can be accepted and a lease issued. Once a lease is assigned to a winning bidder, we begin **post-leasing and pre-production** activities. These activities include a permitting and approval process for all exploration, development, and production activities proposed by the lease operators. MMS staff inspects each operation in order to confirm that all activities are conducted in an environmentally and physically safe manner. Similar inspections also occur during our **production and post-production** activities with the added responsibility of ensuring that the Government is receiving accurate royalties from production, while inspections during the post-production phase help ensure that facilities are decommissioned in a manner that protects our marine environment.

MMS manages the mineral revenue assets from Federal and Indian oil, gas, coal, geothermal products and other solid minerals. Once a lease is in place, the Government's share of production from both offshore and onshore operations may be recovered as royalty-in-value (RIV) or royalty-in-kind (RIK). MMS conducts mineral asset analysis to determine whether RIV or RIK makes the best business sense. RIK is determined to be a viable asset management option when its application is at least revenue neutral in comparison to RIV and when it promotes efficiency and cost effectiveness for both the Government and the private sector payors. Our management of in-kind royalties includes transferring resources to the Department of Energy to fill the Nation's Strategic Petroleum Reserve (SPR) or selling the received product in the market place and then disbursing revenues as prescribed by law.

Through **revenue collection** and **fund disbursement**, MMS achieves optimal value by ensuring that all revenues from Federal and Indian mineral leases are efficiently, effectively, and accurately collected, accounted for, and disbursed to States, Indians, and the Federal Treasury. MMS also performs **revenue compliance** activities to ensure that the Government has received fair market value and that companies comply with applicable laws, regulations, and lease terms. Since its inception over 20 years ago, MMS compliance activities have identified over $2.5 billion in additional receipts due from companies. As a steward of the royalty assets from Indian trust properties, MMS serves as an advocate for the interests of American Indian mineral owners and ensures the fulfillment of our Indian trust responsibility.

Through this robust mineral asset management process, MMS serves as a leading mineral asset manager for the Federal government, States, American Indians and the American people.

▪ CONTRIBUTING TO AMERICA'S ENERGY SUPPLY

America depends on oil and natural gas as major sources of our energy, relying on foreign sources for more than half of our oil. Over the next two decades, our demand for oil is expected to grow by 35 percent and natural gas, 40 percent. Through our work, MMS is helping America meet its demand for oil and natural gas.

> "America must have an energy policy that plans for the future but meets the needs of today. I believe we can develop our natural resources and protect our environment."
> **-President George W. Bush**

MMS plays an integral part in the implementation of the *President's National Energy Policy* (NEP). The NEP is a comprehensive strategy designed to secure America's energy future by reducing dependence on foreign sources, increasing domestic fossil fuel production, improving energy conservation efforts, and developing alternative and renewable energy sources. In order to help ensure the stability and security of America's existing energy supply, MMS has implemented a program that transfers in-kind royalties from offshore oil production to the *Nation's Strategic Petroleum Reserve* (SPR).

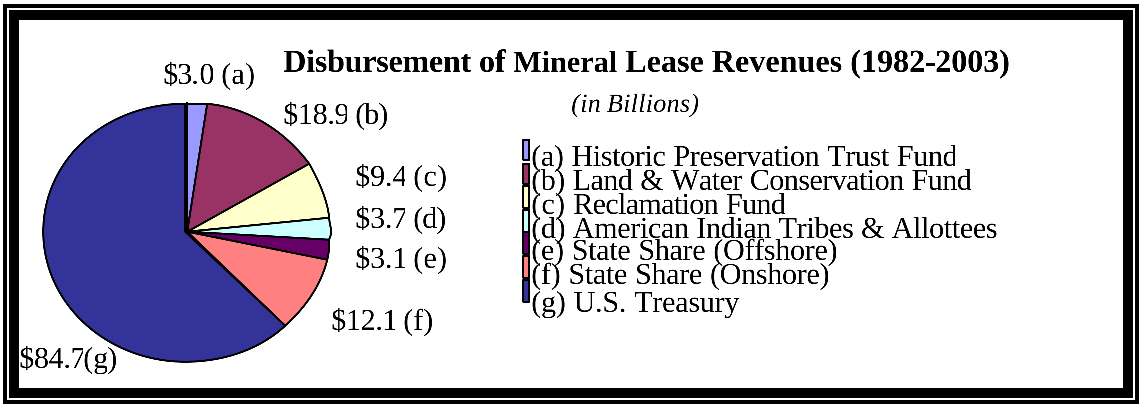
The offshore areas that MMS has designated for leasing under our current 5-year plan could yield as much as 22 billion barrels of oil and 61 trillion cubic feet of gas. To put these numbers in perspective, 185 million barrels of oil will fuel one million automobiles for nearly six years and 1.25 trillion cubic feet of gas will serve one million families for 15 years. Beyond current energy production and supplies, MMS administers several initiatives designed to increase the domestic production of oil and natural gas, such as the *Shallow Water Deep Gas Incentive Program*, which provides royalty suspensions to encourage deeper exploration and development using existing shallow water infrastructure.

In addition, MMS is considering alternate domestic sources of natural gas to meet the expected increase in demand for natural gas. Industry is currently exploring gas hydrates as an alternative energy source. Gas hydrates are a crystalline solid consisting of gas molecules, usually methane, surrounded by a cage of water molecules. The U.S. Geological Survey estimates that gas hydrates may contain more organic carbon than all the world's coal, oil, and non-hydrate natural gas combined. MMS *Methane Hydrate Initiative* will allow MMS to address the economic and environmental issues associated with this potential source of energy.

▪ THE BENEFITS OF MMS REVENUES

Between 1982 and 2003, MMS distributed $135 billion in revenues from onshore and offshore lands, an average of over $6 billion per year, to the Nation, States, and American Indians.

MMS distribution of mineral revenues to the U.S. Treasury, a 5-year average disbursement of $4.7 billion a year, is one of the federal government's greatest sources of non-tax income. In addition to this direct treasury deposit, annual distributions to the *Land and Water Conservation Fund*, the *Historic Preservation Fund* and the *Reclamation Fund* help ensure that America's natural resources, pristine landscapes, and rich history are enjoyed by future generations.

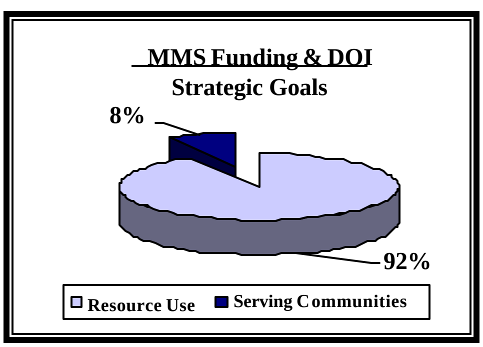


The American economy also benefits from the annual distributions to States, a vital source of discretionary revenue that many state governments depend on to fund large capital projects, such as schools, roads, and public buildings. Most importantly, the revenues collected from mineral leases on Indian lands work directly to benefit members of the American Indian community.

DOI Mission and Strategic Plan

> "...We must embrace a long-term energy plan that protects our air and water quality, promotes more efficient use of energy, and increases environmentally safe development of domestic energy."
> **- Interior Secretary Gale Norton**

In pursuing our mission and the broader mission of the Department of the Interior (DOI), MMS serves our multiple constituents through application of the Secretary of the Interior's *Four Cs*: **consultation**, **cooperation**, and **communication**, all in the service of **conservation**. The work of MMS supports the National Energy Policy (NEP), the DOI's Strategic Plan mission goals and the Department's Comprehensive Trust Management Plan. Our current budgetary resources contribute to the following Department Strategic Goals:



- The Department's **Resource Use** goal to manage resources to enhance public benefit, promote responsible use, and ensure optimal value in energy and non-energy areas; and

- The Department's **Serving Communities** goal to protect lives and property, and to fulfill Indian trust responsibilities.

Like the Department, MMS is undertaking a new approach to its planning efforts. We are developing MMS Perspective, a document that provides the strategic framework for MMS that is linked to the Department's Strategic Plan in two major mission component areas: Resource Use and Serving Communities. MMS Perspectives will serve as a public corporate overview document.

MMS will issue its first annual internal operating plan for FY 2004 under the new DOI strategic plan during the second quarter. The annual internal operating plans will be used as annual guidance documents that contain performance measures and strategies that are clear and useful to supervisors and managers at all levels of the organization. When completed, the annual plans will present end and intermediate outcome measures that tie directly to the Department's goals as well as set annual and five-year targets. The plans will also contain measurable outputs of program activities that are tied to costs within the ABC system, making MMS more results oriented and providing a mechanism to hold managers accountable for results.

- **RESOURCE USE**

MMS manages the mineral resources on the OCS and Federal and Indian mineral revenues to enhance public and trust benefit, promote responsible use, and realize fair value. These efforts are evident in the entire MMS mineral asset management process. MMS is helping to implement the National Energy Policy (NEP) by implementing the offshore 5-Year Oil and Gas Leasing Program and providing royalty-in-kind oil to fill the Strategic Petroleum Reserve. In addition, MMS strives to ensure that the American people receive optimal value for their resources throughout the asset management process. MMS performance indicators that relate to the Department's Resource Use goals are displayed in the table below.

End Outcome Goal Resource Use: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value – energy.

End Outcome Measures	2002 Actual	2003 Actual	2004 Plan Budget	2004 Revised Final Plan	2005 Plan	Change (2004-2005)	2008 Target
Number of lease sales held consistent with Secretary's 5-Year Program (SP)	3	3	4	4	4	No Change	N/A
Royalties received for mineral leases are X percent of predicted revenues, based on market indicators, in the production year (SP)	98.70%	N/A	98% of predicted revenues - 46% of 2001 royalty universe	98% of predicted revenues - 46% of 2001 royalty universe	98% of predicted revenues - 69% of 2002 royalty universe	23% change in compliance coverage between FY04 and FY05	98% of predicted revenues - 88% of 2006 royalty universe
Compliance work is completed within the 3-year compliance cycle for X% of royalties for production year X (SP)	10.5% of 1999 royalties confirmed	46% of 2000 royalties confirmed	69% of 2001 royalties	69% of 2001 royalties	69% of 2002 royalties	0	88% of 2005 royalties
X percent of revenues disbursed on a timely basis per regulation (SP)	80%	92.6%	94%	94%	95%	+1%	98%

(SP) denotes that the MMS performance measure is a Departmental Strategic Plan measure.

End Outcome Goal Resource Use: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value – energy.							
Intermediate Outcome: Enhance Responsible Use Management Practices							
Intermediate Outcome Measures	**2002 Actual**	**2003 Actual**	**2004 Plan/ Budget**	**2004 Revised Final Plan**	**2005 Plan**	**Change (2004 to 2005)**	**2008 Target**
Achieve an oil spill rate for offshore development of no more than .00001 barrels spilled per barrel produced (SP)	0.00000058	0.000005[1]	.00001	.00001	.00001	No Change	.00001
Intermediate Outcome: Improve Information Base, Resource Management and Technical Assistance							
Intermediate Outcome Measures	**2002 Actual**	**2003 Actual**	**2004 Plan/ Budget**	**2004 Revised Final Plan**	**2005 Plan**	**Change (2004 to 2005)**	**2008 Target**
Percent of studies validated through independent peer review or other validation method (SP)	N/A	N/A	Develop Peer-Review Definitions and Standards	Develop Peer-Review Definitions and Standards	Establish Peer-Review Baseline Information	N/A	N/A

End Outcome Goal Resource Use: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value – non-energy.							
Intermediate Outcome: Improve Information Base, Information Management and Technical Assistance							
Intermediate Outcome Measures	**2002 Actual**	**2003 Actual**	**2004 Plan/ Budget**	**2004 Revised Final Plan**	**2005 Plan**	**Change (2004 to 2005)**	**2008 Target**
Percent of studies validated through independent peer review or other validation method (SP)	N/A	N/A	Develop Peer-Review Definitions and Standards	Develop Peer-Review Definitions and Standards	Establish Peer-Review Baseline Information	N/A	TBD
(SP) denotes that the MMS performance measure is a Departmental Strategic Plan measure.							

[1] This is an estimate, the process of reconciling data reported to NRC and MMS for FY 2003 is ongoing. FY 2003 appears to be trending like FY 2000, which was 0.000005.

SERVING COMMUNITIES

MMS is a steward of the mineral royalty assets from Indian trust properties and serves as an advocate for the interests of Indian mineral owners, ensuring fulfillment of our Indian trust responsibility. MMS serves American Indian tribes and individual Indian mineral owners by ensuring that they receive accurate returns for mineral production on their land. While working to protect Indian mineral interests, MMS also emphasizes Indian empowerment. MMS performance indicators that relate to the Department's Serving Communities goals are displayed in the table below.

End Outcome Goal Serving Communities: Protect Lives, Resources and Property							
Intermediate Outcome: Improve Management of Land and Natural Resource Assets							
Intermediate Outcome Measures	**2002 Actual**	**2003 Actual**	**2004 Plan/Budget**	**2004 Revised Final Plan**	**2005 Plan**	**Change (2004 to 2005)**	**2008 Target**
Disburse X percent of revenue to OTFM within 24 hours of receipt (SP)	NA	99%	99%	99%	99%	No Change	100%
Provide lease data to BIA for X percent of royalties by first semi-monthly disbursement (SP)	New Measure	New Measure	60%	60%	65%	+5%	80%
(SP) denotes that the MMS performance measure is a Departmental Strategic Plan measure.							

MMS Fiscal Year 2005 Budget Request

MMS is requesting a total of $1.4 billion in mandatory and net discretionary authority for FY 2005. The largest portion of this request ($1.1 billion) provides payments to States under various laws and thus represents mandatory authority. MMS operations are funded from a net discretionary authority request of $178.7 million, which contains a net increase of $8.3 million over the congressionally enacted FY 2004 budget.

Budget Authority and FTE for FY 2003 – FY 2005

(Dollars in Thousands)

	2003 Actual	2004 Enacted	2005 Estimate	Change from 2004	
				Amount	Percent
Budget Authority					
Total Net Discretionary Authority	170,311	170,296	178,680	8,384	+4.9%
Total Offsetting Collections	100,230	100,230	103,730	3,500	+3.5%
Total Mandatory Authority	954,342	1,103,818	1,128,662	24,844	+2.3%
Total Budget Authority	**1,224,883**	**1,374,344**	**1,411,072**	**36,728**	**+2.7%**
Total Direct FTE	1,618	1,618	1,629	11	+.7%
Total Reimbursable FTE	83	93	113	20	+21.5%
Total Allocation FTE	0	0	0	0	0
Total FTE	**1,701**	**1,711**	**1,742**	**31**	**+1.81%**

MMS receives funding for operations from three sources: the Royalty and Offshore Minerals Management (ROMM) appropriation, the Oil Spill Research (OSR) appropriation, and Offsetting Collections. MMS first received authority to retain a portion of OCS rental receipts as offsetting collections in 1994 and since then, over $850 million has been available to fund MMS operations.

For FY 2005, MMS is requesting an operating account level of $282.4 million, which includes $103.7 million in offsetting collections obtained from rental charges on offshore leases and $178.7 million from ROMM and Oil Spill appropriations. The FY 2005 request supports the DOI Strategic Plan and is distributed across the DOI mission goals as follows:

FY 2005 Discretionary Budget Request Summary

(Dollars in Thousands)

	2004 Enacted Budget	**2005 Budget Request**	**Change from 2004**
Resource Use			
ROMM Appropriations	149,108	157,108	8,000
ROMM Offsetting Collections	93,018	96,518	3,500
Oil Spill	7,017	7,105	88
Subtotal	249,143	260,731	11,588
Serving Communities			
ROMM Appropriations	14,171	14,467	296
ROMM Offsetting Collections	7,212	7,212	0
Subtotal	21,383	21,679	296
Total	**270,526**	**282,410**	**11,884**

MMS Fiscal Year 2005 Budget Request also supports the DOI's Strategic Plan end outcome goals as shown in the table below.

FY05 Discretionary Budget Request – Activity/Subactivity Level Summary *(Dollars in Thousands)*				
	Resource Use		**Serving Communities**	**Total**
	Manage resource use to enhance public benefit, promote responsible use, and ensure optimum value - energy.	Manage resource use to enhance public benefit, promote responsible use, and ensure optimum value – non-energy.	Fulfill Indian trust responsibilities	
Account Activity				
ROMM Appropriation	156,207	901	14,467	171,575
ROMM Offsetting Collections	94,284	2,234	7,212	103,730
Oil Spill	7,105	0	0	7,105
Total Discretionary Funding	**257,596**	**3,135**	**21,679**	**282,410**
Royalty & Offshore Minerals Management (ROMM)				
Offshore Minerals Management				
Leasing & Environment Programs	37,462	0	0	37,462
Resource Evaluation	25,170	2,887	0	28,057
Regulatory Program	50,438	0	0	50,438
Information Management Program	30,147	0	0	30,147
Total OMM	***143,217***	***2,887***	***0***	***146,104***
Minerals Revenue Management				
Compliance & Asset Management	37,477	0	10,272	47,749
Revenue & Operations	26,735	0	7,407	34,142
Refunds on Behalf of Allottees	0	0	15	15
Total MRM	***64,212***	***0***	***17,694***	***81,906***
General Administration				
Executive Direction	1,881	10	181	2,072
Policy & Management Improvement	3,789	21	366	4,176
Administrative Operations	15,610	92	1,479	17,181
General Support Services	21,782	125	1,959	23,866
Total GA	***43,062***	***248***	***3,985***	***47,295***
ROMM Total	**250,491**	**3,135**	**21,679**	**275,305**
Oil Spill Research	**7,105**	**0**	**0**	**7,105**
Minerals Management Service	**257,596**	**3,135**	**21,679**	**282,410**

Our ongoing provision of exceptional asset management services requires attention to the details of maintaining current operations. This requires the application of resources to activities that may not provide an apparent increase in performance. However, if resources are not applied to maintaining our current operations, future performance declines can be expected.

No bureau can expect to maintain a record of quality operations without a vision for the future and the challenges it will bring. MMS has always made a point of scanning the horizon to see what we will face in the years to come and these efforts have served us well in preparing for tomorrow's requirements today. Therefore, in addition to our baseline funding to maintain current operations, our FY 2005 budget request includes the following key initiatives.

- **FY 2005 Key Initiatives**

The *e-Gov (OCS Connect) Initiative*, in view of reduced funding levels provided in FY 2004, has been re-scoped by dropping planned reviews of selected business processes and by extending the project timeline by a year to accommodate cutover from and retirement of the legacy system. The proposed funding in FY 2005 (+$4.3 million) will support implementation of a web-based online environment for MMS operations and our constituents. Moving to an online environment will increase the public's access to MMS government business processes, reduce the information collection demands on the regulated private sector by allowing many of the compliance process activities to be completed on line, and ensure a faster response by MMS to private sector requests.

The *Gulf of Mexico Interpretive Technologies* proposal (+$1.9 million) will improve our ability to assess resources on the OCS, improve safety-related decisions by identifying geohazard conditions, and improve decisions involving conservation of resources, such as royalty relief and unitization. Accurate evaluation of the resources on the OCS is critical to assuring that the Treasury and the public receive fair market value for the resources that MMS manages. Inadequately informed decisions on the sale and handling of offshore leases can cost the Treasury and the public millions of dollars in lost revenues. These technology enhancements will allow MMS evaluators to maintain technological parity with the private sector and thus ensure accurate evaluations for fair value determinations, field determinations for new producible leases, royalty relief, unitization, reservoir conservation analysis, and shallow hazards processes.

The *Methane Hydrates* proposal for FY 2005 redirects budgetary resources of $0.4 million from within the *Environmental Studies Program* and requests an additional $0.2 million to fund the cost of the Methane Hydrates research study ($0.6 million). Preliminary estimates by the U.S. Geological Survey indicate potential natural gas from hydrates may be hundreds of times larger than current estimates of conventional offshore natural gas, and about 99.8 percent of this domestic hydrate potential is in the Federal offshore. MMS must begin tract-specific hydrate assessments to determine fair market value once production is practical. Before the recovery of gas hydrates becomes economically viable, MMS must evaluate the potential environmental impacts of recovery. This redirection of funds and additional funding request will provide MMS with the resources needed to address the economic and environmental issues associated with this potential source of energy.

The *Indian Trust Initiative* (+$0.9 million) will expand our work with Tribal cooperative audit partners, broaden our outreach to Tribes and allottees, and better safeguard Indian records. The Department's responsibility to American Indians cannot be understated. MMS is a steward of the royalty asset from Indian trust properties and serves as an advocate for the interests of Indian mineral owners. The MMS, through its MRM program, contributes to the achievement of Departmental goals in this area.

The *State 205 Delegated Audit Program Initiative* (+$0.3 million) will cover current and ongoing costs of delegated agreements and provide cost-of-living increases for the 10 states currently in the program. While our state delegated audit efforts have been ongoing for over a decade, the funding levels have not increased to reflect the addition of new agreements or the impact of inflation on state operations.

On May 29, 2003, a revised Circular A-76, significantly revising the processes and practices for competitive sourcing. The President's Management Agenda competitive sourcing scorecard criteria eliminated government-wide numerical goals in lieu of agency-specific goals. The *Competitive Sourcing* initiative (+$0.18 million) will provide the resources necessary to meet our FY 2005 goal of competing 60 FTE positions, ensuring MMS commercial activities are performed by the most cost-effective provider.

Our other major initiatives for FY 2005 include increasing our Oil Spill Research Appropriations by $88,000, reducing our *IT Security Certification and Accreditation* funding (-$318,000) based on newly adjusted timetables, a $14,000 decrease due to DOI *Fleet Reduction* and a $10,000 reduction of General Support Services base funding for *E-Rulemaking*. In addition, MMS plans to transfer $43,000 to fund W*orking Capital Fund* (WCF) technical changes, provide $776,000 for *Audit Funding*, $602,000 to *Enterprise Services Network (ESN) Funding*, and $256,000 for *Quicksilver Funding* activities. MMS will also reduce funding for both the Marine Mineral Technology Center and the Center for Marine Resources and Environmental Technology (-$1.6 million) and increase funding (+$500,000) for Gulf of Mexico helicopter inspections. In addition, MMS plans to reduce our *ROMM Appropriations* (-$3.5 million) through increased *Offsetting Collections* (+$3.5 million), which are made up of rental receipts and cost recovery fees.

The aforementioned FY 2005 key initiatives are displayed in the table below based on strategies in the DOI Strategic Plan.

FY 2005 Key Initiatives by Mission Goal *(in thousands of dollars)*				
	Resource Use		**Serving Communities**	**Total**
	Manage or influence resource use to enhance public benefit, promote responsible use, and optimal value – energy.	Manage or influence resource use to enhance public benefit, promote responsible use, and optimal value – non-energy.	Fulfill Indian Trust Responsibilities	
Increases				
Uncontrollables	3,404	43	296	3,743
OCS Connect	4,321	0	0	4,321
Gulf of Mexico Interpretive Technology	1,943	0	0	1,943
Methane Hydrates Initiative	600	0	0	600
Indian Trust Initiative	0	0	941	941
State 205 Delegated Audit Program	305	0	0	305
Competitive Sourcing	180	0	0	180
Oil Spill Research Increase	88	0	0	88
Audit	776	0	0	776
ESN Funding	602	0	0	602
Quicksilver	256	0	0	256
GOM Helicopters	494	0	0	494
Increase in Offsetting Collections and Cost Recovery Fees	3,500	0	0	3,500
Increases Subtotal	***16,469***	***43***	***1,237***	***17,749***
Decreases				
Methane Hydrates Initiative Redirection	400	0	0	400
IT Security Certification & Accreditation	318	0	0	318
Fleet Reduction	14	0	0	14
E-Rulemaking	10	0	0	10
Working Capital Fund Transfer	43	0	0	43
MMTC & CMRET	1,580	0	0	1,580
Reduced Appropriations - Offsetting Collections and Cost Recovery Fees	3,500	0	0	3,500
Decreases Subtotal	***5,865***	***0***	***0***	***5,865***
Total	**10,604**	**43**	**1,237**	**11,884**

Section 343 Costs

Minerals Management Service (MMS) has in place a General Administration activity that requests funding each fiscal year through the formulation process and increases are fully justified within the presentation of formulation documents. There are two additional programs within MMS – Offshore Minerals Management (OMM) and Minerals Revenue Management (MRM) – to which the General Administration activity provides various levels of support. MMS does not charge, deduct, hold reserves, or hold back any funding to support headquarter and regional operations and oversight.

Within General Administration activity, there are four subactivities: Executive Direction, Policy Management and Improvement, Administrative Operations and General Support Services. These activities include headquarter and regional staff.

Executive Direction provides Bureau-wide oversight and leadership, direction, management, coordination, communications strategies, and outreach. Policy Management and Improvement coordinates the Bureau's policy management and strategic planning efforts. Administrative Operations encompasses operations including budget, financial, personnel, procurement, facilities, and information management services.

Lastly, General Support Services (GSS) ensures overhead infrastructure support to OMM and MRM. The types of support the GSS Subactivity provides include expenses such as rental of office space, workers' compensation, telecommunications, mail services, and necessary printing costs. Further narrative discussion on these four subactivities and their programmatic increases and decreases for FY 2005 can be found in the General Administration program justifications.

In the Administrative Operations Subactivity, two Field Administrative Service Centers provide direct administrative support to MMS program managers. There is one center in New Orleans, Louisiana, the Southern Administrative Service Center, which provides direct administrative support, direction, and coordination to OMM and MRM offices. The other center, the Western Administrative Service Center, located in Denver, Colorado, offers various types of administrative assistance to both OMM and MRM.

The President's Management Agenda

The Secretary's *Plan for Citizen Centered Governance*, published in September 2001, outlined the blueprint for implementing the *President's Management Agenda* (PMA) within the Department of the Interior. In accordance with the Secretary's Plan and the President's management initiatives, MMS is working to improve service delivery and increase the efficiency and effectiveness of our operations by listening closely to and working cooperatively with local citizens, tribal leaders, States, and the private sector.

Management reform is, and will continue to be, an integral part of MMS operations; while we have been able to achieve many improvements, there will always remain challenges and opportunities for further growth. We briefly discuss our efforts related to the *President's Management Agenda* initiatives below.

▪ BUDGET PERFORMANCE INTEGRATION

MMS is fully committed to improving the link between budget and performance. To that end, the FY 2005 budget request provides a linkage of budget dollars to the DOI mission goals. The entire cost for MMS operations, including general and administrative costs, is linked to DOI mission components and outcome goals. Moreover, we have tied our resource requests to performance levels throughout this document.

Program Assessment Rating Tool (PART)
MMS has completed two PART evaluations. The first was of the Environmental Studies Program under the Offshore Minerals Management program and the second evaluation was of the complete Minerals Revenue Management Program.

In response to the recommendations on the MMS Environmental Studies Program during the first PART evaluation, an implementation plan has been developed to handle both the issues of Quantitative Performance Measures and the need for a Computer Application to monitor and report on individual ESP studies.

A draft scoring system has been designed, and is currently under review, to evaluate if the information was received in time for its intended use, if the study objectives were fully addressed, and if researchers made appropriate use of peer-review. Additionally, program level Scientific Review Boards (SDRB) of Non-MMS Scientists will be formed to review ESP research programs or specific scientific disciplines as appropriate. Concurrently, the Bureau is developing computer applications to monitor and report on individual Research and Development projects. The latter effort is designed in three phases: Phase I will consist of automated, headquarters tracking of procurement and deliverable milestones for each ongoing study. Phase II will be at the Contracting Officer's Technical Representative (COTR) level, establishing an index providing any necessary warnings early enough into the life of a project so that problems can be rectified. Phase III is envisioned as an intranet, web-based e-Gov initiative tying Phases I and II together.

MMS's second PART evaluation covered the entire MRM program. Based upon the evaluation, MRM and MMS as a whole are beginning to revise our performance measure architecture to a functional orientation to address deficiencies noted in the PART analysis. This new performance architecture will be based upon organizational processes and their contributions linking to the DOI Strategic Plan and MMS budget structure.

MMS proposes the following five-year plan for conducting the PART for all Bureau programs.

Fiscal Year	Area for Review	Budget *	Cumulative % of MMS Budget
2004	OMM – Environmental Studies	$23M	8.5%
2005	Minerals Revenue Management	$96M	43.9%
2006	OMM – Leasing and Environment & Resource Evaluation	$69M	69.4%
2007	OMM – Regulatory & Oil Spill Research	$83M	100.0%

OMM – Offshore Minerals Management
* General Administration costs ($45M) for FY04 have been distributed back to the programs based on a percentage share of the total request. In addition, the information management-OCS Connect costs ($26M) for FY04 were distributed across the OMM programs based on a percentage share of total OMM request.
** Tentative – Fund Authorized Annually

Activity-Based Costing (ABC)
MMS was one of three DOI Bureaus tasked with applying *Activity Based Costing/Management* (ABC/M) as an automated method of tracking and analyzing both activities and costs. MMS began implementing Activity Based Costing (ABC) in FY 2003. MMS identified work activities across the Bureau, trained staff members in the proper recording of their time to cost activities, and established outputs to cost against. During FY 2003, MMS captured accomplishment data for the ABC/M system and began using the ABACIS financial accounting system to collect work activity costs. We have learned a great deal from our initial year of gathering data including that additional work is necessary to make the data more accessible and useful to program managers.

For FY 2004, MMS will continue to refine the ABC/M reporting capabilities to assure that managers will be able to receive effective and informative data from the system. In addition, MMS will continue to work with the Department to ensure consistency, compatibility and avoid duplication with Departmental ABC implementation efforts. We expect to incorporate ABC data into budget justifications as we gain more experience with ABC.

Capital Asset Planning and Control
The Clinger-Cohen Act of 1996 requires agencies to use a disciplined Capital Planning Investment Control (CPIC) process to acquire, use, maintain, and dispose of information technology. Secretarial Order No. 3244, dated November 12, 2002, requires the Office of the Chief Information Officer (OCIO) and all the Department of the Interior Bureaus to better fulfill the Clinger-Cohen Act requirements to improve the overall IT management and investment process.

MMS has addressed the CPIC requirements set forth by the Clinger-Cohen Act of 1996 and the Secretarial Order No. 32244 in two fashions. First, MMS created and documented a formal CPIC process. An Interim Policy Document (IPD) was written and signed by the Director of MMS on April 24, 2003. This policy document ensures that a process has been established that provides a framework to improve the productivity, efficiency, and effectiveness of MMS programs, whereby IT investments link to the accomplishment of MMS missions, strategic goals and objectives, as well as comply with applicable Departmental and Federal policies. Second, in

March of 2003, MMS chartered an IT Investment Review Board (ITIRB) composed of senior management within MMS. MMS held the inaugural ITIRB meeting in May 2003 to discuss its responsibilities to coordinate Bureau-wide planning for IT activities and to monitor the progress of these activities. The Board discussed each major IT investment and voted unanimously to move each investment forward to be included in the MMS FY 2005 budget submission.

The Department's CPIC process has influenced MMS's FY 2005 budget decisions by changing the process of how some non-major IT investments were packaged and sent forward to the Office of Management and Budget. This could affect overall DOI budget decisions in areas such as infrastructure and office automation.

Data Verification and Validation Processes

MMS has adopted and put into practice data verification and validation processes based upon the Data V&V guidance issued by the Department. To date, MMS has validated our DOI end outcome and key intermediate outcome performance metrics and uses internal control practices to ensure the reliability of data collection. The means used are sufficiently credible and specific to support the general accuracy and reliability of the performance information that is recorded, collected and reported.

MMS is continuing to revise, refine and validate our other Bureau performance metrics. All non-key and Bureau level performance metrics have or will have definitional dictionaries developed by the end of FY04. These data dictionaries will include the measure definition, data collection source and methods, measure calculation methodology, and related information. The protocol and methodology for program and Bureau data collection is still being developed based on the many sources of program and Bureau performance data.

- **STRATEGIC MANAGEMENT OF HUMAN CAPITAL**

MMS recently completed a yearlong process of developing our *Workforce Plan*, a road map for integrating human capital initiatives with program goals and objectives. The plan captures the Bureau's analysis of workforce supply, demand, and gaps based on historical trends, future projections and expected work demands.

To determine the challenges facing MMS in the short and long term, we conducted face-to-face and teleconference interviews with approximately 120 managers and employees across the four MMS directorates with participants from our offices in Lakewood, Colorado, New Orleans, Louisiana, Herndon, Virginia, and Washington, D.C. In addition to the interviews, MMS gathered and analyzed data on skill and staffing shortages caused by impacts to work in every organizational unit across the Bureau and every occupation. The workforce numbers and skills as of May 2003 were compared with 2007 estimates of requirements for the future based on workload drivers and projected impacts to work. The difference between the present workforce and that needed by 2007 formed the basis for identifying the workforce-planning challenges.

This process identified four critical workforce-planning challenges:

1. The OMM Program will need to continue its efforts to address recruiting challenges in the areas of engineering and geosciences. More than 43 percent of the geologists, 34 percent of geophysicists, and 29 percent of engineers in the Gulf will be eligible for

retirement by 2007. Apart from the retirement statistics, workload drivers are expected to require a need to recruit for 32 positions in these disciplines through 2007. These positions are in occupational series that, in the past, have been difficult to fill.

2. The MRM Program, through FY 2007, will experience a shift in skill needs from the 500 occupational groups, Accounting and Budget, to the 1100 group, Business Specialist, which will affect an estimated 46 employees.
3. In general, MMS must focus on the renewal of its workforce and succession planning for supervisory and managerial positions.
4. Finally, MMS must improve diversification of the workforce.

The *Workforce Plan* also addresses solutions, implementation, and evaluation strategies for immediate workforce requirements and projected workforce requirements through FY 2007. To meet the challenges of the future, MMS will need more engineers and geoscientists, a shift in skills from accountants and auditors to RIK business specialists, and succession planning, particularly for supervisory and managerial positions. Because MMS competes with the high paying oil and gas private sector for most of our core occupations, creative recruitment strategies must be deployed as well as retention strategies.

Each of the MMS programs has unique workforce planning challenges in addition to the overarching Bureau-wide challenges. To varying degrees, the programs have identified and integrated their human capital initiatives into their budget requests. In addition to basic human resources costs, such as salaries, benefits, awards, and training, MMS programs have integrated additional human capital initiatives costs into the 2005 program budget requests, such as recruitment team activities, tuition assistance, quality of work-life programs, and Indian Trust Management workforce planning activities.

Most importantly, the MMS *Workforce Plan* is a tool for identifying human capital needs, developing and implementing solutions, and evaluating progress. The plan will be updated annually and used in conjunction with MMS strategic plan, performance plan, and budget to ensure that MMS is strategically managing its human capital to meet our mission, vision, and goals. The plan is a living document and will change as new MMS challenges arise and successes are achieved.

- **COMPETITIVE SOURCING**

MMS is committed to obtaining services from the private sector when it is cost effective and will not affect the quality of the products and services we provide our constituents. As we strive to be the best minerals resource manager in the government, we are also achieving high quality service and cost savings through increased work efficiencies. Competitive sourcing is one of the tools we use to manage our organization more effectively.

During the past year, we took a number of actions designed to implement our competitive sourcing strategy effectively. In March, the Director discussed the Bureau's competitive sourcing initiatives in an all-employee memorandum. She emphasized her support of the program, and her goal to use innovative methods that would allow us to meet our goals while having minimal impact on our employees.

In support of the President's Management Agenda (PMA), MMS continues to review its commercial activities to determine whether these activities are better provided by Federal employees, the private sector, or by another agency. During FY 2002 and 2003, MMS studied 42 and 83.5 FTE positions, respectively. Of the 125.5 FTE positions studied, 69 FTE positions were contracted out through direct conversions and 56.5 FTE positions remained in-house. For positions contracted, we filled vacant positions or reassigned employees to new positions with different duties. The positions remaining in-house were the result of streamlined cost comparison studies where our employees won the competitions. No MMS employee has lost a job from competitive sourcing. In FY 2004 we plan to hold A-76 streamlined studies of 29 FTE.

Competitive Sourcing Budget Request

OMB policy for developing “green” competitive sourcing plans to meet the revised PMA scorecard criteria requires that agencies submit a study plan identifies that lists the number of FTE’s we plan to announce for competition. Our current plan is to study 60 FTE positions in FY 2005. We are requesting $180,000 ($3,000 per FTE) to support these A-76 studies. In the past, we primarily used base resources to implement our competitive sourcing program. Implementation of our competitive sourcing program in FY 2003 cost over $200,000 ($120,000 in administrative in-house costs and $80,000 in contract costs). We expect similar costs in FY 2004. To ensure that resources continue to support our mission, we are requesting direct support for the competitive sourcing program in FY 2005.

▪ FINANCIAL PERFORMANCE

MMS has a worthy record of financial performance. FY 2002 proved to be a challenging year in managing MMS’s financial management activities. Not only did MMS face the arduous task of implementing a reengineered royalty reporting system, it also had to overcome the hurdles presented by a four-month court order shutdown of Internet access that prevented MMS’s customers from filing their royalty and production reports. Despite the obstacles presented, through the efforts and dedication of its staff, MMS was able maintain the integrity of its financial records and receive an unqualified opinion on its 2002 financial report.

FY 2003 proved to be just as challenging as FY 2002. During FY 2003, MMS had to balance the requirements of successfully processing the backlog of royalty and production reports with identifying and making system refinements to collect, distribute and record royalty transactions more efficiently. Also during FY 2003, by memorandum of the Assistant Secretary – Policy, Management and Budget, the financial management and accounting for the Interior Franchise Fund (IFF) was transferred from Departmental Offices – National Business Center to MMS. To ensure an accurate accounting of the transfer balances at the agreement level, MMS performed a detail reconciliation of over three thousand customer agreements. Our work in reconciling records from the Internet shutdown and the IFF transfer earned MMS an unqualified opinion on the FY 2003 financial reports.

During FY 2004, MMS is scheduled to be one of the first three DOI Bureaus to implement the Financial and Business Management System (FBMS). The FBMS is designed to improve information sharing and business practices by integrating systems that perform budgetary and financial management functions. MMS has formed an Integrated Project Team and an

Implementation Work Group to ensure the smooth transition from our current financial and administrative business systems to FBMS.

- **EXPANDING ELECTRONIC GOVERNMENT**

Since MMS's formation, we have sought to find easier, faster, more reliable means of exchanging information with our external and internal constituents. We use our Internet web page as one of our primary interfaces with all interested parties and the Internet itself as a means of moving information back and forth between MMS and our constituents. With an ever increasing understanding of the capabilities provided through the internet to inform and interact with our customers, we recognize that electronic government expansion is an integral part of transforming the way we do business.

MMS is developing an integrated approach to E-Government comprised of information technology, an enterprise architecture, and program specific applications that support our primary lines of business and will assist us in becoming more efficient and effective through the application of appropriate cost-efficient technology. With the Department issuing its E-Government Strategic Plan, MMS is developing two bureau-level plans that compliment the Department's plan, a Bureau IT Strategic Plan and a Bureau E-Government Strategic Plan. MMS is also engaged in the development of a Bureau enterprise architecture to support our primary business lines.

MMS will develop an E-Government Strategic Plan over the next year that will provide a structural foundation for our continued progress towards the computerization and technological modernization of our core and secondary business processes. This progress is predicated on three core concepts, that as an organization we are more efficient and effective, that it provides better information to our stakeholders, and that it makes it easier for our customers to interact with us. All current and future E-Gov efforts will focus on one or more of the core concepts. MMS will be holding a series of internal and external constituent meetings in the development of this framework and will include the best business practices currently available.

As a strategic move to better position its IT management, in the fall of 2002, MMS awarded a contract to study its Information Technology organization. The study was initiated by MMS and the objective was to assess our IT organization structure and develop an IT corporate strategic plan that would create a highly competitive IT organization for the next 20 years. Based on recommendations from the study, the first step taken toward implementing an evolutionary process of improvement was the formal designation of the Chief Information Officer (CIO). The CIO is responsible for all IT policy and direction. The new IT organization will manage the IT portfolio, security, architecture, and enterprise operations.

IT Investment Portfolio Management Processes
MMS IT investment portfolio management process is fully explained in the information technology capital planning Interim Policy Document (IPD), Capital Planning Investment Control (CPIC) process dated April 24, 2003. It describes the responsibilities of the project sponsor/system owner, project manager, Integrated Project Team (IPT), Information Resources Management Division (IRMD), Budget Division, and the Information Technology Investment Review Board (ITIRB). Budgeting, management, and acquisition are prevalent throughout the entire process, as is ensuring the integration of critical IT security requirements.

The project sponsor/system owner develops the business cases for the IT investments, assesses project progress against budget and performance measures and ensures that the planning, budget, staffing, acquisition, development, implementation and maintenance of the IT investment is in compliance with other pertinent guidelines. The project manager is accountable for the planning, budgeting, acquisition, and life cycle management of the project to achieve projected cost, schedule, and performance. The IPT provides collaboration between different disciplines (budget, financial, procurement, capital planning, and program specialists) to ensure that projects are on track. The IRMD coordinates with program offices concerning the development of new initiatives that are potential candidates for inclusion in the MMS IT investment portfolio. They also prepare and submit the Exhibit 53, which is the Bureau IT investment inventory or portfolio. The Bureau's Associate Directors are required to ensure that their investments are effectively managed throughout each project's life cycle and that the projects support MMS policies. The ITIRB has the overall authority to determine the viability of all IT investments and which ones are accepted and moved forward to the Department level.

The CPIC process mandates five project phases: preselect, select, control, evaluation, and steady state. The OCS Connect project is currently in the control stage, which ensures that cost, schedule, and performance goals are monitored by several decision-making bodies within MMS, including the project manager, Integrated Project Team, Information Resource Management Division, and the Information Technology Investment Review Board. The RIK and Reengineering projects are currently in the steady state stage, which assesses their continued effectiveness in supporting mission requirements, evaluates the cost of continued maintenance, assesses potential life cycle improvements, and considers replacement or retirement options.

Summary of Major Investments
MRM Program Reengineering – supports both Resource Use and Serving Communities –This investment improves our efficiency and effectiveness by ensuring compliance with applicable laws, lease terms, and regulations for all leases in the shortest possible time and ensuring that revenue recipients are provided with access to their money in a timely manner. This project is funded in the MRM Compliance and Asset Management (CAM) sub-activity budget line.

RIK Implementation – supports the DOI Strategic Goal, Resource Use –Implementation of the RIK capability through this investment will enable MMS to accelerate cash flows derived from RIK sales, significantly reduce the business and compliance cycle time, and effectively manage the timely fill of the Nation's Strategic Petroleum Reserve. This project is funded in the MRM CAM sub-activity budget line.

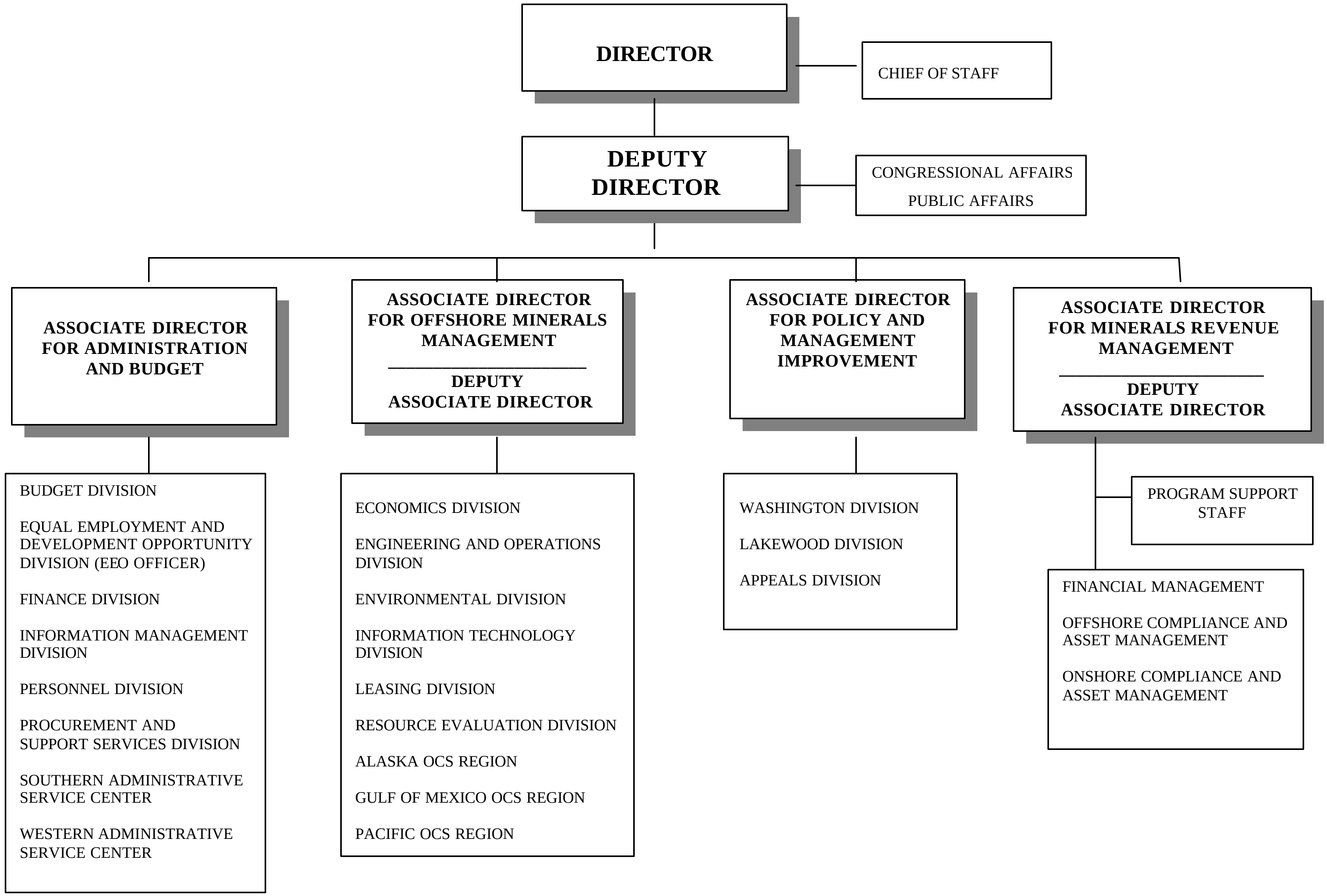
OCS Connect (formerly E-Government Transformation) – supports the DOI Strategic Goals, Resource Use for Energy and Non-Energy –Implementation of OCS Connect will provide improvements such as electronic notification more inline with private sector operations, enhanced access to information by delivering information and allowing input via the Internet, and reducing the average waiting time for the private sector. This project is funded in the OMM Information Management Program (IMP) sub-activity budget line.

MMS IT Portfolio Budget Request

The MRM funding request represents a $500K increase that is needed to modify the system to segregate Indian records with an indefinite retention, from Federal records with a limited and defined retention, to comply with NARA requirements for transmitting archived data.

The OCS Connect funding request shows an increase of $4.3 million. This increase includes $4 million that will allow MMS to complete the business process re-engineering earlier than the revised project schedule and allows re-engineering of additional business processes that would otherwise be dropped It will also provide $0.3 million for the Technical Information Management System (TIMS). Extended support for a number of TIMS modules is needed due to delayed funding and subsequent implementation for the OCS Connect project, which will replace TIMS. This funding is primarily for contract support in maintaining and supporting modules that will not be transitioned to OCS Connect as originally scheduled. TIMS maintenance is required to correct errors and effect small changes to meet program needs. If TIMS maintenance remains unfunded then system failures become more likely and integration with OCS Connect will be impossible.

MINERALS MANAGEMENT SERVICE



Summary of Requirements

Royalty and Offshore Minerals Management

dollars in thousands

	FY 2003 Actual		FY 2004 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2005 Request		Inc(+) Dec(-) From 2004	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
OCS Lands														
Leasing/Environmental														
Appropriation	220	17,186	219	16,701	0	426	0	0	0	0	219	17,127	0	426
Offsetting Collections	0	20,335	0	20,335	0	0	0	0	0	0	0	20,335	0	0
Total	220	37,521	219	37,036	0	426	0	0	0	0	219	37,462	0	426
Resource Evaluation														
Appropriation	168	17,928	167	18,178	0	413	0	563	0	0	167	19,154	0	976
Offsetting Collections	54	8,903	54	8,903	0	0	0	0	0	0	54	8,903	0	0
Total	222	26,831	221	27,081	0	413	0	563	0	0	221	28,057	0	976
Regulatory														
Appropriation	311	36,330	311	35,022	0	479	0	494	0	0	311	35,995	0	973
Offsetting Collections	25	14,443	25	14,443	0	0	0	0	0	0	25	14,443	0	0
Total	336	50,773	336	49,465	0	479	0	494	0	0	336	50,438	0	973
Information Mgmt														
Appropriation	4	8,942	6	11,657	0	120	9	4,321	0	-3,500	15	12,598	9	941
Offsetting Collections	59	14,049	59	14,049	0	0	0	0	0	3,500	59	17,549	0	3,500
Total	63	22,991	65	25,706	0	120	9	4,321	0	0	74	30,147	9	4,441
Total OCS Lands														
Appropriation	703	80,386	703	81,558	0	1,438	9	5,378	0	-3,500	712	84,874	9	3,316
Offsetting Collections	138	57,730	138	57,730	0	0	0	0	0	3,500	138	61,230	0	3,500
Total	841	138,116	841	139,288	0	1,438	9	5,378	0	0	850	146,104	9	6,816

Summary of Requirements

Royalty and Offshore Minerals Management

dollars in thousands

	FY 2003 Actual		FY 2004 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2005 Request		Inc(+) Dec(-) From 2004	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
MRM														
Compliance & Asset Mgmt														
Appropriation	377	35,258	377	32,622	0	646	2	1,246	0	0	379	34,514	2	1,892
Offsetting Collections	0	13,235	0	13,235	0	0	0	0	0	0	0	13,235	0	0
Total	377	48,493	377	45,857	0	646	2	1,246	0	0	379	47,749	2	1,892
Revenue & Operations														
Appropriation	181	21,157	181	20,610	0	282	0	0	0	0	181	20,892	0	282
Offsetting Collections	0	13,250	0	13,250	0	0	0	0	0	0	0	13,250	0	0
Total	181	34,407	181	33,860	0	282	0	0	0	0	181	34,142	0	282
Indian/Allottee Refunds														
Appropriation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Offsetting Collections	0	15	0	15	0	0	0	0	0	0	0	15	0	0
Total	0	15	0	15	0	0	0	0	0	0	0	15	0	0
Total MRM														
Appropriation	558	56,415	558	53,232	0	928	2	1,246	0	0	560	55,406	2	2,174
Offsetting Collections	0	26,500	0	26,500	0	0	0	0	0	0	0	26,500	0	0
Total	558	82,915	558	79,732	0	928	2	1,246	0	0	560	81,906	2	2,174

Summary of Requirements

Royalty and Offshore Minerals Management

dollars in thousands

	FY 2003 Actual		FY 2004 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2005 Request		Inc(+) Dec(-) From 2004	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
Administration														
Executive Direction														
Appropriation	19	1,023	20	1,049	0	23	0	0	0	0	20	1,072	0	23
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Total	19	2,023	20	2,049	0	23	0	0	0	0	20	2,072	0	23
Policy & Mgmt Improv														
Appropriation	33	3,075	33	3,111	0	65	0	0	0	0	33	3,176	0	65
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Total	33	4,075	33	4,111	0	65	0	0	0	0	33	4,176	0	65
Admin Operations														
Appropriation	227	14,985	227	15,084	0	362	0	180	0	0	227	15,626	0	542
Offsetting Collections	0	1,555	0	1,555	0	0	0	0	0	0	0	1,555	0	0
Total	227	16,540	227	16,639	0	362	0	180	0	0	227	17,181	0	542
Gen Support Services														
Appropriation	0	8,362	0	9,245	0	927	0	1,249	0	0	0	11,421	0	2,176
Offsetting Collections	0	12,445	0	12,445	0	0	0	0	0	0	0	12,445	0	0
Total	0	20,807	0	21,690	0	927	0	1,249	0	0	0	23,866	0	2,176
Total Administration														
Appropriation	280	27,445	280	28,489	0	1,377	0	1,429	0	0	280	31,295	0	2,806
Offsetting Collections	0	16,000	0	16,000	0	0	0	0	0	0	0	16,000	0	0
Total	280	43,445	280	44,489	0	1,377	0	1,429	0	0	280	47,295	0	2,806
Total ROMM														
Appropriation	1,541	164,246	1,541	163,279	0	3,743	11	8,053	0	-3,500	1,552	171,575	11	8,296
Offsetting Collections	138	100,230	138	100,230	0	0	0	0	0	3,500	138	103,730	0	3,500
Total	1,679	264,476	1,679	263,509	0	3,743	11	8,053	0	0	1,690	275,305	11	11,796

Summary of Requirements

Oil Spill Research

dollars in thousands

	FY 2003 Actual		FY 2004 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2005 Request		Inc(+) Dec(-) From 2004	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
OSR														
OSR														
Appropriation	22	6,065	22	7,017	0	0	0	88	0	0	22	7,105	0	88
Offsetting Collections	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	22	6,065	22	7,017	0	0	0	88	0	0	22	7,105	0	88

TOTAL MMS

dollars in thousands

	FY 2003 Actual		FY 2004 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2005 Request		Inc(+) Dec(-) From 2004	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
ROMM Appropriation	1,541	164,246	1,541	163,279	0	3,743	11	8,053	0	-3,500	1,552	171,575	11	8,296
OSR Appropriation	22	6,065	22	7,017	0	0	0	88	0	0	22	7,105	0	88
Total Appropriated	1,563	170,311	1,563	170,296	0	3,743	11	8,141	0	-3,500	1,574	178,680	11	8,384
Offsetting Collections	138	100,230	138	100,230	0	0	0	0	0	3,500	138	103,730	0	3,500
Total MMS	1,701	270,541	1,701	270,526	0	3,743	11	8,141	0	0	1,712	282,410	11	11,884

Minerals Management Service
Uncontrollable and Related Costs
dollars in thousands

Additional Operational Costs from 2004 and 2005 of January Pay Raises

	2004 Budget Change	2004 Revised Change	2005 Change
2004 Pay Raise - Budgeted	**+$1,176**	**NA**	**+$708**
Amount of Pay Raise Absorbed	**[+$1,382]**		**[+$832]**

	2005 Change
2005 Pay Raise - Budgeted	**+$1,915**

These adjustments are for an additional amount needed in 2005 to fund the remaining 3 month portion of the estimated cost of the, on average, 4.1 percent pay increases effective in January 2004 and the additional costs of funding for an estimated 1.5 percent January 2005 pay increase for GS-series employees and the associated pay rate changes made in other pay series.

Other Uncontrollable Cost Changes

	2004 Budget	2004 Revised	2005 Change
Workers Compensation Payments	**-$239**	**$636**	**-$26**

This adjustment is for actual charges from 2003 in the cost of compensating injured employees and dependents of employees who suffer accidental death while on duty.

	2004 Budget	2004 Revised	2005 Change
Unemployment Compensation Payments	**$11**	**$20**	**+$13**

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

	2004 Budget	2004 Revised	2005 Change
Rental Payments to GSA	**$558**	**$14,216**	**+$801**

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

	2004 Budget	2004 Revised	2005 Change
Department Working Capital Fund	**-$32**	**$2,515**	**+$139**

The change reflects expected changes as well as a 3 percent increase in the charges for Departmental and other services through the working capital fund. Attached are tables which breakout the Departmental Working Capital Fund charges.

	2004 Budget	2004 Revised	2005 Change
Employer Share of Federal Health Benefit Plans	**$434**	**$6,890**	**+$776**

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

	2004 Budget	2004 Revised	2005 Change
One Less Pay Day	**$283**	**$617**	**[-$583]**

This adjustment reflects the fact that there is one less pay day in FY 2005 than in FY 2004.

Total Uncontrollable & Related Costs - Budgeted	**$+3,743**

MMS has been below our authorized FTE level over the past several fiscal years. Due to the lower FTE number, the increase in uncontrollable costs has increased at a reduced rate.

Attachment

FY 2005 WORKING CAPITAL FUND
CENTRALIZED BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Other OS Activities			
Alaska Field Office	9.4	10.0	10.3
Invasive Species Program	21.9	26.5	29.7
Invasive Species DOI Coordinator	4.2	4.4	4.9
Alaska Resources Library and Information Services		57.0	68.9
Lewis and Clark			
Indian Waters Rights			
Secretary's Immediate Office	35.4	97.9	113.9
Document Management Unit	26.7	13.9	34.1
Office of the Executive Secretariat	26.7	13.9	34.1
Departmental Newsletter	11.4	12.4	12.9
Departmental News and Information	20.7	21.5	40.1
Hispanic Media Outreach	9.4	8.6	20.3
Office of Communications	41.5	42.4	73.2
California Desert			
Fish, Wildlife, and Parks			
Occupational Safety and Health	29.0	30.0	26.1
Safety & Health Training Initiative	8.3	8.3	7.1
Office of Managing Risk and Public Safety	37.3	38.3	33.1
Financial Management Training	19.0	20.1	26.9
Activity Based Costing/Management			26.2
Travel Management Center			18.6
Office of Financial Management	19.0	20.1	71.7
Quarters Program			
Office of Acquisition and Property Management			
SBA Certifications			0.5
Small & Disadvantaged Business Utilization			0.5
Firefighter and Law Enforcement Retirement Team	0.0	0.0	0.0
Employee Assistance Programs			
Employee Counseling	4.0	10.8	3.6
NAPA - Human Resources			0.7
OPM Federal Employment Services			3.9
Office of Personnel	4.0	10.8	8.2
Recruitment/Outreach	3.3	3.3	3.3
Special Emphasis Program	4.9	4.9	4.9
Diversity Council		3.1	
Office for Equal Opportunity	8.1	11.3	8.2
Ethics Training Department-wide		1.3	1.3
Ethics Liaison Staff		1.3	1.3
Planning and Performance Management	48.1	49.9	73.9

FY 2005 WORKING CAPITAL FUND
CENTRALIZED BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Volunteer.gov			
Office of Planning and Performance Mgmt.	48.1	49.9	73.9
Center for Competitive Sourcing Excellence	7.9	7.0	9.8
Office of Competitive Sourcing	7.9	7.0	9.8
Classified Information Facility	2.8	4.5	7.4
Emergency Preparedness	2.6	13.0	15.6
Watch Office	8.8	19.9	23.1
Office of Law Enforcement and Security	14.3	37.4	46.1
IT Security, Architecture, and Capital Planning			
IT Security	257.5	228.7	233.3
Information Technology Architecture	11.8	62.2	89.7
Information Technology Architecture	57.6		
Capital Planning	65.5	59.8	61.8
Data Resource Management Program	22.1	19.5	19.6
Office of the Chief Information Officer	414.5	370.2	404.4
DOI-wide Telecommunications Initiatives			
Frequency Management Support			
Web & Internal/External Comm	14.6	13.4	13.7
VDOINET	14.7	10.4	616.4
ARTNET	55.5	58.6	59.5
Interior Site Information System (ISIS)		2.1	
NTIA Spectrum Manangement			
Office of the Chief Information Officer	84.9	84.5	689.6
Department-wide Records Management			
DOI FOIA Tracking & Reporting System	1.3	2.6	2.6
GPEA	28.1	25.0	25.1
Records Management			
Nat Archive and Records Administration			
Office of the Chief Information Officer	29.4	27.5	27.7
WCF Management			4.3
Coop ECO Study Units (CESU)			
CFO Financial Statement Audit			775.5
Contingency Reserve	7.9	7.9	7.9
Department-wide Activities	7.9	7.9	787.8
Subtotal Other OS Activities	779.0	820.4	2,383.6

FY 2005 WORKING CAPITAL FUND
CENTRALIZED BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Attachment

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
National Business Center			
Human Capital Directorate	10.3	0.0	
Executive Forums	4.9	5.7	7.6
Departmental Library	76.0	78.0	63.5
ALLEX Database	3.8	3.9	3.9
Departmental museum	27.6	30.3	38.1
Learning and Performance Center Management	6.2	7.3	10.1
Washington Learning Center	46.0	52.4	36.6
Denver Learning Center	52.6	61.5	83.7
Albuquerque Learning Center	0.5	0.5	0.6
Anchorage Learning Center	17.5	19.7	16.1
Leadership Institute (SESCDP & TLP)	30.9	34.8	28.3
On-Line Learning	8.7	9.8	12.2
Human Resources			
NBC- Human Capital/DOIU	284.9	304.0	300.5
Special/Technical Services			
Computer Applications and Network Services	11.6	13.7	9.8
Telecommunications services	69.0	72.0	88.2
Voice/data switching	27.4	30.3	31.1
New PBX Telephone System	85.1	89.9	75.4
Virtual Private Exchange			
ADP Operations			
Hardware/Sofware Customer Service Center	0.5	0.5	
Records management/FOIA	26.1	27.2	38.7
NBC - CIO	219.7	233.6	243.2
Director's Office- E-payroll			
FPPS - Application Mgmt Office	24.4	25.4	17.2
FPPS - Payroll Operations	118.3	132.6	151.6
FPPS - Payroll Systems	202.8	186.6	193.7
Program Support			
NBC - E-payroll	345.5	344.5	362.5
NBC Administrative Operations Directorate			
Acquisition services - DC/Denver			
Property Accountability Services		11.8	3.5
Vehicle fleet	1.7	1.8	3.6
Interior Complex Management & Svcs	35.8	37.5	38.2
Family Support Room	1.6	1.7	1.8
Facilities Reston			
Facilities Denver			
Mail Room Denver			
Space Management Services	4.8	9.8	6.3
Safety and Environmental Services			

Attachment

FY 2005 WORKING CAPITAL FUND
CENTRALIZED BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Shipping and Receiving			16.0
Moving Services			10.0
OWCP Coordination	1.8	1.8	0.2
Drug testing - intra department	0.4	0.5	0.5
Security	89.9	88.6	216.9
Personnel security			
Accessible Technology Center	6.1	6.7	8.5
Health Unit	9.9	11.2	12.2
Federal Executive Board	5.6	5.9	6.6
Photographic Services	2.0	5.2	5.7
NBC - Administrative Operations	159.8	182.4	329.9
CFO Directorate			
FFS - Financial Systems		178.6	19.6
Financial Management Services (Dept. Offices)			
Accounting Operations (P&S)			
IDEAS	86.4	81.1	87.0
Quarters Program			
NBC Budget			
Budget & Financial Analysis Group			
NBC - CFO	86.4	259.7	106.6
NBC-Office Aircraft Services		336.5	260.1
Aviation Management		336.5	260.1
Appraiser Services			
Appraiser Services			
NBC Direction			
NBC Initiatives			
Blue Pages Contract	4.0	4.2	18.3
NBC Direction			
Mail Policy	3.7	5.2	6.5
Mail and messenger services	26.7	27.6	28.5
NBC - Management	34.4	37.0	53.4
Subtotal National Business	1,130.8	1,697.7	1,656.2
TOTAL	1,909.8	2,518.1	4,039.8

Attachment

FY 2005 WORKING CAPITAL FUND
DIRECT BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
National Business Center			
Data Base Administration			
Information Technology			
Acquisition Services - Contract Payments			
Administrative Operations			
Financial Management Services (Dept. Offices)			
IDEAS			
Financial Systems	186.0		
Financial Managment Services			
NBC - CFO	186.0		
Subtotal National Business	186.0		
TOTAL	186.0		

Attachment

FY 2005 WORKING CAPITAL FUND
FEE FOR SERVICE BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Other OS Activities			
Invasive Species Council			
Lewis and Clark - Map Sales			
Take Pride in America	34.3		
Document Management Unit			
Departmental Direction	34.3		
Environmental Policy and Compliance Initiatives			
Managing Risk and Public Safety Initiatives			
Financial Management Activities	23.8	24.1	
Acquisition and Property Initiatives		2.3	
SBA Certifications	0.4	0.4	
Office of Wildland Fire Activities			
Recreation.gov			
Volunteer.gov			
Center for Competitive Sourcing Excellence			
Wireless Priority Service/Emergency Pagers	2.4		
Office of Law Enforcement and Security	26.6	26.7	
Human Resources Initiatives	11.2	11.2	11.2
Equal Opportunity Initiatives	3.9		
Recruitment Outreach	1.3		
Diversity Intern Program			
Spring Intern Program		16.4	16.4
Summer Intern Program	78.5	2.7	2.7
Human Resources	94.9	30.4	30.4
Information Resources Initiatives			
ARTNET			
Oracle License & Support Contract		85.2	
Radio Conference			
TVA Radio Conference			
Microsoft Enterprise Licenses			
Anti-Virus Software Licenses		20.9	20.9
IT Security - Reimb BLM			
Popkin System Architect	21.2		
Reimb from NBC - FOIA			
Office of Information Resources Management	21.2	106.1	20.9
DOI / AID Program			
Office of International Affairs			
Cobell Litigation Expenses	211.5	139.9	147.9
TrustNet Project Implementation			
Central Services	211.5		
Central Services	423.0	139.9	147.9

Attachment

FY 2005 WORKING CAPITAL FUND
FEE FOR SERVICE BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Subtotal Other OS Activities	600.0	303.1	199.1

Attachment

FY 2005 WORKING CAPITAL FUND
FEE FOR SERVICE BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
National Business Center			
Museum Services - NPS			
Human Resources Svcs Non-NBC			
Career, Balance, & Diversity Forums	0.0	0.0	6.6
Denver Forums		0.0	5.6
Art, Collaboration & Conservation Projects		0.0	
Financial Management Intern Program	18.0	19.5	
Govt-wide Acquisition Intern Program III			
Govt-wide Acquisition Intern Program IV		63.3	71.5
Financial Management Intern Program II		15.0	23.9
Washington Learning Center			
Indirect Cost Negotiations			
Albuquerque Learning Center			
Anchorage Learning Center			
Denver Learning Center			
Career Management Center			
HR Certificate Training			1.5
Online Learning	2.2	4.0	7.0
NBC - Human Capital/DOIU	20.2	101.7	116.1
ADP Operations			
Computer Utilization	0.0		
Direct Telecom Services	10.0	18.2	19.2
Voice Mail	5.1	4.1	0.1
NBC - CIO	15.0	22.3	19.3
FPPS - E-Payroll			
FPPS Client Training			
FPPS - Application Mgmt Office			
FPPS - Payroll Operations			
FPPS - Payroll Systems			
NBC- E-payroll			
NPS Youth Programs			
Acquisitions - SEC			
Acquisitions - EPA			
DC Credit Card Passthrough			
Acquisitions - OST			
Indirect Cost Negotiations Non-DOI			
Direct Personal Property Services			
Parker Building Support			
Building Alteration Services	15.8	15.6	35.8
Moving services	6.7	4.5	1.4
Reimbursable Space Management Services	0.0		
Space Rental 7110			

Attachment

FY 2005 WORKING CAPITAL FUND
FEE FOR SERVICE BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Flags & Seals	0.3	0.8	0.5
Graphics & Printing Services	87.2	88.6	122.9
Other agency drug testing program			
Drug testing program - BIA			
Modernization Security Reimbursement			
Special Events Security Reimbursement			
Transportation Services (Household Goods)			
Passport Servic;es			8.1
Accessible Technology Center			0.5
Acq Svc Div - Southwest Branch		5.9	6.4
NBC - Administrative Operations	109.9	115.4	175.6
FFS - Financial Systems (P&S)			
Financial Systems (FFS) - D			
Quarters Program			
NBC - CFO			
Aircraft Services	9,900.0	9,375.7	10,929.6
Aviation Management	9,900.0	9,375.7	10,929.6
Appraiser Services - FB			
Appraiser Services			
Postage	12.4	14.6	10.8
Overseas Mail Services			0.2
Express Delivery		0.8	1.1
Blue Pages	39.0	13.7	
FWS Mail contract			
NPS Mail contract			
BLM Mail contract			
NBC - Management	51.4	29.0	12.1
Subtotal National Business	10,096.5	9,644.2	11,252.6
TOTAL	10,696.5	9,947.4	11,451.7

Attachment

FY 2005 DEPARTMENTAL MANAGEMENT - REIMBURSABLE
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Other OS Activities			
Lewis and Clark Bicentenniel			
California Desert			
Natl Telecom & Info Admin			
NatlArchives & Records Admin			
SBA Certifications		0.6	
NIH Contract Performance Systems	1.7		
Central Contractor Registration System	3.4		
FedBizOpps	0.7		
Consolidated Fed Funds Report (FAADS)			
NAPA-Human Resources Consortium	0.7	0.7	
NAPA-Performance Consortium	2.3		
OPM Federal Employ Svcs	-0.0	4.4	
Cooperative ECO Studies Unit (CESU)			
Consolidated Reimbursable Agreement	8.7	5.7	
Subtotal Other OS Activities	8.7	5.7	
TOTAL	8.7	5.7	

Summary of Program Change from FY 2004 to FY 2005

	$(000)	FTE
FY 2004 ENACTED TOTAL	**270,526**	**1,701**
INCREASES		
Uncontrollable and Related Cost Changes	**3,743**	**0**
E-Gov/OCS Connect	**4,321**	**9**
The *E-Gov/OCS Connect* programmatic increase will support the implementation of a web-based online environment for MMS operations and for our constituents, which will increase the public's access to MMS government business processes and accelerate the movement of MMS staff from reengineered processes to other program areas to meet existing unfilled resources needs.		
GOMR Interpretive Technologies	**1,943**	**0**
The *Gulf of Mexico Region Interpretive Technologies* program will improve resource assessment on the OCS and our decision making regarding resource use and conservation on the OCS.		
Indian Trust Initiative	**941**	**2**
The proposed *Indian Trust Initiative* will expand our work with Tribal cooperative audit partners, broaden our outreach to Tribes and allottees, and better safeguard Indian records.		
State 205 Delegated Audit Program	**305**	**0**
The *State 205 Delegated Audit Program* initiative will cover current and ongoing costs of cooperative agreements and provide cost-of-living increases for the 10 states currently in the program.		
Methane Hydrates Initiative	**200**	**0**
The *Methane Hydrates* proposal includes a budgetary increase of $0.2 million dollars and a redirection of $0.4 million from within the Environmental Studies Program to fund the cost of a Methane Hydrates research study. The total funding ($0.6 million) will provide MMS with the resources needed to address the economic and environmental issues associated with this potential source of energy.		
Competitive Sourcing	**180**	**0**
Programmatic increase to support A-76 competitive sourcing studies.		
Increased Offsetting Collections	**3,500**	**0**
MMS plans to reduce our ROMM Appropriations by $3.5 million through a $3.5 million increase in Offsetting Collections - or rental receipt and cost recovery fees.		
Restore Oil Spill Research FY 2004 ATB	**88**	**0**
Restore FY 2004 Reduction for GOM Helicopter Funding	**494**	**0**
ESN Funding	**602**	**0**
Audit	**776**	**0**
Quicksilver	**256**	**0**
The above three programmatic funding changes are based on Departmental directives.		

DECREASES		
Decrease in ROMM Appropriations	**-3,500**	**0**
MMS plans to reduce our ROMM Appropriations by $3.5 million through a $3.5 million increase in Offsetting Collections, which are made up of rental receipt and cost recovery fees.		
IT Security Certification and Accreditation	**-318**	**0**
Adjustment of departmental allocation based on timetables developed by POB and MMS security managers.		
Working Capital Fund Technical Change	**-43**	**0**
Transfer to WCF/Central to fund activities that were previously funded directly by the MMS.		
E-Rulemaking	**-10**	**0**
This decrease in General Support Services base funding is due to a Departmental directive.		
Fleet Reduction	**-14**	**0**
MMS reduction in fleet resources based on Departmental directive.		
Reduce FY 2004 Funding for MMTC and CMRET	**-1,580**	**0**
TOTAL CHANGES	**11,884**	**11**
TOTAL FY 2005 BUDGET REQUEST	**282,410**	**1,712**

Minerals Management Service
Appropriations Language Sheet

Royalty and Offshore Minerals Management (ROMM)

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, $171,575,000 of which $55,406,000 shall be available for royalty management activities; and an amount not to exceed $103,730,000, to be credited to this appropriation and to remain available until expended, from additions to receipts resulting from increases to rates in effect on August 5, 1993, from rate increases to fee collections for Outer Continental Shelf administrative activities performed by the Minerals Management Service over and above the rates in effect on September 30, 1993, and from additional fees for Outer Continental Shelf administrative activities established after September 30, 1993: *Provided*, That to the extent $103,730,000 in additions to receipts are not realized from the sources of receipts stated above, the amount needed to reach $103,730,000 shall be credited to this appropriation from receipts resulting from rental rates for Outer Continental Shelf leases in effect before August 5, 1993: *Provided further*, That $3,000,000 for computer acquisitions shall remain available until September 30, 2006: *Provided further*, That funds appropriated under this Act shall be available for the payment of interest in accordance with 30 U.S.C. 1721(b) and (d): *Provided further*, That not to exceed $3,000 shall be available for reasonable expenses related to promoting volunteer beach and marine cleanup activities: *Provided further*, That notwithstanding any other provision of law, $15,000 under this heading shall be available for refunds of overpayments in connection with certain Indian leases in which the Director of the Minerals Management Service (MMS) concurred with the claimed refund due, to pay amounts owed to Indian allottees or tribes, or to correct prior unrecoverable erroneous payments: *Provided further*, That MMS may under the royalty-in-kind pilot program, or under its authority to transfer oil to the Strategic Petroleum Reserve, use a portion of the revenues from royalty-in-kind sales, without regard to fiscal year limitation, to pay for transportation to wholesale market centers or upstream pooling points, and to process or otherwise dispose of royalty production taken in kind, and to recover MMS transportation costs, salaries, and other administrative costs directly related to filling the Strategic Petroleum Reserve: *Provided further*, That MMS shall analyze and document the expected return in advance of any royalty-in-kind sales to assure to the maximum extent practicable that royalty income under the pilot program is equal to or greater than royalty income recognized under a comparable royalty-in-value program.

Oil Spill Research (OSR)

For necessary expenses to carry out title I, section 1016, title IV, sections 4202 and 4303, title VII, and title VIII, section 8201 of the Oil Pollution Act of 1990, $7,105,000 which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended.

Permanent Appropriations

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

MMS disburses all monthly mineral-leasing payments to States, which include late disbursement interest. The Bureau of Land Management (BLM) disburses those payments that are made semi-annually, or annually, including the payment made to Alaska for its share of National Petroleum Reserve-Alaska (NPRA) receipts. Included under this heading are the following permanent appropriations:

Permanent Appropriations
dollars in thousands

Appropriation	States Share	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate	Change from 2004 Estimate
Mineral Leasing Associated Payments *(MLAP)*	50%	948,080	1,098,906	1,123,715	+24,809
National Forest Fund Payments to States *(Forest Fund)*	25%	4,520	3,440	3,442	+2
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	75%	1,742	1,472	1,505	+33
Total		954,342	1,103,818	1,128,662	+24,844

Note: For an explanation of how mineral leasing collections are distributed among the various States and Federal accounts, please refer to the following section titled Receipts. This section also includes details on the assumptions used to develop the gross mineral receipt estimates such as production and price forecasts. The amounts shown above do not include late interest payments made by MMS to the states, or estimated receipts for sales in the National Petroleum Reserve – Alaska or the Arctic National Wildlife Refuge (ANWR).

DISTRIBUTION STATUTES

For MLAP, the Mineral Leasing Act (MLA), 30 U.S.C. 181 et seq., provides that all States be paid 50 percent of the revenues resulting from the leasing of mineral resources on Federal public domain lands within their borders (except Alaska which receives 90 percent).

Forest Fund payments to a State (16 U.S.C. 499) provides that as of May 23, 1908, 25 percent of all money received during any fiscal year from each national forest shall be paid at the end of that year to the State in which that forest is situated. Law requires a State's payment be based on national forest acreage and where a national forest is situated in several States, an individual State's payment is proportionate to its area within that particular national forest. This payment is to be used for the benefit of the public schools and public roads of that county or counties in which the national forest resides.

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

CALCULATION OF STATES' PAYMENTS

The total amount for each of the three appropriations is calculated as follows:

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

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

Mineral Revenue Payments To States*

(in thousands of dollars)

States:	**FY 2003 Actual Payments**	**FY 2004 Estimated Payments**	**FY 2005 Estimated Payments**
Alabama	529	611	625
Alaska	9,011	10,422	10,657
Arizona	154	179	183
Arkansas	4,106	4,749	4,855
California	21,917	25,350	25,920
Colorado	53,883	62,322	63,725
Florida	369	426	436
Idaho	1,802	2,084	2,131
Illinois	109	126	129
Indiana	6	7	8
Kansas	1,822	2,108	2,155
Kentucky	50	58	59
Louisiana	1,181	1,366	1,397
Michigan	430	497	508
Minnesota	18	21	21
Mississippi	725	838	857
Missouri	329	380	389
Montana	25,533	29,532	30,197
Nebraska	13	15	15
Nevada	5,054	5,845	5,977
New Mexico	298,112	344,804	352,565
N. Dakota	4,939	5,713	5,842
Ohio	280	324	332
Oklahoma	2,367	2,737	2,799
Oregon	35	40	41
Pennsylvania	20	24	24
S. Dakota	393	454	465
Texas	2,140	2,475	2,531
Utah	50,581	58,504	59,821
Washington	1,082	1,251	1,280
West Virginia	410	474	484
Wyoming	466,943	540,079	552,235
	954,342	**1,103,818**	**1,128,662**

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

RECEIPTS

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

MMS is responsible for the disposition of all OCS collections and about 97 percent of all Federal onshore collections into receipt accounts. The remaining 3 percent of collections are from acquired national grasslands administered by the Department of Agriculture (USDA). These collections are shared between the General Fund and counties (versus States). Since MMS does not have the authority to disburse these funds to counties, the funds are transferred to the USDA for disposition. All monies collected on Indian lands by MMS are deposited in the Treasury accounts controlled by the Office of Special Trustee (OST). MMS notifies OST of these deposits on a daily basis. Based on information received from BIA, the OST instructs Treasury to make payments to Tribal and Indian allottee accounts.

Legislation also determines how receipts are classified for budgetary purposes. Mineral leasing receipts are classified as offsetting receipts because they arise from business-type transactions with the public versus governmental receipts that arise from the Government's power to tax or fine. Offsetting receipts are further defined as: (1) Proprietary receipts which offset Department of the Interior outlays (most onshore mineral leasing receipts fall into this category), or (2) Undistributed proprietary receipts which offset total Federal budget authority and outlays as a bottom-line adjustment (currently, all OCS receipts fall into this category).

This receipts section includes:

- An explanation as to the distribution of onshore and offshore royalty revenues into receipt accounts.
- A discussion of the changes between the FY 2004 and FY 2005 receipt estimates.
- A summary description of current onshore and offshore royalty and rental rates, bonus criteria, and other lease information.

For FY 2004 - FY 2010, tables of the:

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

DISTRIBUTION OF RECEIPT ACCOUNTS

The distribution of mineral leasing receipts is broken down into two categories: Onshore and Offshore (OCS Lands). In both cases, prior to distribution, the receipts, or payments received are deposited into a holding or suspense account until the accounting system has identified the payments by the:

- Source type (oil and gas, coal, other mineral royalties, etc);
- Land category (acquired Forest, public domain, OCS, etc.); and
- Location (State or county to determine applicable share).

This identification process will take approximately one month if payors have filed their reports correctly.

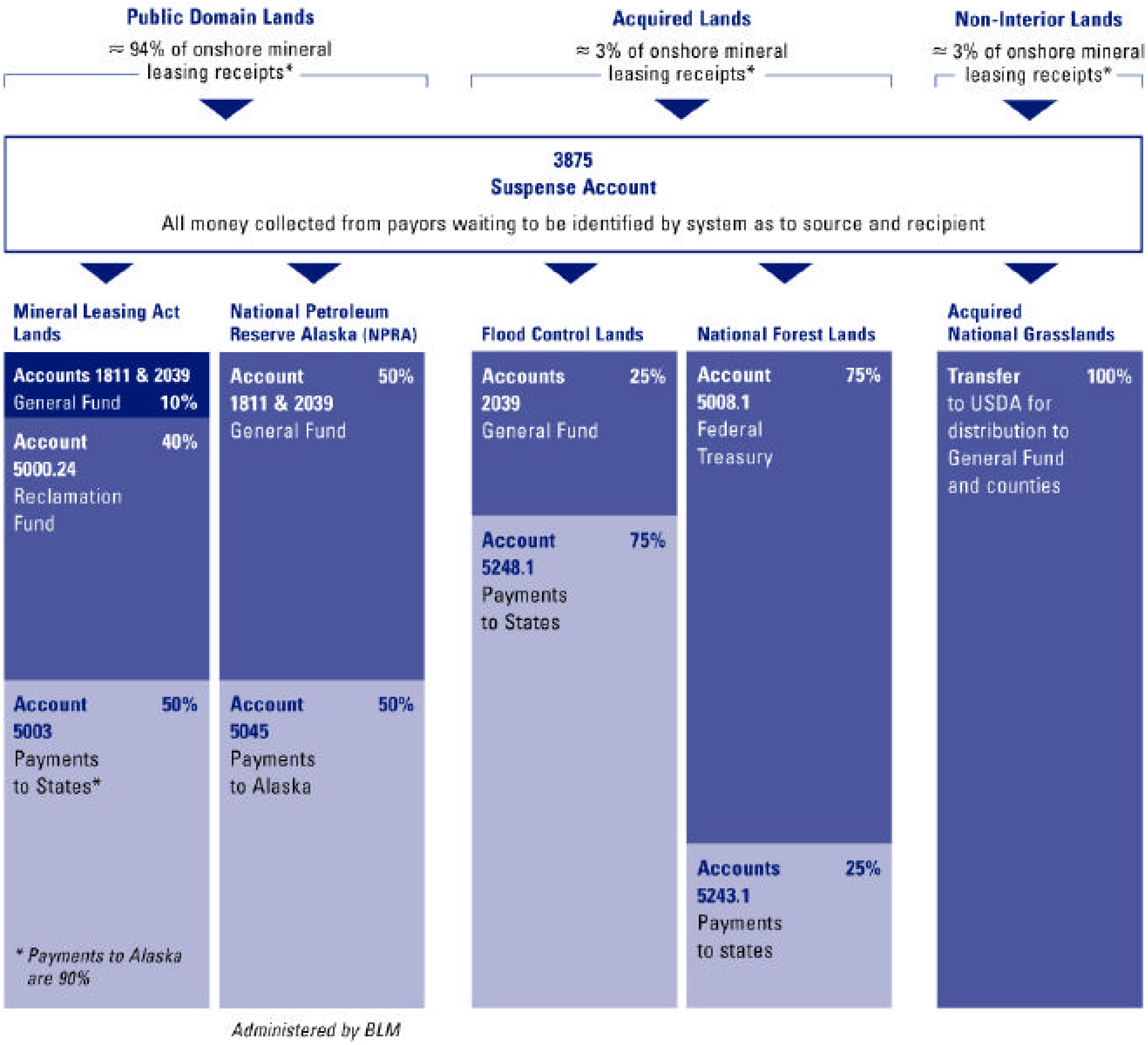
Onshore Accounts. After the payments are identified by the above three criteria, they are redirected immediately into all accounts based on land category and source type. Detailed State information is necessary to disburse States' shares to States' treasuries. The acquired lands collections shared with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

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

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

The Energy Policy Act of 1992 requires the Secretary of the Interior to disburse monthly to States all mineral leasing payments authorized by Section 6 of the Mineral Leasing Act for Acquired Lands. Therefore, MMS also reports the following accounts: Accounts 5008.1 and 5243.1 are the Federal and States' shares (75 and 25 percent respectively) of receipts collected from National Forest lands, and Account 5248.1 is the States' 75 percent share of receipts collected from Lands Acquired for Flood Control, Navigation and Allied Purposes. The Government's 25 percent share of these collections will be deposited to the General Fund (either Account 1811 or 2039).

Distribution of Onshore Mineral Leasing Receipts



*The percentages of onshore mineral leasing receipts are approximations based on historical annual collections.

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

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

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

At the end of each fiscal year the Land and Water Conservation Fund (LWCF), administered by the National Park Service, receives a transfer from OCS Receipts accumulated throughout the year in the General Fund (accounts 5005.7 and 5005.8). OCS receipts are the main funding source of the mandated $900 million required for the LWCF. Additional funding sources for the LWCF are motor boat fuel taxes ($1 million), and receipts from the sale of surplus government property and materials. The LWCF must be funded from OCS receipts, and accounting procedures require payments be made from rents and bonuses, and then any further needed payments should be made from royalties. The LWCF is subject to appropriation and the amount of States' grants is determined by various criteria which are not related to the amount of OCS receipts collected offshore their coastlines.

Distribution of Offshore (OCS Lands) Mineral Leasing Receipts

6705
Escrow Account

20% of bonus bid and first year rent on tracts bid upon is received from bidders on OCS leasing sale date. Escrow account deposit is held until bid is accepted or rejected.

Rejected Bid
Deposit returned to bidder with interest

Accepted Bid - non 8(g) tract *
Deposited to 3875 Suspense Account until appropriate distribution is determined

Accepted Bid - 8(g) tract *
27% deposited to 6707 and paid to relevant state. 73% deposited to 3875 Suspense Account until appropriate distribution is determined

6707
Escrow Account

States 8(g)
Coastal states' 27% share of rents, bonuses and royalties

3875
Suspense Account

All money collected from payors waiting to be identified by system as to source and recipient

14-1493
General Fund

Interest received from OCS escrow accounts, Interior

14-1820
General Fund

Rents and bonuses from OCS lands, Interior

14-2020
General Fund

Royalties from OCS lands, Interior

14-5140
Historic Preservation Fund

Rents and bonuses on OCS lands
Up to $150 million transferred from 14-1820 to 14-5140 annually

14-5140.3
Historic Preservation Fund

Royalties from OCS lands
If there are insufficient rents and bonuses to cover the $150 million transfer, balance is transferred from royalties (14-2020) to 14-5140.3

14-5005.7
Land and Water Conservation Fund

Rents and bonuses on OCS lands
Up to $900 million transferred from 14-1820 to 14-5005.7annually

14-5005.8
Land and Water Conservation Fund

Royalties from OCS lands
If there are insufficient rents and bonuses to cover the $900 million transfer, balance is transferred from royalties (14-2020) to 14-5005.8

** 90 days after the bid is accepted, the remaining 80% is due.*

CHANGES

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

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

As required by Public Law 105-83, as amended, one-half of the principal and one-half of the interest from the Alaska Escrow account were deposited into the Environmental Improvement and Restoration Fund. The law requires that the corpus of the Fund be invested. Twenty percent of the interest earned by the Fund is permanently appropriated to the Department of Commerce. Commerce received $2.8M from this account in FY 2003. Congress can appropriate the remaining 80 percent by annual appropriations, for specific purposes as outlined in the law. MMS administers the fund. The remaining one-half principal and interest was deposited into the General Funds of the United States Treasury.

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

By Source - President's Policy

	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate
Onshore Mineral Leasing							
Rents and Bonuses							
Oil and Gas	105,532	111,450	117,367	118,354	104,546	99,614	94,683
Coal	228,600	263,900	270,100	202,300	204,100	147,000	129,200
Geothermal	1,050	1,000	1,000	1,200	1,000	1,500	1,200
Oil Shale	15	15	15	15	15	15	15
All Other	21	21	21	21	21	21	21
Subtotal, Rents and Bonuses	335,218	376,386	388,503	321,890	309,682	248,150	225,119
Royalties							
Oil and Gas	1,443,670	1,446,249	1,469,593	1,507,880	1,557,106	1,579,761	1,599,267
Coal	404,474	411,972	419,669	433,465	439,663	444,861	419,869
Geothermal	8,109	8,070	8,029	7,989	7,909	7,830	7,752
All Other	22,062	20,530	19,060	18,296	17,522	16,980	16,536
Subtotal, Royalties	1,878,316	1,886,820	1,916,351	1,967,630	2,022,199	2,049,433	2,043,424
Subtotal, Onshore	2,213,534	2,263,205	2,304,854	2,289,520	2,331,881	2,297,583	2,268,542
Royalty-in-Kind fees	3	3	3	3	3	3	3
Sale of publications	149	149	149	149	149	149	149
Subtotal, Other	152	152	152	152	152	152	152
Total, Onshore and Other	2,213,686	2,263,357	2,305,006	2,289,672	2,332,033	2,297,735	2,268,694
Outer Continental Shelf							
OCS Rents and Bonuses	620,000	527,000	564,000	557,000	588,000	545,000	497,000
OCS Royalties	3,967,225	4,228,494	5,043,273	5,055,637	5,128,350	5,148,090	5,140,956
Total, OCS	4,587,225	4,755,494	5,607,273	5,612,637	5,716,350	5,693,090	5,637,956
TOTAL, Mineral Receipts	6,800,911	7,018,851	7,912,279	7,902,309	8,048,383	7,990,825	7,906,650

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

By Account - President's Policy

		FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate
	Onshore Mineral Leasing							
1811.00	Rents and Bonuses	33,154	37,251	38,442	31,777	30,604	24,468	22,182
2039.00	MLR Royalties	187,117	187,994	190,963	196,084	201,502	204,212	203,598
5000.24	Reclamation Fund	879,125	898,972	915,551	909,335	926,375	912,687	901,110
5003.02	Payments to States	1,098,906	1,123,715	1,144,439	1,136,669	1,157,969	1,140,859	1,126,388
5243.10	Forest Fund, states share	3,440	3,442	3,477	3,518	3,473	3,458	3,439
5008.10	Forest Fund, Govt share	10,319	10,327	10,430	10,555	10,420	10,374	10,316
5248.10	Flood Control (States shares)	1,472	1,505	1,552	1,581	1,537	1,524	1,509
Subtotal, Onshore		2,213,534	2,263,205	2,304,854	2,289,520	2,331,881	2,297,583	2,268,542
2419.1	Royalty-in-kind fees	3	3	3	3	3	3	3
2259.0	Sale of publications	149	149	149	149	149	149	149
Subtotal, Other		152	152	152	152	152	152	152
Total, Onshore and Other		2,213,686	2,263,357	2,305,006	2,289,672	2,332,033	2,297,735	2,268,694
	Outer Continental Shelf							
1820.00	OCS Rents and Bonuses	-	-	-	-	-	-	-
2020.00	OCS Royalties	3,540,224	3,708,494	4,710,273	4,715,637	4,819,350	4,796,090	4,740,956
5005.70	LWCF (OCS R & B)	470,000	377,000	564,000	557,000	588,000	545,000	497,000
5005.80	LWCF (OCS royalties)	427,000	520,000	333,000	340,000	309,000	352,000	400,000
5140.00	Hist. Pres. (OCS R & B)	150,000	150,000		-	-	-	-
Total, OCS		4,587,225	4,755,494	5,607,273	5,612,637	5,716,350	5,693,090	5,637,956
Total, Mineral Receipts		6,800,911	7,018,851	7,912,279	7,902,309	8,048,383	7,990,825	7,906,650

Onshore Mineral Receipts
FY 2004 Estimates vs. FY 2005 Estimates
(Dollars in thousands)

DOI Proprietary Onshore Mineral Receipts

	Fiscal Year			
	2004	**2005**	**Change**	**Explanation**
Rents & Bonuses				
Oil & Gas	105,532	111,450	+5,918	Slight increase in both rents and bonuses
Coal	228,600	263,900	+35,300	Expect higher bonus payments and increased production
Geothermal	1,050	1,000	-50	Expected to remain relatively level
Oil Shale	15	15	0	Expected to remain level
All Other	21	21	0	Expected to remain level
Subtotal	**335,218**	**376,386**	**+41,168**	
Royalties				
Oil & Gas	1,443,670	1,446,249	+2,579	Oil production and price projected to decline slightly from FY 04 to FY 05; gas production and price are expected to maintain moderate increase
Coal	404,474	411,972	+7,498	Coal production projected to maintain a steady increase while the price declines slightly in FY 2005
Geothermal	8,109	8,070	-39	Expected to remain level
All Other	22,062	20,530	-1,532	Expected to remain relatively level
Subtotal	**1,878,316**	**1,886,820**	**+8,504**	
Total	**2,213,534**	**2,263,205**	**+49,672**	

Onshore Rents and Bonuses

dollars in thousands

	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate
Oil and Gas							
Rents							
Lower 48	52,000	53,000	54,000	55,000	56,000	56,000	56,000
Bonuses							
Lower 48	55,000	60,000	65,000	65,000	50,000	45,000	40,000
Subtotal, Oil and Gas	107,000	113,000	119,000	120,000	106,000	101,000	96,000
Coal							
Rents	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Bonuses	227,200	262,500	268,700	200,900	202,700	145,600	127,800
Subtotal, Coal	228,600	263,900	270,100	202,300	204,100	147,000	129,200
Geothermal							
Rents and Bonuses	1,050	1,000	1,000	1,200	1,000	1,500	1,200
Oil Shale							
Rents and Bonuses	15	15	15	15	15	15	15
Other Minerals							
Rents and Bonuses	21	21	21	21	21	21	21
TOTAL, Rents & Bonuses	336,686	377,936	390,136	323,536	311,136	249,536	226,436

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

FY 2004 President's Budget
Federal Onshore Royalty Estimates
FY 2004-2010
(dollars in millions)

Federal Onshore	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Oil							
Volume (MMBbl)	99.092	96.551	94.265	93.502	92.74	91.47	89.691
OMB Price/Bbl	$ 27.93	$ 25.21	$ 25.41	$ 25.81	$ 26.27	$ 26.76	$ 27.27
Royalty Rate	0.095	0.095	0.095	0.095	0.095	0.095	0.095
Subtotal Oil ($MM)	**$ 262.93**	**$ 231.23**	**$ 227.55**	**$ 229.26**	**$ 231.45**	**$ 232.54**	**$ 232.36**
Gas							
Volume (bcf)	2.241	2.255	2.274	2.303	2.345	2.345	2.337
OMB Price/Mcf	$ 3.97	$ 4.36	$ 4.42	$ 4.49	$ 4.58	$ 4.67	$ 4.76
Royalty Rate	0.1157	0.1157	0.1157	0.1157	0.1157	0.1157	0.1157
Gas Royalty	$ 1,029.4	$ 1,137.5	$ 1,162.9	$ 1,196.4	$ 1,242.6	$ 1,267.0	$ 1,287.1
CO_2							
Volume (Mcf)	124.7	121	117.4	113.9	110.4	107.1	103.9
Estimated Price	$ 0.58	$ 0.58	$ 0.58	$ 0.58	$ 0.58	$ 0.58	$ 0.58
Royalty Rate	0.06	0.06	0.06	0.06	0.06	0.06	0.06
CO_2 Royalty	$ 4.34	$ 4.21	$ 4.09	$ 3.96	$ 3.84	$ 3.73	$ 3.62
Gas Plant Products	$ 67.9	$ 68.4	$ 70.5	$ 71.4	$ 72.7	$ 72.7	$ 72.5
Subtotal Gas ($MM)	**$1,101.63**	**$1,210.13**	**$1,237.51**	**$1,271.78**	**$1,319.19**	**$1,343.50**	**$1,363.16**
Total, Oil & Gas ($MM)	**$1,364.6**	**$1,441.4**	**$1,465.1**	**$1,501.0**	**$1,550.6**	**$1,576.0**	**$1,595.5**

FY 2004 President's Budget
Federal Onshore Royalty Estimates
FY 2004-2010
(dollars in millions)

Federal Onshore	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Coal							
Volume (mil. Tons)	460	474.2	486.3	497	504.7	512.8	497.7
Estimated Price	$ 8.05	$ 7.96	$ 7.91	$ 7.99	$ 7.98	$ 7.95	$ 7.73
Royalty Rate	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Total Coal ($MM)	**$ 404.6**	**$ 412.1**	**$ 419.8**	**$ 433.6**	**$ 439.8**	**$ 445.0**	**$ 420.0**
Geothermal ($MM)	**$ 8.2**	**$ 8.1**	**$ 8.1**	**$ 8.0**	**$ 8.0**	**$ 7.9**	**$ 7.8**
All Other ($MM)	**$ 22.1**	**$ 20.5**	**$ 19.1**	**$ 18.3**	**$ 17.5**	**$ 17.0**	**$ 16.5**
TOTAL ($MM)	**$ 1,799.4**	**$ 1,882.2**	**$ 1,912.1**	**$ 1,961.0**	**$ 2,015.9**	**$ 2,045.9**	**$ 2,039.8**
Negotiated Settlements ($MM)	$ 50	$ 10	$ 10	$ 9	$ 9	$ 8	$ 8
Other Revenues ($MM)	$ 38	$ 4	$ 4	$ 7	$ 7	$ 6	$ 6

Outer Continental Shelf Mineral Receipts
FY 2004 Estimates vs. FY 2005 Estimates
(Dollars in thousands)

DOI Undistributed Proprietary OCS Mineral Receipts

	Fiscal Year 2004	Fiscal Year 2005	Change	Explanation
Rents and Bonuses				
Rents	98,000	92,000	-6,000	Slight decrease in net receipts due to a transfer of $2.5M to the MMS offsetting collections
Bonuses	522,000	435,000	-87,000	Difference represents addition of the EGOM and Beaufort Sea sales in FY 2004
Subtotal	**620,000**	**527,000**	**-93,000**	
Royalties				
Oil	1,148,919	1,233,088	+84,169	Slight decrease in price offset by increase in production
Gas	2,783,306	2,975,406	+192,100	Slight decrease in production offset by an increase in price
Negotiated Settlements	35,000	20,000	-15,000	
Subtotal	**3,967,225**	**4,228,494**	**261,269**	
Total	**4,587,225**	**4,755,494**	**168,269**	

OCS Rents and Bonuses[1]
January 2004
Bonus Revenue Estimates
(dollars in millions)

Sale Number	Sale Date (FY)	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
186	9-24-03	Beaufort Sea	9	100%	5	1	8
187	8-20-03	Western Gulf of Mexico	149	100%	5	1	148
188	9-2004	Norton Basin	1	100%	0	0	1
189	12-10-03	Eastern Gulf of Mexico	50	100%	0	0	50
190	3-2004	Central Gulf of Mexico	320	100%	1	0	320
191	5-2004	Cook Inlet	3	100%	0	0	3
192	8-2004	Western Gulf of Mexico	150	0%	1	0	0
		Bonus Total					522
		Rents					98
		Total - Estimate FY 2004 Receipts					620
192	late 04	Western Gulf of Mexico	150	100%	1	0	150
193	early 05	Chukchi	5	100%	0	0	5
194	mid 05	Central Gulf of Mexico	270	100%	1	0	270
195	mid 05	Beaufort	10	100%	0	0	10
196	late 05	Western Gulf of Mexico	170	0%	1	0	0
		Bonus Total					435
		Rents					92
		Total - Estimate FY 2005 Receipts					527
196	late 05	Western Gulf of Mexico	170	100%	1	0	170
197	early 06	Eastern Gulf of Mexico	10	100%	0	0	10
198	mid 06	Central Gulf of Mexico	300	100%	1	0	300
199	mid 06	Cook Inlet	3	100%	0	0	3
200	late 06	Western Gulf of Mexico	170	0%	1	0	0
		Bonus Total					483
		Rents					81
		Total - Estimate FY 2006 Receipts					564
200	late 06	Western Gulf of Mexico	170	100%	1	0	170
201	mid 07	Central Gulf of Mexico	310	100%	1	0	310
202	mid 07	Beaufort Sea	10	100%	0	0	10
203	late 07	Chukchi	5	0%	0	0	0
204	late 07	Western Gulf of Mexico	190	0%	0	0	0
		Bonus Total					490
		Rents					67
		Total - Estimate FY 2007 Receipts					557
203	late 07	Chukchi	5	100%	0	0	5
204	late 07	Western Gulf of Mexico	190	100%	1	0	190
	mid 08	Central Gulf of Mexico	340	100%	1	0	340
	late 08	Western Gulf of Mexico	220	0%	0	0	0
		Bonus Total					535
		Rents					53
		Total - Estimate FY 2008 Receipts					588

OCS Rents and Bonuses[1]
January 2004
Bonus Revenue Estimates
(dollars in millions)

Sale Number	Sale Date (FY)	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
	late 08	Western Gulf of Mexico	220	100%	0	0	220
	mid 09	Central Gulf of Mexico	270	100%	0	0	270
	late 09	Western Gulf of Mexico	170	0%	0	0	0
		Bonus Total					490
		Rents					55
		Total - Estimate FY 2009 Receipts					545
	late 09	Western Gulf of Mexico	170	100%	0	0	170
	mid 10	Central Gulf of Mexico	270	100%	0	0	270
	late 10	Western Gulf of Mexico	170	0%	0	0	0
		Bonus Total					440
		Rents					57
		Total - Estimate FY 2010 Receipts					497
	late 10	Western Gulf of Mexico	170	100%	0	0	170
	mid 11	Central Gulf of Mexico	270	100%	0	0	270
	late 11	Western Gulf of Mexico	170	0%	0	0	0
		Bonus Total					440
		Rents					56
		Total - Estimate FY 2011 Receipts					496
	late 11	Western Gulf of Mexico	170	100%	0	0	170
	mid 12	Central Gulf of Mexico	270	100%	0	0	270
	late 12	Western Gulf of Mexico	170	0%	0	0	0
		Bonus Total					440
		Rents					51
		Total - Estimate FY 2012 Receipts					491
	late 12	Western Gulf of Mexico	170	100%	0	0	170
	mid 13	Central Gulf of Mexico	270	100%	0	0	270
	late 13	Western Gulf of Mexico	170	0%	0	0	0
		Bonus Total					440
		Rents					48
		Total - Estimate FY 2013 Receipts					488
	late 13	Western Gulf of Mexico	170	100%	0	0	170
	mid 14	Central Gulf of Mexico	270	100%	0	0	270
	late 14	Western Gulf of Mexico	170	0%	0	0	0
		Bonus Total					440
		Rents					42
		Total - Estimate FY 2014 Receipts					482

[1] Rent estimates are subject to change based on cost recoveries recouped on a per year basis.

FY 2005 President's Budget
Federal Offshore Royalty Estimates
FY 2004-2010
(dollars in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Oil (Million Barrels)							
Alaska[1]	4	4	3	3	2	1	1
POCS	30	25	20	17	15	13	11
Total GOM	634	687	721	734	742	750	755
Royalty Free Production[2]	73	98	120	139	157	174	189
GOM Royalty Production	561	589	601	595	585	577	566
Total Royalty Production	595	618	624	614	602	591	579
Royalty Rate	0.1392	0.1381	0.1375	0.1368	0.1361	0.1354	0.1347
OMB Price per Barrel	27.16	24.44	24.64	25.04	25.50	26.00	26.50
Royalty Receipts ($MM)	2,248.9	2,087.1	2,113.8	2,104.7	2,089.0	2,080.6	2,065.2
Gas (Billion Cubic Feet)							
POCS	31	28	24	21	18	16	14
Total GOM	4,905	5,051	5,166	5,312	5,458	5,513	5,458
Royalty Free Production[2]	305	532	675	813	872	928	905
GOM Royalty Production	4,600	4,519	4,491	4,498	4,585	4,585	4,553
Total Royalty Production	4,631	4,547	4,515	4,519	4,603	4,601	4,567
Royalty Rate	0.1514	0.1501	0.1488	0.1475	0.1462	0.1449	0.1436
OMB Price per Mcf	3.97	4.36	4.42	4.49	4.58	4.67	4.76
Royalty Receipts ($MM)	2,783.3	2,975.4	2,969.5	2,992.9	3,082.3	3,113.4	3,121.7
Adjustments							
Strategic Petroleum Reserve	-1040	-794					
State's Share (8G)	-60	-60	-60	-60	-61	-61	-61
Negotiated Settlement	35	20	20	18	18	15	15
Total Adjustments	**-1065**	**-834**	**-40**	**-42**	**-43**	**-46**	**-46**
Total	**3,967.2**	**4,228.5**	**5,043.3**	**5,055.6**	**5,128.3**	**5,148.1**	**5,141.0**

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

[2]Royalty Free Production is GOM production which is not subject to royalties because of the deep water royalty relief and deep gas royalty relief.

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

State	Royalties & Rents	Sale Bonuses	Total
FY 2003 Actual Payments			
Alabama	13,201,901		13,201,901
Alaska	3,732,698	-	3,732,698
California	3,626,470	-	3,626,470
Florida	803	-	803
Louisiana	26,790,650	2,773,593	29,564,243
Mississippi	430,579		430,579
Texas	13,785,815	1,146,955	14,932,770
Total	**61,568,915**	**3,920,548**	**65,489,463**
FY 2004 Estimated Payments			
Alabama	12,345,118	-	12,345,118
Alaska	3,490,451	-	3,490,451
California	3,391,117	-	3,391,117
Florida	751	-	751
Louisiana	25,051,977	1,200,000	26,251,977
Mississippi	402,635	-	402,635
Texas	12,891,136	800,000	13,691,136
Total	**57,573,185**	**2,000,000**	**59,573,185**
FY 2005 Estimated Payments			
Alabama	12,414,614	-	12,414,614
Alaska	3,510,100	-	3,510,100
California	3,410,207	-	3,410,207
Florida	755	-	755
Louisiana	25,193,005	1,200,000	26,393,005
Mississippi	404,902	-	404,902
Texas	12,963,706	475,000	13,438,706
Total	**57,897,289**	**1,675,000**	**59,572,289**

Summary Description - Federal Onshore Leases

Royalty Rate	Rents	Lease Duration	Bonus
Oil & Gas			
Competitive: Leases issued under MLA (Prior to 12/23/87), oil royalty assessed on production amount, ranges from 12.5% to 25%; gas royalty assessed on production amount, ranges from 12.5% to 16.67%. Leases issued 12/23/87 forward: flat rate of 12.5% in amount or value of production. See 43 CFR 3103.3	Prior to 9/2/60: $0.25 - $1/acre; 9/2/60 – 12/22/87 $2/acre; after 12/22/87 $1.50/acre first 5 years, $2/acre subsequent years if extended.	10 years; continued if capable of producing in commercial quantities.	Bonuses are based on fair market value.
Non-Competitive: Based on 12.5% in amount or value of production. See 43 CFR 3103.3	Prior to 9/2/60: $0.25 - $1 per acre; 9/2/60 – 2/1/77: $0.50 per acre; 2/1/77 – 12/22/87: $1 - $2/acre, $2/acre subsequent years. See 43 CFR 3103.2	10 years: continued if capable of commercial production.	However, all leases must be offered competitively FIRST; if acquired as non-competitive, 1st year rental and a filing fee of $75 is required.
NPRA: Set by regulation at 16.67%.	$3 per acre	10 years or less.	
Coal			
Post-FCLAA, on leases issued or readjusted after 8/4/76: 8% of production value for underground mines and 12.5% of production value for surface mines.	Rental rate is $3/acre not credited against royalty payments.	20 years; continued if producing in commercial quantities, subject to readjustment every 10 years.	Bid amount must be equal to or greater than fair market value. In any year, at least ½ the lease sales must be offered with a deferred bonus system.
Pre-FCLAA, through 8/4/76**:** $.15/ton underground and $.175/ton surface mines	Rental rate is $1/acre credited against royalty payments for the lease year.	Indefinite period with 20-year readjustments.	Bonus bids were not necessarily deferred prior to 8/76.
Geothermal			
By Section 1, MLA, it may not be less than 10% nor more than 15% of the value of geothermal fluids and not more than 5% of the value of any by-product, including demineralized water unless otherwise provided in Section 1 MLA.	$1/acre; $2/acre in known geothermal resource areas.	10 years; continued if capable of producing commercial quantities.	If within a known geothermal resource area, lease is by sealed bid
Other Minerals			
Royalty is paid based on lease terms and varies by commodity.	Based on statute and regulation, rent varies by commodity and ranges $0.25 - $5/acre per year	Varies by commodity; 1 to 20 years, subject to readjustment every 10 - 20 years	Competitive leases are awarded to highest qualified bid exceeding fair market value.

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

Summary Description - Federal OCS Leases

Royalty Rate (Non-DWRRA)	Rents	Lease Duration	Bonus
Is set for each sale area in its Final Notice of Sale. It may be: 1. 12.5% for water depths > 400m or 16.67% for water depths < 400m. The 12.5% is also used for Alaska & certain parts of California 2. Sliding-scale (12.5-65%) based on average of all production 3. Step-scale which increases by steps as production increases 4. Flat rate of 33.33% 5. Net profit share which require royalty (in the form of share of profits) only after certain expenditures are recovered 6. Royalty suspension (variable according to water depth for deep water royalty relief and depth of well for shallow water deep gas royalty relief) followed by royalty rates under 1. above	Pre-1993: $3/acre/year with a few $10/acre/yr for drainage sales. Post-1993: $5/acre with $2/acre transferred to MMS in water depths less than 200 meters. $7.50/acre with $4.50/acre transferred to MMS for water depths greater than 200 meters.	In the Gulf of Mexico: 5 years in water depths less than 400 meters. 8 years in water between 400 and 800 meters (drilling must commence in first 5 years). 10 years in water deeper than 800 meters. 10 years in Alaska. Production holds leases indefinitely beyond the primary lease term.	Based on fair market value. Minimum bids in the Gulf of Mexico are: $25 per acre in water depths less than 800 meters. $37.50 per acre in water depths greater than 800 meters. Minimum bids have traditionally been $25 per acre in Alaska, however, for Beaufort Sea Sale 186 in September, 2003, minimum bids were $37.50 per hectare ($15.18 per acre) for Zone A and $25 per hectare ($10.12 per acre) for Zone B. Zone A is close to existing infrastructure while Zone B is far from it.

<u>Royalty Rates Under the Deepwater Royalty Relief Act (DWRRA)</u>

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

- Lease must lie west of 87 degrees, 30 minutes West longitude.
- Lease must not be located within a field producing prior to 11/28/95.
- All leases share the field royalty suspension on a first-come-first-served basis. (In FY 2003 a legal challenge to this MMS interpretation to the DWRRA led to a District Court ruling that each lease would receive its own royalty suspension of the same volume that is currently shared by all leases on a field. This ruling is currently under appeal.)
- Leases in fields located in between 200 and 400 meters of water do not pay royalties until 17.5 million barrels of oil equivalent (MMBOE) have been produced from the field.
- Leases in fields located in between 400 and 800 meters of water do not pay royalties until 52.5MMBOE have been produced from the field.
- Leases in fields located in deeper than 800 meters of water do not pay royalties until 87.5MMBOE have been produced from the field.
- Royalty suspensions do not apply to production for periods when actual product prices exceed prescribed thresholds.

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

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

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

<u>Royalty Rates Under the Shallow Water Deep Gas Rule</u>

Deep gas relief applies to Gulf of Mexico Federal OCS leases lying west of 87 degrees, 30 minutes West longitude and situated in water shallower than 200 meters. MMS began offering deep gas royalty relief in 2001 for new shallow water leases in Central and Western Gulf GOM Lease Sales. These leases receive a suspension of royalties for the first 20 billion cubic feet (Bcf) of deep gas production in reservoirs 15,000 feet or greater subsea. The new rule also allows lessees a window of time in which to exercise an option to replace their existing deep gas royalty terms on leases acquired from sales held after January 1, 2001, with the new terms offered in this rule. The rule offers deep gas royalty relief under the following terms to such leases that were in existence prior to 2001:

- On leases that have not had any deep gas production from wells drilled prior to the proposed rule, a royalty suspension on the first 15 billion cubic feet of gas produced from a well drilled and completed between 15,000 feet to less than 18,000 feet below sea level or on the first 25 BCF from a well drilled and completed 18,000 feet or deeper below sea level.
- Sidetrack wells receive a smaller royalty suspension volume based on their drilling length.
- Authorized drilling could commence immediately.
- Deep production must start before five years after the effective date of the final rule.
- A lease can earn royalty suspension volumes up to 25 BCF.
- A royalty suspension supplement of 5 BCF, applied to future production of gas from any drilling depth on that lease, is allowed for an unsuccessful well drilled to a target reservoir 18,000 feet or deeper.
- Two royalty suspension supplements are available per lease prior to production from a deep well.
- In total a lease can earn royalty relief in the amount of 35 BCF, 10 BCF for unsuccessful wells and 25 BCF for successful wells drilled subsequent to the dry holes.
- A well drilled after the date of the proposed rule and before five years after the effective date of the final rule may qualify for either incentive.
- Any royalty suspension volume or supplement earned must be applied only to production occurring after the effective date of the final rule, even if this production actually started between the proposed and final rule.
- A lease can earn a royalty suspension volume up to 10 BCF even if it previously produced from a well drilled to 15,000-18,000 feet subsea (or if the first qualified well was drilled to and produces from 15,000-18,000 feet subsea), so long as a subsequent qualified well is drilled to and produces from deeper than 18,000 feet subsea.

Minimum royalties

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

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

Treasury Account ID: 14-1917		FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Obligations by program activity				
	Direct program			
0001	OCS Lands	81	82	99
0002	Minerals Revenue Management	56	53	58
0003	General Administration	27	28	31
0192	Total direct program	164	163	188
	Reimbursable program			
0901	OCS Revenue Receipts	106	100	104
0902	Franchise Activities	597	0	0
0999	Total reimbursable program	703	100	104
1000	Total new obligations	867	263	292
Budgetary resources available for obligation				
2140	Unobligated balance, start of year	7	10	22
2200	New budget authority (gross)	863	263	276
2210	Resources available from recoveries	6	10	10
2390	Total budgetary resources available for obligation	876	283	308
2395	Total new obligations	-867	-263	-292
2440	Unobligated balance carried forward, end of year	10	22	16
New budget authority (gross), detail				
	Discretionary			
4000	Appropriation	165	165	172
4035	Appropriation permanently reduced	-1	-2	
4300	Appropriation (total discretionary)	164	163	172
	Spending authority from offsetting collections Discretionary			
6800	Offsetting collections (cash)	124	100	104
6810	Change in uncollected customer payments	-3		
6890	Total spending authority from offsetting collections	121	100	104
	Spending authority from offsetting collections Mandatory			
6900	Offsetting collections (cash)	877	0	0
6910	Change in uncollected customer payments	-299	0	0
6990	Offsetting collections (cash)	578	0	0
7000	Total new budget authority (gross)	863	263	276

Change in obligated balances				
7240	Obligated balance, start of year	78	80	82
7310	Total new obligations	867	263	292
7320	Total outlays (gross)	-1,161	-252	-273
7345	Recoveries of prior year obligations	-6	-10	-10
7400	Change in uncollected customer payments	302		
7440	Obligated balance, end of year	80	82	91
Outlays (gross), detail				
8690	Outlays from new discretionary authority	166	199	208
8693	Outlays from discretionary balances	417	53	65
8697	Outlays from new mandatory authority	578	0	0
8700	Total outlays (gross)	1,161	252	273
Offsets against gross budget authority and outlays				
8800	Offsetting collections from Federal sources	883	0	0
8840	Offsetting collections from Non-Federal sources	118	100	104
8890	Total, offsetting collections	1,001	100	104
	Against gross budget authority only			
8895	Change in uncollected customer payments	-302		
Net budget authority and outlays				
8900	Budget authority	164	163	172
9000	Outlays	160	152	169

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

Treasury Account ID: 14-1917		FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
	Direct obligations			
1111	Personnel Compensation: Full-time permanent	109	109	112
1121	Civilian personnel benefits	25	25	26
1210	**Travel and transportation of persons**	3	3	3
1231	Rental Payments to GSA	10	10	11
1233	Communications, utilities, and misc. charges	2	2	2
1252	Other services	7	6	*24
1260	Supplies and materials	2	2	2
1310	Equipment	6	6	8
1990	Subtotal, direct obligations	164	163	188
	Reimbursable obligations			
2252	Other services	**703	100	*104
1990	Subtotal, reimbursable obligations	703	100	104
9999	Total new obligations	867	263	292

* MMS had increased carryover balances due to a number of factors including delays in receiving appropriations and an increased number of appeals on pending contracts from the previous year.

** Beginning with FY 2003, the Interior Franchise Fund (IFF) account was transferred to MMS. Beginning in FY 2004, all years will show only OCS Revenue Receipts under the reimbursable obligations heading.

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

Treasury Account ID: 14-1917

	FY 2004 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2005 Budget Request	
Object Class	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**
Total appropriation and offsetting collections	*1596	$263	0	2	11	27	*1607	$292
Total personnel compensation		$109		2		1		$112
Civilian personnel benefits		$25		0		1		$26
Travel and transportation of persons		$3		0		0		$3
Rents		$10		0		1		$11
Communications, utilities, and misc. charges		$2		0		0		$2
Other services		$106		0		22		$128
Supplies and materials		$2		0		0		$2
Equipment		$6		0		2		$8

*FTE ROMM increase of 11 (from 1596 to 1607)
FY04 FTE total is 1711. Consisting of 1596 ROMM, 22 OSR, and 93 IFF (10 FTE increase over FY03 IFF 83 FTE).
FY05 FTE total is 1742. Consisting of 1607 ROMM, 22 OSR, and 113 IFF (20 FTE increase over FY04 IFF 93 FTE).
Beginning with FY 2003, the IFF account was transferred to MMS; 83 reimbursable FTE were broken out and reported in account 14-4529, Interior Franchise Fund.

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

	Treasury Account ID: 14-8370	**FY 2003 Actual**	**FY 2004 Estimate**	**FY 2005 Estimate**
Obligations by program activity				
0001	Direct program activity	6	7	7
1000	Total new obligations	6	7	7
Budgetary resources available for obligation				
2200	New budget authority (gross)	6	7	7
2395	Total new obligations	-6	-7	-7
New budget authority (gross), detail				
	Discretionary			
4026	Appropriation (trust fund)	6	7	7
Change in obligated balances				
7240	Obligated balance, start of year	6	6	7
7310	Total new obligations	6	7	7
7320	Total outlays (gross)	-6	-7	-7
7440	Obligated balance, end of year	6	7	7
Outlays (gross), detail				
8690	Outlays from new discretionary authority	6	4	4
8693	Outlays from discretionary balances	0	3	3
8700	Total outlays (gross)	6	7	7
Net budget authority and outlays				
8900	Budget authority	6	7	7
9000	Outlays	6	7	7

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

Treasury Account ID: 14-8370		FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
	Direct obligations			
1111	Full-time permanent	2	2	2
1252	Other services	4	5	5
9999	Total new obligations	6	7	7

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

Treasury Account ID: 14-8370

	FY 2004 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2005 Budget Request	
Object Class	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**
Total Appropriation	22	$7	0	0	0	0	22	$7
Total personnel compensation		$2		0		0		$2
Other services		$5		0		$0		$5

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

	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
Executive Level 5			
ES-6	0	0	0
ES-5	6	6	6
ES-4	2	2	2
ES-3	1	1	1
ES-2	0	1	1
ES-1	2	3	4
Subtotal	**11**	**13**	**14**
GS-15	56	55	55
GS-14	181	183	187
GS-13	435	438	452
GS-12	455	461	470
GS-11	123	126	129
GS-10	10	10	10
GS-9	59	58	58
GS-8	74	73	73
GS-7	104	102	102
GS-6	73	72	72
GS-5	67	67	67
GS-4	32	32	32
GS-3	10	10	10
GS-2	4	4	4
GS-1	7	7	7
Subtotal	**1,690**	**1,698**	**1,728**
Total	**1,701**	**1,711**	**1,742**

Outer Continental Shelf Lands Activity

Analysis by Subactivity

dollars in thousands

Subactivity		2003 Actual	2004 Estimate	Uncontrollable And Related Changes	Programmatic Changes	2005 Budget Request	Change From 2004
Leasing & Environment	$	37,521	37,036	+426	0	37,462	+426
	FTE	220	219	0	0	219	0
Resource Evaluation	$	26,831	27,081	+413	+563	28,057	+976
	FTE	222	221	0	0	221	0
Regulatory	$	50,773	49,465	+479	+494	50,438	+973
	FTE	336	336	0	0	336	0
Information Management	$	22,991	25,706	+120	+4,321	30,147	+4,441
	FTE	63	65	0	+9	74	+9
Total OMM	$	138,116	139,288	+1,438	+5,378	146,104	+6,816
	FTE	841	841	0	+9	850	+9

As the Nation's designated steward of the mineral resources on the Outer Continental Shelf (OCS), MMS is committed to achieving the proper balance between providing energy for the American people and protecting unique and sensitive coastal and marine environments. MMS has worked diligently for over 20 years to create a framework for safe and environmentally sound OCS mineral resource development whose primary characteristics are predictable schedules and timely review of proposed actions combined with a flexible and transparent approach. MMS believes that a sound and fiscally responsible regulatory system will attract capital and expertise to fully develop and produce resources in an environmentally sound and safe manner. Energy production from the OCS plays a major role in the President's National Energy Policy (NEP) and in meeting the Nation's energy needs.

During the 50 year history of the OCS Lands Act, the safety and environmental record of the offshore industry has significantly improved. Management of this program has changed since its inception as a result of experience and technological advances, and in response to societal preferences. The MMS program today is characterized by the use of exemplary science in decision-making, close and careful consultation with affected interests, and vigorous oversight of operations. Management of the Federal offshore resources is strongly influenced by the following facts:

- Safe operations and protection of the environment are critical to continued success and access to Federal lands.
- The Gulf of Mexico deepwater, driven by rapid technological advances, is today the Nation's preeminent oil and gas production province.
- The potentially resource rich areas of the Alaska OCS remain largely unexplored.
- The country's growing demand for natural gas and oil, combined with restrictions on access to the more promising resource areas, necessitates use of incentives to promote additional production from known resource areas.
- The offshore industry has evolved from a regional to a global enterprise, which requires that MMS be involved with other oil- and gas-producing countries in developing international guidelines for offshore operations.

- Some of the most ideal sand and gravel deposits to support State and local government coastal restoration projects occur in Federal offshore areas.

Today, some 41 million acres of Federal OCS lands are currently under lease—about 98 percent of those leases are in the Gulf of Mexico (GOM). Approximately 22 percent of the 7,800 active leases are currently producing. There are 25,000 workers offshore in the GOM, and about 40,000 total direct jobs involved with the offshore Gulf industry. The Department of Commerce estimates there are 170,000 jobs across the Nation that rely directly or indirectly on the production of offshore oil.

OCS oil and gas resources will play an increasingly pivotal role in the Nation's future domestic energy supplies with the potential for significant energy, economic, and environmental benefits**.** Today the OCS provides about 30 percent of the Nation's domestic oil production. By 2012, that amount could increase to 40 percent or more. The OCS also provides 23 percent of the natural gas produced in the United States.

Taking a Strategic View

Over the last 25 years, since passage of the OCS Lands Act Amendments in 1978, offshore technology has been developed that allows for increased reservoir production, recovering 50 percent more oil and 75 percent more natural gas from wells than was previously recovered. At the same time, advanced technology has contributed to minimizing environmental damage from offshore operations. The use of automatic pressure sensors and shutdown valves limits the escape of oil from damaged pipelines, thereby averting potential major oil spills. In 2003, a study by the National Academy of Sciences reported that in the last 15 years there were zero platform spills greater than 1,000 barrels. Compared to worldwide tanker spill rates, OCS operations are more than five times safer. In fact annual natural seeps account for 150-175 times more oil in the ocean than OCS oil and gas operations.

To maintain the Federal OCS role as a major supplier of oil and natural gas, while at the same time protecting worker safety and the environment, MMS has instituted a coordinated set of strategies and objectives that are continuously reviewed and revised to respond to current events. In support of the NEP and the Department's Strategic Plan, MMS's Offshore Minerals Management (OMM) Program developed a strategic document that serves as direction for the Program. The "21 OMM Strategies II—2004-2008" details the desired outcomes and tactical plans for tasks to be accomplished in the near term for 21 of OMM's highest program priorities. This living document will be continuously revised as strategies are completed and new priorities emerge. OMM managers will continue to be accountable not only for satisfying our multiple mandates, but for achieving the highest level of results.

In support of the Department of the Interior strategic plan, OMM is an integral contributor to the End Outcome Goal for Resource Use: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value (energy and non-energy). Additionally, NEP directives supported by OMM include: continued OCS leasing and review of plans on predictable schedules; consideration of economic incentives for environmentally sound offshore oil and gas development where warranted by specific circumstances; collaboration with other agencies to examine legal and policy regimes related to energy activities in the coastal zone and OCS; examination and expedition of permitting procedures; and continued support of technology to promote enhanced oil and gas recovery and improve exploration.

MMS is continuously striving to achieve cost efficiencies. Current, on-going efforts to lower costs include reducing submission requirements, utilizing electronic business for submission of industry reports, and avoiding overlap with other government agencies. MMS is working with representatives from the petroleum industry, independent information technology contractors, and other affected parties to develop an electronic business plan. Preliminary efforts have been undertaken in a number of areas. For example, production reports and seismic navigation data are being received in digital formats. Other reports, such as well test data, pipeline location data, well logs, etc., are being received as part of OMM pilot projects.

MMS has a strong commitment to safety and environmental protection. OCS management activities span drastically different physical and sociological environments, and include relationships with an exceptionally diverse group of stakeholders. The offshore industry in the United States ranges from mega-national corporations with worldwide operations, to small independents with operations in only one region or state. The move into deep water and the resulting activity have increased both the level and complexity of monitoring OCS operations, which increases the complexity and time needed for OCS permit and plan reviews, and MMS inspections of operations. MMS OMM Program continues to seek ways to accomplish its goal of safe operations with minimal environmental impact. The regulatory program emphasizes performance results rather than strict conformance to prescriptive regulations, clarifies and simplifies government requirements, and promotes a greater reliance on industry standards. MMS is increasing its focus on finding ways to provide strong incentives for good performance while preventing those operators with poor records from participating. As part of its environmental mission, MMS must bring to bear a worldwide library of data and information about environmental effects of drilling and site specific knowledge of ocean currents, biology, marine mammals, and many other fields. This environmental analysis is part of the review of 1,300 wells drilled and the approval of 800 plans each year. The Nation has much to gain from excellent safety and environmental performance in terms of economic, energy, and environmental benefits.

MMS OMM Program contributes to a sustainable future in several ways. Obtaining sufficient supplies of oil and gas at reasonable prices will continue to contribute to a higher standard of living and is crucial to our energy security and economic strength until alternative energy sources become viable. The offshore industry has paid billions of dollars in labor, goods, and services to other industries as well as its own. Coastal states have received billions in Federal offshore revenues, providing needed funds for investment in technology, safety, infrastructure, research, development, education, and social programs, which provide significant benefits for the Nation now and in the future.

Meeting the Demand for Natural Gas

By ensuring access to OCS lands with high potential for containing natural gas resources, the Nation can realize both energy and environmental benefits from developing clean-burning natural gas. In fact, the use of natural gas is expected to provide a bridge to the Nation's future use of cleaner and, eventually, renewable energy sources. Natural gas is increasingly being used nationwide to power electric generating stations and this use is expected to grow significantly over the next 10 to 30 years. During the 1990's, with increased pressure on older coal-fired utility plants, fears of increased dependence on foreign oil supplies, and ongoing resistance to nuclear power, the United States made a decision to shift its electrical generating capacity to a natural gas base. For these reasons, and its air quality benefits, about 90 percent of the new energy plants that come online in the next decade will be powered by natural gas. About half of all American homes, approximately 56 million, are heated with natural gas. The National Petroleum Council (NPC), in a study issued in September, 2003 states, "While overall demand has persisted between 22 trillion cubic feet (Tcf) per year to 23 Tcf per year since 1997, the market has fundamentally changed. Natural gas used for power generation has grown since 1997, while industrial use has declined. Today, it is productive capacity, including established import capacity, which drives the tight supply/demand balance; the resulting higher prices are limiting the ability of natural gas demand to grow." Nevertheless, the NPC expects the consumption of natural gas in the United States to increase from 22.5 Tcf in 2003 to 24.25 Tcf by 2010. The Department of Energy projects that the gap between supply and demand could increase by 50 percent in the next 20 years.

It is not just consumers that will be hard hit. Although industrial use has declined, natural gas is a primary source of fuel in the industrial sector, accounting for 38 percent of total consumption. Long-term predictions of high natural gas prices are causing these companies to move natural gas-based manufacturing overseas, to locations where gas is available at lower cost. Since 1998, two million manufacturing jobs have been lost, and energy costs are a major contributing factor.

If the OCS is expected to maintain the same percentage contribution towards future United States gas consumption, the annual gas production from Federal waters will have to increase by as much as two Tcf. Unfortunately, one of the significant trends occurring in the Gulf of Mexico (GOM) is the decline in the number of new gas completions, a 28 percent drop from 2001 to 2003. Coinciding with this drop has been an acceleration in decline rates. Each year we are seeing gas reservoirs deplete faster. These recent trends mean the GOM is now struggling to maintain its contribution to domestic natural gas supply. GOM gas production reached a peak of over 5.1 Tcf in 1997. Each year since, GOM gas production remained very close to five Tcf. Preliminary data indicates GOM gas production may have fallen in 2002 to 4.73 Tcf. It is noteworthy that although shallow water GOM gas production has declined over 26 percent since 1997, GOM *deepwater* gas production has risen some 229 percent from 1997 to 2002. Still, whereas GOM oil production has increased since 1990 because of the substantial contribution from deep water (57 percent of 2002 production), GOM gas production has remained relatively flat because deepwater gas production has not reached a comparable level (27 percent of 2002 production). MMS continues to explore options to increase natural gas production from the OCS.

Meeting America's Energy Needs

The future role of the GOM can be addressed by looking at three components of the OCS energy supply: exploring in deep water (about 1,000 feet and deeper), drilling deeper on the shelf (below 15,000 feet subsea), and ultra-deep water (about 7,500 and deeper). As industry strives to meet this supply challenge, we anticipate that oil and gas leases in both deep water and on the shelf (the most prolific gas producing area in the United States) will continue to experience activity levels at historic highs. MMS has made available various economic incentives to stimulate production of offshore oil and gas in deep water, and more recently, natural gas from the deep shelf. Industry has responded by developing the technology and practices required to tap these resources.

The **deepwater** success story of the last decade has led to an increase of over 75 percent in the amount of crude oil produced from the OCS. In 2002, oil production in the GOM reached an estimated 566 million barrels (MMbbl). Driven by the dramatic increase in deepwater oil production, this level marks the twelfth consecutive year that oil production has increased in the GOM, a 106 percent increase since 1990. As a percentage of overall GOM oil production, deepwater oil production increased from 4 percent (12 MMbbl) in 1990 to 57 percent (321 MMbbl) in 2002. The annual increase in deepwater GOM oil production has averaged nearly 32 percent per year since 1990. In terms of revenue, this increase is providing $850 million a year in additional royalty payments to the United States Treasury (assuming $22 per barrel of oil at the wellhead and one-eighth royalty).

The long-term potential of deep water will involve both significant amounts of oil and significant natural gas. In its year 2000 national assessment, MMS estimated there was over 100 Tcf yet to be discovered in the GOM deepwater area.

In addition to economic incentives, high prices for oil and gas in 2000 and 2001 led to a significant increase in deepwater GOM activity levels. Average oil and gas prices for 2003 were the highest in recent history. In December 2000, natural gas prices topped $10 per thousand cubic feet, averaged over $4.00 in 2001, around $3.50 in 2002, but rebounded to an average price of $5.40 for 2003. In 2003, crude oil prices averaged over $30 per barrel for the first year since 2000.

In FY 2002 and 2003, drilling activity in the GOM continued at high levels but not the record pace of FY 2001. In FY 2003, 214 wells were drilled in greater than 200 meters in the GOM. This is the most wells drilled in a single year in the GOM at these water depths. Announcements by operators of significant discoveries and commitments to explore and develop in deep water continue to signal the growth of activity in this arena. Industry made several major deepwater discoveries in 2003.

- BHP Billiton announced a discovery on its Chinook prospect on Walker Ridge Block 469 in 8,830 feet of water.
- Unocal announced a discovery on its St. Malo prospect in Walker Ridge Block 678 in 6,853 feet of water.
- Anadarko announced a discovery on its Atlas prospect in 9,000 feet of water on Lloyd Ridge Block 50.

New Natural Gas Estimates

Natural gas may be more abundant in the deep shelf area of the Gulf of Mexico than originally forecast. The deep shelf lies 15,000 feet or greater below the outer continental shelf in water depths up to 656 feet. Much of the deep shelf is accessible to energy producers from existing infrastructure in the Gulf. Based on new data and recent discoveries, MMS has increased its resource estimate of deep gas by 175 percent; i.e., the high estimate has been revised from 20 Tcf to 55 Tcf. The Gulf's deep gas resources will be an important new supply source of natural gas for American residential, commercial and industrial consumers. If this upper estimate of undiscovered conventionally recoverable resources (55 Tcf) is ultimately realized (i.e., leased, discovered and produced), it will provide new energy supplies equivalent to about 2.5 years' worth of total domestic natural gas consumption.

However, the total of number of wells started in the GOM dropped to 736 in FY 2003 from 773 in FY 2002. The number of wells drilled in shallow water (less than 1,000 feet of water depth) declined from 987 in 2001 to 584 in 2003. The number of wells drilled in deep water declined from 199 in 2002 to 152 in 2003.

With annual data not yet complete, through November 2003, 30 GOM deepwater operating plans have been filed in 2003. Since this requirement was established in 1996, deepwater operating plans submittals increased from 22 to 85 in 2002. Each deepwater plan requires a focused environmental analysis, complex technical review, reservoir management review for the conservation of resources, platform approval, visits to construction yards for onsite inspections, and safety inspections of development operations. An increased emphasis on deepwater leasing, exploration, and development and the associated innovative technology for drilling and production, as well as the need to address conservation, engineering, safety, and unique supplemental bonding issues, continue to present new challenges for both industry and MMS.

In the Eastern GOM activity continues to accelerate. In Sale 181, held in December 2001, industry reacted strongly with high bids and intense competition. MMS leased 40 percent of the area for a robust $340 million. Oil and gas companies followed up immediately by filing plans of exploration primarily in deepwater areas offshore Alabama and Louisiana. Industry has filed 20 exploration plans on these leases, seven wells have been drilled, and two oil and gas discoveries have been announced.

In 2003, MMS continued to have strong leasing activity in the deepwater area of the GOM. In Sale 185, covering the Central GOM, MMS received bids on 177 tracts in 400 meters of water or greater. This amounted to 31 percent of the acreage offered receiving bids. In August 2003, MMS held Sale 187 covering the Western GOM. In Sale 187, 65 percent of the tracts receiving bids were in 400 meters of water or greater, and 85 tracts or 25 percent of the sale were in extremely deep water (1,600 meters of water or greater).

The Deep Water Royalty Relief Act (DWRRA) of 1995 triggered record-breaking lease sales in 1997 and 1998, generated billions of dollars in bonuses and rents, and opened the door to increased deepwater production. While the DWRRA offered incentives in terms of suspension of royalty owed on initial production, today royalties continue to be collected on the majority of the production in the GOM deep water. Because of the long lead times required for exploration and development activity in deep water, only 27 of the 3,400 leases issued under the provisions of the DWRRA from 1996 through 2000 have produced oil and gas with suspension of royalties. Although the DWRRA expired in 2000, the Act granted authority to extend royalty relief provisions beyond that time. Of the 4,666 leases issued in greater than 200 meters of water from 1996 through 2003, only 296 have been drilled. As deepwater leases reach maturity in their primary terms, additional activity should be realized on these leases. While the percentage of royalty free production will increase, areas of the OCS now have been identified which have significant potential for development and resulting contributions to the U.S. economy that were previously unforeseen.

The second component that contributes to the future role of the OCS energy supply is **deep shelf natural gas**. Successful deep drilling into the shelf (at least 15,000 ft in less than 656 ft of water) indicates that this area of the GOM offers one of the best hopes to stem the recent decline in offshore natural gas production. The GOM's deep shelf natural gas prospects hold great potential, but are relatively unexplored. Industry operators are continuing to focus on this area because of the potential large deposits with high flow rates that might be found. For example, McMoRan recently was producing from its JB Mountain prospect at a prolific rate of 50 million cubic feet (MMcfd) of natural gas per day. It also had a test of 30 MMcfd from its Mound Point Offset well. The search for these deposits entails high risk in imaging and major technological risks of high pressure and high temperature to overcome.

A third component, which industry is just beginning to explore, is the **ultra-deepwater** GOM. This region can be defined in various ways. One definition could be 7,500 feet (about 2,400 meters) of water or greater. In the three years from 2001 to 2003, industry has announced seven discoveries in 7,500 feet of water or greater. These areas were sometimes in previously untested geologic formations. These discoveries have confirmed the probability of oil and gas in entirely new geologic plays and have caused MMS to reconsider its total undiscovered hydrocarbon resource estimate for the GOM.

Shell Oil and BP broke several world records and have begun production in a new frontier in 6,300 feet of water for their Na KiKa project. This project consists of six deepwater discoveries tied back to a single host facility—a semi-submersible production unit. It is the world's deepest permanently moored semi-submersible unit. It is designed to produce 110,000 barrels of oil and 425 MMcfd of natural gas per day. The first fields were brought on production in late 2003.

Industry continues to conquer technological challenges to go after oil and gas. In 2003, Chevron and its partners broke the world's record for the deepest water depth for a well. They began an exploratory well in 10,011 feet of water on Alaminos Canyon block 951. This marks the first time in offshore drilling history that a rig has explored for oil and gas in more than 10,000 feet of water.

MMS also continues to focus strongly on its environmental stewardship responsibilities. A strong program of ocean science research is a key component of this activity within MMS. In FY 2004, $16 million in ocean environmental studies will be awarded. This will raise the total spent through the Offshore Program on ocean research to over $760 million since its inception in 1973. MMS is now engaged in multiple research efforts of more than $14 million to better understand deep water ocean currents in the Gulf of Mexico. These efforts include partnerships with scientists in Mexico to ensure collection of data for broad scale oceanographic phenomena. MMS also continues its stewardship at the Flower Garden National Marine Sanctuary with a five-year $1 million monitoring program conducted in partnership with the National Oceanic Atmospheric Administration. MMS is in its 11th year of a cooperative program of ocean research conducted through the Coastal Marine Institute at Louisiana State University. More than 100 projects totaling over $23 million have been initiated with one-to-one matching of federal dollars by the university, resulting in the accomplishment of focused oil and gas related research that could not otherwise have been undertaken. Thorough site-specific environmental reviews of the effects of drilling and production are completed daily by MMS in the Gulf of Mexico and a new Grid-Environmental Assessment tool is in place to look at regional impacts.

In addition to GOM oil and gas activities, there is a need to develop the huge resource potential offshore Alaska and draw industry back to that area. Although there are complex and multiple issues involved in re-kindling interest in this area, incentives can play a part. Royalty suspension volumes were included in the Beaufort Sea sale (Sale 186), held September 24, 2003. Sale 186, with the incentives package, was the most successful Beaufort Sea sale in 12 years. A similar incentive package to stimulate industry interest given competitive global capital markets is in preparation for the Cook Inlet Sale 191 scheduled for May 2004.

A milestone was reached when the first oil from Federal waters offshore Alaska was produced on November 1, 2001, at the BP Exploration (BPXA) Northstar project. Northstar is a joint Federal/State of Alaska unit located in the Beaufort Sea offshore Alaska's North Slope. The Unit includes three Federal and five state leases. The Northstar reservoir is managed under a joint Federal/state unit agreement. Four wells have been completed into a Federal lease. One additional Federal well, designated as a disposal well, is planned for the winter 2003-04 drilling season. This important project is calculated to produce 175 million barrels of oil—enough energy to fuel nearly one million American automobiles for six years. Northstar proves that by working together, Federal and state governments and the energy industry can combine protection of the environment with innovative technology to bring America's energy resources safely to market.

The Alaska Region continues to support environmental and technical research important for understanding and monitoring Arctic oil and gas activities. A key feature has been monitoring of the Northstar and Liberty development sites in the Beaufort Sea. The Region has partnerships with the State of Alaska and the University of Alaska for environmental and marine mineral research. MMS is coordinating its research efforts with other Federal and state agencies such as the DOI North Slope Science Initiative and the National Ocean Partnership Program's Alaska Ocean Observing System.

Beyond the GOM and Alaska, the Pacific OCS Region focuses primarily on the management of the existing producing leases and associated facilities and upcoming decommissioning projects. The Region's inspections program has been restructured to include engineers as well as inspectors. The inclusion of engineers enhances the overall review of activities on the platforms with a different set of eyes and a more systemic view of the operations on an ongoing basis.

There are no pending decommissioning proposals for the Pacific, nor have any Federal platforms in the Pacific been decommissioned to date. Over a quarter of the offshore facilities in the Pacific Region are in deeper water and are more massive than those that have previously been decommissioned. These factors will influence the timing and procedures employed in decommissioning. Early planning is necessary to carry out these projects in California, as a long lead-time is required for the permitting process and to procure associated equipment and services. As a result, OMM has developed a strategic initiative to plan for the eventual decommissioning of Pacific OCS facilities. MMS participates in a working group consisting of Federal, state, and local government agencies to facilitate planning for decommissioning of offshore and associated onshore oil and gas facilities in southern California.
Through several successful partnerships, the Pacific OCS Region shares its expertise for the benefit of the coastal environment. The Decommissioning Working Group, cited above, is one

such vehicle. Another is the Multi-Agency Rocky Intertidal Network (MARINe), which includes 23 partners from local, state and Federal agencies, private and public universities and private institutions. MARINe is dedicated to the long-term monitoring of rocky intertidal systems along the shoreline. MMS uses this information to determine the contribution of ongoing OCS production operations and accidents to impacts on shoreline resources. These data were used for the Natural Resource Damage Assessment of impacts to the rocky intertidal shoreline following the 1997 Torch pipeline oil spill of 167 barrels. In this case, the data demonstrated that impacts from the spill occurred on sandy beaches and had little effect on rocky intertidal resources.

Over 55 sites in southern California on the mainland and islands are monitored biannually and share a common database. An additional 20 sites are monitored biannually in central and northern California using the same protocols. Through MMS and other partners of MARINe, sites are additionally monitored on a rotating basis, from Alaska to mainland Mexico, comprising the largest monitoring program on the west coast.

MMS responsibilities extend beyond offshore oil and gas production. In 2003, MMS gave approval for the massive Cameron Highway oil pipeline system in the GOM. This is the first large East-West offshore oil line in the Region. This 30-inch diameter line, operated by El Paso Services, travels some 450 miles and has a capacity of 500,000 bbl of oil per day.

MMS continues to provide significant assistance in environmental review processing for offshore LNG projects. In addition, MMS is involved in the technical review of these projects and their attendant pipeline needs in order to connect to the existing gas pipeline network. MMS has provided extensive assistance to the Coast Guard and the Department of Transportation in the review of the ChevronTexaco proposed Port Pelican LNG application, the El Paso Energy Bridge application, and the Shell Oil Gulf Landing application in the Gulf of Mexico and the Cabrillo Port application offshore California. Another resource with potential for contributing to the Nation's energy needs is methane hydrates. MMS is working with other agencies on the National Methane Hydrate Research Program, and to date, total Federal investment in methane hydrates research and development has been roughly $15 million a year since 2001. For the long term, we are optimistic about the prospects of recovering natural gas from methane hydrates found in permafrost in Alaska and deep in the ocean. There are still many technological barriers, but some expect production to begin within a decade. The estimate of total U.S. gas hydrates is 200,000 Tcf. That is more than 175 times the amount of natural gas from traditional sources. If methane hydrates can be economically recovered, the Nation could realize hundreds of years of natural gas supply.

Protecting the Nation's Shoreline

In addition to its vital role in energy production for the Nation, MMS also administers the Marine Minerals Program, managing all OCS minerals other than oil, gas, or sulfur. The major focus of the program over the past decade has been to identify sand resources for coastal restoration because suitable near-shore sand resources are diminishing. Since enactment of the 1999 amendment to Section 8(k) of the OCS Lands Act, which eliminated fees for state and local communities' use of OCS sand for hurricane and shore protection projects, requests for OCS sand have increased substantially. Consequently, the need to identify OCS sand sources that may be accessed in an environmentally sound manner has also increased significantly.

From 1995 to 2003, MMS conveyed rights to nearly 20,000,000 cubic yards of OCS sand for shore protection and coastal restoration projects. In FY 2003, MMS conveyed 1.2 million cubic yards of OCS sand for two projects in Virginia. MMS continues to work through its State Cooperative Program to leverage available funds to evaluate OCS sand resources for high priority shore and wetlands protection projects. In particular, the States of Florida, Louisiana, and New Jersey have indicated a need to identify OCS sand deposits for several upcoming projects along their coasts for which sufficient sand in state waters is unavailable. In 2003, MMS established new cooperative agreements with the states of California, Maine, and Massachusetts.

MMS SAND PROJECT HELPS PROTECT SANDBRIDGE BEACH DURING RECENT HURRICANE

In 1998, more than 1 million cubic yards of Federal offshore sand was used to renourish 5 miles of eroding shoreline at Virginia's Sandbridge Beach. An additional 2 million cubic feet of OCS sand – roughly equal to 142,000 dump truck loads – widened Sandbridge's oceanfront beach by 100-150 feet in 2003. Beach residents are crediting that sand with helping to soften Hurricane Isabel's blow to their community in September 2003. The sand was part of a $10 million beach renourishment project completed in August 2003. The MMS has been working with Virginia officials since 1989 to locate viable sand deposits in Federal waters off the state's coast to support projects designed for hurricane protection.

Studies conducted in Federal waters offshore Louisiana identified numerous sand deposits which may serve as sources of material to restore and replenish the barrier islands. As the demand for sand in OCS waters offshore Louisiana is likely to be high for the next several years, MMS, together with the State of Louisiana, formed the Louisiana Sand Management Working Group (LA-SMWG) to formalize an environmentally responsible process for assisting MMS in planning and decision-making relative to the use of Federal sand for beach nourishment, coastal restoration, and wetlands protection projects along the Louisiana coast. With the many users of the sea and seafloor in the Gulf of Mexico, such planning and coordination are imperative.

Other issues related to increased sand leasing activity include responding to multiple requests for the same sand deposit and keeping abreast of OCS activities not under MMS authority such as the siting of wind farms and artificial reefs, which may preclude further use of sand deposits.

International Role

While safe and environmentally sound domestic energy production is the foremost priority, MMS is also dynamically involved in international activities relating to offshore oil and gas development. MMS takes an active approach to identify and become involved in international initiatives that promote better integration of safety and environmental concerns into offshore development decision-making. MMS continues to expand its collaborative projects with other countries that are technologically advanced in their regulatory regimes to promote safe and environmentally sound oil and gas operations worldwide, as well as providing advice and expertise to countries beginning to develop their offshore oil and gas resources. Because of its regulatory expertise and its successful oversight of environmentally safe and sound operations, MMS is increasingly being called upon to assist and participate in international forums and projects that further our Nation's foreign policy goals. The growing scope and effects of international and regionally developed environmental and operational standards on the activities of the domestic industry require increased monitoring by the MMS.

FY 2005 Program

OMM's ongoing work to oversee mineral exploration and development on the OCS includes conducting critical research on environmental and safety-related technologies and preparation of rigorous environmental assessments for proposed mineral development activities. Each day, we evaluate detailed plans from operators for proposed OCS exploration and development activities, and annually conduct thousands of inspections to ensure compliance with regulations and plans. To promote continued industry interest in offshore oil and gas development, we will analyze appropriate incentives to encourage leasing in areas that, without incentives, are not economically viable.

In FY 2005, we will implement pre-lease steps for the remaining sales scheduled in the 2002-2007 5-year Program in a manner that will enable timely decisions. We will meet the milestones required to ensure a new 5-year Program for 2007-2012 is in place by July 2007. Work will commence on a multi-sale EIS for the Gulf of Mexico and Alaska Regions. We will coordinate with industry and NOAA fisheries to develop a process for achieving an activity-based Endangered Species Act consultation for the Gulf of Mexico.

Planning will continue for decommissioning of deepwater OCS platforms in the Pacific Region to meet the substantial engineering, technical, and coordination challenges. FY 2005 milestones include development of a regional structure removal and site clearance Notice to Lessees and research/studies to address technical and scientific data gaps and issues associated with deepwater facility removal and material disposition.

Exploration activities on leases in the Beaufort Sea and Cook Inlet will be managed by the Alaska Region, and a new proposal for the Liberty development in the Beaufort Sea will be evaluated. The Region will continue partnerships on research with the State of Alaska, the University of Alaska, and other DOI and Federal agencies.

Offshore acreage will be evaluated for Fair Market Value determination for three sales in the Gulf of Mexico and one sale in Alaska. Resource evaluation and assessment models will be evaluated to better model changing offshore scenarios. A new OCS National Resource Assessment will be completed by mid-2005, providing resource information for the next (2007-2012) 5-year Program. In 2005, OMM will have methodologies in place for assessing the potential quantities and economic value of gas hydrate resources on the OCS.

OMM will work with the International Regulatory Forum (IRF) on collecting and evaluating FY 2004 offshore performance data for IRF member countries. Analysis of the information will identify safety issues of mutual concern among the member countries. In FY 2005, OMM will develop detailed policies and procedures to implement new incident reporting requirements and introduce improvements in OMM's incident investigation and analysis activities.

OMM will continue cooperation with the U.S. Coast Guard to provide technical and environmental expertise on resource development implications of Liquefied Natural Gas facility applications filed under the Deepwater Ports Act. OMM will implement several milestones in developing an aging infrastructure plan to ensure facilities (platforms, pipelines, wells, etc.) of a certain age meet structural integrity criteria. OMM will continue work with the U.S. Coast Guard on new agreements that eliminate inconsistencies in regulatory enforcement, minimize duplicate work activities, and improve overall safety of operations on the OCS.

In FY 2005, OMM will continue implementation of regional management strategies for OCS areas where sand resources will likely be used as a long-term source of borrow material. The program will conduct biological and physical studies in areas where new sand deposits have been identified for use in beach nourishment, as well as continuing ongoing studies on already identified sand resources, to evaluate potential impacts. OMM will implement a real-time monitoring program for dredging operations for OCS sand resources.

OMM's roadmap for responding to energy legislation will depend on the timing and content of any bill that is passed. In preparation, OMM is determining milestones for managing alternative uses of the OCS. OMM will play a major role in ensuring that the Department's ocean and coastal responsibilities are represented during the Executive Branch's response to recommendations listed in the final report of the U.S. Commission on Ocean Policy. In support of all of the program's responsibilities, under the direction of the OCS Connect project, work will continue in FY 2005 on business process re-engineering of several business process clusters.

Use of Cost and Performance Information.

The MMS is committed to the use of performance information in its management decision-making process. For FY 2004, MMS revised its FY 2003 Activity based Costing (ABC) work activities to enable the program to map to new common activities and end outputs identified by DOI. FY 2003 data will be cross walked to the new FY 2004 work activities. As in FY 2003, MMS will use the ABACIS financial Accounting system to collect work activity costs. Coupled with our performance information, OMM will capture government cost and workload data related to Departmental business processes. ABC gives the OMM Program enhanced ability to capture and use cost and performance information in management and budget decisions for the OMM program, effectively demonstrating how the OMM Program supports DOI's Strategic goals. Each Subactivity includes a discussion on how the OMM Program currently uses performance information in managing resources. As we gain more experience and obtain trend data MMS will continue to increase our use of ABC and performance data in budget justifications.

Leasing and Environmental Programs

Justification of Program and Performance
Analysis by Subactivity

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	37,521	37,036	+426	0	37,462	+426
FTE	220	219	0	0	219	0

Program Overview

The Leasing and Environmental Subactivity funds the Leasing and Environmental Assessment Program and the Environmental Studies Program.

Leasing and Environmental Assessment Program - The OCS Oil and Gas Leasing Program is a pivotal element of Offshore Minerals Management. Many different disciplines contribute to and support the overall leasing program--from the initial assessment of resources to environmental considerations to the final determination of what is actually offered for lease.

The OCS Lands Act requires the Department of the Interior (DOI) to prepare a 5-year program that specifies the size, timing and location of areas to be assessed for Federal offshore natural gas and oil leasing. MMS is operating under the 5-Year Program for 2002-2007. Currently, OCS oil and gas lease sales are held on an area-wide basis with annual sales in the Central and Western Gulf of Mexico, and less frequent sales held in the Eastern Gulf of Mexico and offshore Alaska.

The program operates along all the coasts of the United States - with oil and gas production occurring on the Gulf of Mexico, Pacific and Alaska OCS. MMS is also responsible for other mineral production offshore, which currently includes using sand and gravel for coastal restoration projects.

Leasing activities include 5-Year Program Planning; Pre-Lease Planning and Decision Process; Mapping and Surveying Outer Continental Shelf (OCS) Boundaries; and Post-lease Adjudication Process.

The environmental staff is involved in all phases of OCS activity, from the development of the 5-Year Program through platform removals. A special goal of the Environmental Program is to develop workable solutions for those industry activities that could adversely affect environmental resources. This allows development to continue while the environment is safeguarded.

Environmental Assessment activities include preparation of program level NEPA and OCSLA reports; oversight, policy guidance, and direction for NEPA and other environmental laws and regulations affecting OCS activities; preparation of environmental impact statements and environmental assessments; and participation in international conventions and treaty activities.

Environmental Studies Program – Research conducted by the Environmental Studies Program is designed specifically to address information needed to make management decisions for the Outer Continental Shelf program. The ESP ensures that environmental, social, and economic information needed for evaluating potential effects of development of the Nation's offshore mineral resources is available to MMS decision makers, the public, States, and other government agencies and customers. The ESP-sponsored projects collect and organize the large amount of environmental, social, and economic information needed to guide the numerous decisions on the Nation's offshore mineral resources.

The Leasing and Environmental Subactivity plays a critical role in supporting DOI's End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value. MMS plays a vital role in supporting the President's National Energy Policy by continuing the OCS leasing program on predictable schedules. A key indicator of MMS's performance in managing and facilitating access to energy resources is by holding offshore sales consistent with the Secretary's 5-year Program. To clearly measure MMS's progress with its leasing program, one intermediate outcome measure rolls up into the Department's Intermediate Outcome Goal of effectively managing and providing incentives for access and development: holding 100% of sales on time as scheduled in the 5-Year Program.

Use of Cost and Performance Information

OMM recognizes staff who achieve significant cost savings or program efficiencies through its Customer Service Excellence Awards and employee progress reviews. Individuals in the Gulf of Mexico Office of Leasing and Environment were recognized for significantly decreasing the processing time of Categorical Exclusion Reviews for plans, resulting in improved customer service. By monitoring staff performance, it was determined that from 1999 to 2001, the time taken to process categorical exclusions for plans decreased from greater than 50 days per plan to less than 10 days. This occurred during a period when the number of plans reviewed was increasing while the number of coordinators processing these actions was decreasing, resulting in the number of plans reviewed per coordinator rising from 11 to greater than 50. This improved efficiency was primarily attributed to the following process improvements: 1) establishing a goal of completing individual reviews within 10 days of receipt, 2) eliminating unnecessary reviews by establishing a "categorical exclusions with no further review" category, and 3) establishing weekly reporting of plans inactive for greater than 10 days, and information requests over 10 days old, as a way to identify problem areas. A sample of using performance information for progress reviews: 98% of plans (EPs, DOCDs) and applications reviews are accomplished in a timely (less than 10 days), accurate, and professional manner.

By monitoring performance, the program is alerted to situations that may warrant a shift of resources from one entity to another to better accomplish mission goals. In the Pacific Region, the goal of the Environmental Compliance Program is to ensure that 100% of projects/facilities and environmental mitigation measures are inspected for compliance with MMS requirements. Studying performance results showed a FY 2002 reorganization had an unintended negative impact on this performance goal. In FY 2004 and 2005, internal resources will be realigned to enable the program to meet its goal.

Leasing and Environmental Assessment Program

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	21,350	20,865	+426	0	21,291	+426
FTE	220	219	0	0	219	0

Leasing Activities

5-Year Program Planning - Section 18 of the OCS Lands Act (OCSLA) requires the Secretary of the Interior to prepare and maintain an oil and gas leasing program that indicates the size, timing, and location of leasing activity determined to best meet national energy needs for the 5-year period following its approval. Preparation of each 5-year program must comply with the substantive and procedural requirements of Section 18, which prescribes a multi-step process of consultation and analysis. The current program covers the period July 2002 to July 2007. Section 18(e) requires an annual review of the current program; MMS completed the required review of the 2002-2007 program and the review was approved by Secretary Norton on October 3, 2003.

Proposed Lease Sales – FY 2004 and 2005

	Sale Number	Date	Area
FY 2004	**189**	**Dec '03**	**Eastern GOM**
	190	**March '04**	**Central GOM**
	191	**May '04**	**Cook Inlet**
	192	**Aug '04**	**Western GOM**
	188	**Sept '04**	**Norton Basin***
	193	**Sept '04**	**Chukchi Sea/ Hope Basin***
FY 2005	**194**	**March '05**	**Central GOM**
	195	**March '05**	**Beaufort Sea**
	197	**March '05**	**Eastern GOM**
	196	**Aug '05**	**Western GOM**

*Sales 188 and 193 are proposed "Special Interest" sales in high risk areas off Alaska. Annual Calls for Information and Nominations in 2002 and 2003 attracted no nominations. A Call will be issued annually through 2006 if there continues to be no interest or nominations. If there is no interest in the Call in 2006, these areas would be deferred for consideration until the next 5-year OCS Program.

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

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

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

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

- Call for Information and Nominations -- Invites potential bidders to nominate areas of interest within planning areas identified for leasing consideration in the 5-Year Program.
- Area Identification -- Identifies area for proposed action to be analyzed in NEPA document based on information gathered from the Call.
- Draft EIS -- Evaluates environmental effects of proposed actions, alternatives, and mitigating measures.
- Public Review and Comment – The draft EIS is made available for public review for approximately 60 days.
- Final EIS -- Incorporates responses to public comments on the draft EIS.
- Consistency Determination -- Documents Federal determination on whether the proposed sale is consistent to the maximum extent practicable with federally approved State CZM plan.
- Proposed Notice of Sale -- Provides information to the States and the public on the proposed size, timing, and location of the proposed lease sale.
- Letters to the Governors -- Governors of the affected States are sent copies of the proposed Notice for their review as required under Sec. 19 of OCSLA.
- Balancing Letters -- Informs Governors on final sale decisions and responds to comments.
- Final Notice of Sale -- Published a minimum of 30 days before the sale is held. Includes date, time and location of the bid opening, blocks offered, and terms and conditions of the sale.
- Hold the Lease Sale.

Mapping and Surveying OCS Boundaries – Activities in this area consist of:

- Coordination with the Department of State on depiction of international boundaries;
- Hold the Lease Sale.
- Determination and depiction of offshore leasing boundaries;
- Preparation of official maps, diagrams, and special graphics;
- Administration of official cadastral data; and
- Providing technical assistance for baseline development with states.

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

Environmental Assessment Activities

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

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

OCS activities in Alaska are increasing. MMS approved the development and production plan for the Northstar project in Alaska's Beaufort Sea. Northstar, a joint State-Federal project, began production in October 2001 with the first OCS development well production beginning in January 2002. Another potential OCS development and production project, Liberty, was placed on hold pending ongoing re-evaluation of project configuration and cost. Nevertheless, MMS published the final environmental impact statement because it included substantial changes made in response to comments on the draft EIS; it will serve as an important reference document for future projects. Additionally, MMS held Sale 186 in the Beaufort Sea in September 2003 and will consider holding two additional Beaufort Sea and two Cook Inlet OCS lease sales during the period 2003 through 2007—potentially adding active leases on which exploration, development, and production activities could occur.

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

The pre-lease phases of the offshore production process consist of developing the 5-Year Program and holding competitive lease sales. An EIS is written for each of these phases. Work on lease sale EISs has become more challenging because of the ongoing technological changes that must be analyzed and the expanded scope needed to cover multiple OCS sales that may be held in the planning area.

In the post-lease phase, MMS requires permits at five different steps in the exploration, development, and production processes. Due to the complexity of new technology, environmental concerns and controversy, permits that required less resource-intensive Categorical Exclusion Reviews will begin to require more extensive traditionally Environmental Assessments (EAs). The EAs performed on an increasing number of technologically complex projects, such as those in ultra deep water, tax the resources MMS can dedicate to any one assignment. Revisions to development plans and pipeline repairs on existing leases in southern California will require extensive coordination with State, local and Federal agencies, and a detailed environmental review. As appropriate, MMS prepares EAs for such projects to satisfy National Environmental Policy Act (NEPA) and State and local concerns. Joint State/Federal environmental documents will be considered on a case-by-case basis.

Some EAs may find the potential for significant impact. Such a finding would trigger the need for an Environmental Impact Statements (EIS). In addition, oil spill risk analyses will still be necessary for all lease sales and exploration and development plans.

In addition to evaluating potential environmental effects of OCS activities, including those involved in the Sand and Gravel program, MMS also:

- Meets with other Federal and State agencies to coordinate work where activities and jurisdiction overlap, such as with numerous new liquefied natural gas (LNG) facility applications;
- Provides policy direction for OCS activities connected with environmental laws;
- Reviews and prepares technical comments and information in response to congressional legislative activities; and
- Prepares Federal agency activity (e.g., OCS lease sales, sand and gravel projects) consistency documents to comply with Coastal Zone Management Act (CZMA) requirements, and serves as a point of contact for coastal States and operators on issues associated with OCS-related consistency determinations and certifications and other CZMA related requirements.

Pre- and post-lease environmental analyses have resulted in the application of mitigating measures that allow OCS oil and gas development to continue, while protecting the marine environment. Mitigation has focused on protecting environmental resources such as chemosynthetic communities, air quality, protected or endangered species, and archaeological sites.

MMS will continue to work on several key environmental issues including:

- *Improving Endangered Species Act (ESA) Consultations* - In preparing lease sale documents and approving oil and gas development plans, ESA section 7 consultations between the Departments of Commerce (National Oceanic and Atmospheric Administration) and Interior (FWS and MMS) are required. MMS goal is to achieve prompt and efficient ESA consultations and to enhance coordination efforts under the Marine Mammal Protection Act (MMPA). ESA consultations and MMPA petitions for regulations should result in appropriate mitigation, monitoring, and reporting requirements that are compatible, practical, and within our authority to implement. Additionally, MMS needs to coordinate ESA consultations with MMPA petitions to achieve allowed incidental take of marine mammals for various OCS activities (e.g., geological and geophysical surveys and explosive removals of offshore structures) on a five-year cycle.
- *Resolving Federal Consistency Process Concerns* - The National Energy Policy (NEP) directs the Secretaries of Interior and Commerce to examine current policy and laws to determine if changes are needed to promote energy-related activities in the coastal zone and on the OCS. Secretary Norton and Secretary Evans agreed to develop a proposed rule that addresses the mandate in the National Energy Report and established a process to do so. In

June 2003, as a result of their joint effort, NOAA published a proposed rule to revise the Federal consistency regulations. NOAA staff forwarded the final regulation package for Department of Commerce clearance in late December 2003; publication is currently planned for late January 2004. Publishing the final regulations will bring to conclusion the NEP directive.

- *Preparing the EIS for the National Petroleum Reserve Alaska (NPRA)* - MMS has been coordinating and preparing the Northwest NPRA EIS for the Bureau of Land Management (BLM) in Alaska. The final EIS was issued in November 2003. Previously, MMS prepared the Northeast NPRA which was issued by BLM in 1998. MMS responsibility, in conjunction with BLM, included participation in public hearings on the draft EIS and responding to all public comments for the final EIS. Additional MMS responsibilities include preparation of a consistency determination (per the CZMA), and conduct of the sale itself.
- *Addressing "Environmental Justice" Concerns* - With the first OCS development underway (Northstar Project) and the focus of continued leasing in the Beaufort Sea Planning Area, MMS continues to place particular attention on Native concerns in Arctic Alaska. In accordance with a 1994 Executive Order on "Environmental Justice," MMS is evaluating potential disproportionately adverse environmental and health impacts on minority and low income populations in coastal Alaska resulting from OCS development. Through studies, surveys, and consultations with Native (Inupiat) groups, MMS is identifying specific concerns (e.g., effects on bowhead whale subsistence hunting) and addressing these concerns through the NEPA/EIS process. MMS is defining the potential adverse affects of OCS activities and developing mitigating measures to address these concerns.
- *Providing Environmental Compliance Support for "Alternative Use" Projects* - Increasingly, there is a need for renewable energy resources and for new ways to support offshore oil and gas activities. The Federal government is advocating increased use of renewable sources of energy, and the private sector is considering non-traditional energy-related projects on the OCS (e.g., wind, wave, and solar, facilities for liquefied or compressed natural gas, medical facilities to support oil and gas operations). For example, presently the US Army Corps of Engineers is evaluating a wind farm project that proposes to construct and operate 130 wind turbine generators on a grid over approximately 26 square miles of sub-tidal area known as Horseshoe Shoal in Nantucket Sound. MMS is serving as a cooperating agency in the environmental review process.

Environmental Studies

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	16,171	16,171	0	0	16,171	0
FTE	0	0	0	0	0	0

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

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

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

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

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

Accomplishments can be described for both the overall management activity associated with the conduct of the ESP as well as for the research results themselves. In the context of management oversight, the ESP was the first MMS program to undergo the OMB Performance Assessment using the PART. In the final analysis the ESP received the highest numerical rating of all the Department of the Interior programs that were evaluated that year.

MMS has identified three key annual performance goals for the management of the ESP:

- Perform annual assessment of information needs with stakeholders leading to the development and finalization of the annual research plan;
- Complete detailed project designs and procurement award activities; and
- Maintain technical and financial oversight of ongoing research efforts and ensure dissemination of results from completed efforts.

The ESP accomplished each of these goals in FY 2003. Extensive discussion occurred with stakeholders within and outside MMS regarding the most pressing information needs, which led to the approved research activities during the year. Subsequent to project design and award activities, more than 65 new projects were started to address the critical information needs for oil, gas and marine minerals management decisions. Collectively, approximately 300 projects were active during FY 2003. During this period, all projects received timely and accurate technical and financial oversight to assure technical performance and timely and proper disbursement of funds.

From a technical perspective, important progress was made through collaboration and partnerships to address several important research issues including:

- Response of sperm whales to seismic noise in the Gulf of Mexico;
- Characterizing natural gas hydrates in the deep Gulf of Mexico;
- Characterizing deepwater biological communities in the Gulf of Mexico;
- Monitoring intertidal marine communities in areas of oil production in Southern California; and
- Modeling nearshore sea ice in the Alaska Beaufort Sea.

The ESP continued to emphasize information dissemination by co-sponsoring scientific conferences and conducting “information transfer meetings” open to the general public. Of equal or perhaps greater importance, the ESP implemented improvements to its environmental studies website to bring information freely to anyone who wants it. In particular, the site now announces pending new procurements that will be competitively awarded. Brief project descriptions are given, and if the project has been advertised, a link is provided to connect a customer to the solicitation at the FedBizOps website.

Gulf of Mexico Region - Rapid technological advances and recently passed legislation have resulted in a rush to develop both deepwater and subsalt oil and gas resources. Historically, OCS studies were focused on the continental shelf out to about 300 meters of water, and much information on that area is available. In 1997, a significant effort was undertaken to initiate studies that focus on some of the most pressing deepwater (beyond 300 meters) information needs. Because the cost of working in deep water is significantly higher than research on the continental shelf, the ESP is joining with other Federal, State, and academic institutions, and industry in an attempt to provide the information needed in the most cost-effective manner.

Several major studies ongoing or planned for initiation in FY 2004 characterize the program direction for the GOM. These include:

- *Northern Gulf of Mexico Continental Slope Biologic Habitats.* Ongoing studies will refine our understanding of benthic communities and habitats from a regional perspective and expand our knowledge of sensitive deepwater coral communities.
- *Deepwater Physical Oceanography.* This research element will provide temporal and spatial scales of motion, strength, and frequency of deepwater currents. This information is important in understanding the strong currents recently discovered in deep water. In FY 2004 this research will be ongoing in the western Gulf of Mexico, and a similar effort will be initiated in the eastern portion of the Gulf. Successful completion of these studies will ensure that our understanding of the deep Gulf keeps pace with or moves ahead of future exploration and development in these areas.
- *Sperm Whales and their Response to Seismic Exploration.* The effects of industry noise on sperm whales are virtually unknown. This ongoing multiyear study will involve collaboration with the Navy and industry to gather critical information on sperm whale behavior and response to noise.
- *Air Quality Modeling for Breton National Wilderness Area and Gulf-wide Air Emissions Inventory.* These studies collect needed environmental data and model the environment to ensure that mitigating measures are implemented when necessary. In FY 2004, a study will be initiated to compile a Gulf-wide Emissions Inventory for 2005. The collection and compilation of an emissions inventory is one of the tasks that MMS conducts to assure coordination of air pollution control regulations between offshore and onshore sources.
- *The Archaeological and Biological Analysis of World War II Shipwrecks in the Gulf of Mexico: A Pilot Study of the Artificial Reef Effect in Deep Water* (awarded in late FY 2003). This issue was identified as an information need at the MMS May 2002 Deepwater Workshop. Since it is a multidisciplinary effort dealing with both the archeological and biological resources of the OCS, and involves aspects of ocean exploration, it is being conducted jointly with the NOAA Office of Exploration. The work will be solicited under the auspices of the NOAA. Fieldwork for this study will commence during the summer of FY 2004.

Pacific Region - In the Pacific OCS Region, partnerships with the University of California at Santa Barbara, the University of California at Santa Cruz, and the Scripps Institute of Oceanography continue to assist with the development of needed information. Studies will continue to monitor impacts associated with ongoing production activities. Particular emphasis will be placed on monitoring the general health of intertidal communities and on monitoring regulatory compliance at specific platforms. The Pacific Region will continue the collection of physical oceanographic field data that are needed for environmental assessments and review of oil-spill contingency plans. Additionally, research will continue on sediment transport processes in and around OCS oil and gas pipelines to increase information for safety and environmental protection. Information collection for future decommissioning activities has been initiated and will continue to be an increasingly important part of the Pacific Region's focus relative to offshore platforms, associated pipelines, and onshore facilities. Meetings with industry, local, and State governments will be held in order to explore leveraging MMS research funds.

Alaska Region – Studies in the Alaska OCS Region will be designed to provide information for management decisions associated with exploration, development, and lease sale activities in the Beaufort Sea and Cook Inlet areas. With production now on line at Northstar, and possibly in the future at Liberty in the Beaufort Sea, studies will collect background information on environmental conditions and subsequently monitor for potential effects. It will be important to continue monitoring efforts and studies of key species and marine communities. Monitoring of the bowhead whale will continue, and additional investigations will be conducted to update information on kelp communities, fishes, ringed seals, and migratory waterfowl. Studies will vary from description of behaviors to monitoring for changes. Additional examination of the physical environment, such as under-ice currents and ice characteristics, will be conducted to support interpretation of data from living resource investigations and to provide a better understanding of the fate and dispersion of OCS discharges. Social and economic monitoring, especially relative to key social indicators for which baselines have been established, will be undertaken. Alaskan studies will continue melding traditional knowledge with western science. Some of the major efforts that characterize the FY 2004 program in Alaska include:

- *Monitoring the Distribution of Arctic Whales.* This ongoing effort provides the only long-term database for evaluating potential cumulative effects of OCS activities on the entire bowhead whale migration corridor across the Beaufort Sea.

- *Arctic Nearshore Impact Monitoring in Development Areas* (ANIMIDA). This suite of studies is oriented towards gathering long-term monitoring data to provide a basis of continuity and consistency in the evaluation of potential impacts of development. Baseline characterizations of contaminants in the sediments and biota in the area will be generated, subsistence whaling will be assessed annually, the boulder patch area will be monitored, and the sources, concentrations, and dispersion pathways of suspended sediments will be determined.

- *Beaufort Sea Physical Oceanography and Sea-Ice Modeling.* Multiple projects are ongoing to gather observational data on near shore currents, and modeling of sea-ice-ocean interactions. These projects will provide essential information for oil spill trajectory analyses and will contribute valuable information to the data analyses from monitoring studies such as ANIMIDA.

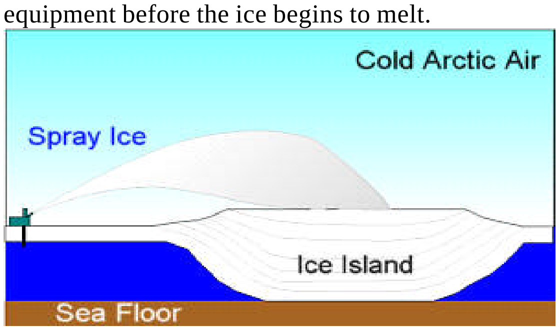
Islands of Ice

In most areas of the world, drilling platforms are constructed of steel. In the Arctic the oil companies can use sea water to build an ice island to use as a drilling platform.

It takes very cold temperatures to freeze sea water and even colder temperatures to build an ice island. In fact, if the temperature is above minus 20°F, it is too warm to build one.

Although the sea ice naturally freezes to several feet each winter, the ice may not be thick enough to support a drilling rig. In areas were the ice moves, the ice island must touch (ground) on the bottom of the sea floor. One of the fastest ways to thicken the ice is to spray sea water up into the cold Arctic air where it super-cools and falls back down onto the surface of the ice. As the weight of the ice island increases it sinks deeper and deeper into the ocean until it grounds on the sea floor.

In the Beaufort Sea, ice island construction can begin in late December. It can take up to two months to build an ice island. After the island is constructed, the oil companies need enough time to drill the well and remove all of the drilling equipment before the ice begins to melt.



- *Cook Inlet Research.* Ongoing and new study efforts in FY 2004 are designed to improve understanding of the water and ice dynamics in Cook Inlet. Additionally, studies will be initiated to improve our knowledge of harbor seals and Steller's eider populations in the Cook Inlet area. Also, passive acoustic monitoring will be used this year to estimate the seasonal patterns of use of the proposed Cook Inlet multi-sale area by toothed, baleened, threatened and endangered species.

Sand and Gravel - The rapidly expanding interest by coastal States for using sand located in Federal waters as material for beach and coastal restoration purposes will require environmental studies to assess the impacts of dredging before material is actually removed. Studies will include:

- site-specific biological and physical environmental surveys in potential borrow areas identified in advance through MMS/State Cooperative geological investigations;
- studies of the importance of offshore shoal and ridge features as a food source to fish populations; and
- studies to evaluate how best to mitigate against potential impacts to and conflicts with commercial and recreational fishing activities.

Of particular importance will be studies to evaluate the possible impacts to the biological and physical environments offshore Louisiana. A major effort to rebuild the rapidly eroding Louisiana barrier islands is underway and the primary source of sand for this effort is sand deposits located in Federal waters. As much as 30 to 40 million cubic yards of Federal sand may be required over the next five to ten years. MMS must evaluate the potential impacts of this large-scale extraction before activities actually take place.

The following are the Performance Measures for the Environmental Studies Program prepared for the FY 2004 PART analysis. The ESP received high marks in this assessment in recognition of its strong business practices, effective management, and strategic and long-term planning.

Long-Term Goal I:	**To establish the information needed for assessment and management of environmental impacts from OCS activities.**
Target:	To provide the information needed to complete Agency NEPA documents, support agency and departmental decisions regarding the OCS program, and to address specific issues/questions as they develop during the course of the OCS program.
Actual Progress achieved toward goal:	Multiple studies completed in all OCS Regions addressing those information needs identified by program stakeholders during the ESP planning process.
Long-Term Goal II:	**To predict impacts on the marine biota which may result from chronic, low level pollution or large spills associated with OCS production from drilling fluids and cuttings discharges, pipeline emplacements, or onshore facilities.**
Target:	To increase available information, and the availability of the information, on biological resources and fates and effects of impact producing agents.
Actual Progress achieved toward goal:	ESP Information System, web site, posters, reports available to the public, public meetings & conferences, continual encouragement of researchers to publish in the peer reviewed literature.
Long-Term Goal III:	**To monitor human marine and coastal environments to provide time series and data trend information.**
Target:	To identify significant changes in the quality and productivity of these environments and to identify the causes of these changes.
Actual Progress achieved toward goal:	MMS leads in developing state-of-the-art monitoring protocols and techniques as demonstrated by the highly successful Flower Gardens National Marine Sanctuary, Chemosynthetic Communities, Pacific Region's Marine Intertidal Team, and the Alaska Beaufort Sea Bowhead Whale monitoring programs.

Key Goal I:	**Perform annual assessment of information needs with stakeholders leading to the development and finalization of the NSL**
Performance Target:	Hold annual discourse with stakeholders of the OCS oil and gas and marine minerals programs regarding the most pressing information needs.
Actual Performance:	Discussions are completed and final approval of the National Studies List by the Associate Director OMM reflects stakeholder needs and priorities.
Key Goal II:	**Complete detailed project designs and procurement award activities**
Performance Target:	Timely design of individual research projects reflecting the needs and priorities of the approved National Studies List and their award through the Procurement Process.
Actual Performance:	Successful award of projects reflecting the information needs of the approved National Studies List.
Key Goal III:	**Maintain the technical and financial oversight of ongoing research efforts and ensure dissemination of results from completed efforts.**
Performance Target:	Proper contract financial and technical oversight ensuring that contract performance is consistent with stated cost, schedule, and objectives of award. Disseminate all final deliverables received.
Actual Performance:	Timely and accurate receipt of project information such as monthly and quarterly reports in order to disburse obligated funds. Where necessary, modifying contracts as appropriate.

Program Performance Summary – Leasing and Environmental Subactivity:

Resource Use (Energy) End Outcome Measure					
Measure	2002 Actual	2003 Actual	2004 Plan	2005 Plan	2008 Target
Number of lease sales held consistent with the Secretary's Five Year Program (SP)	3	3	4	4	Current 5-year program ends 6/07. Legal requirements for analysis and public comment preclude projections beyond that point.
Resource Use (Energy) Strategy 1 Intermediate Measures					
Process X% of exploration plan in less than 30 days (NK) (BUR)	100%	100%	100%	100%	100%
Process X% of development plans in less than 120 days (NK) (BUR)	100%	100%	100%	100%	100%
Resource Use (Energy) Strategy 2 Intermediate Measures					
Achieve an oil spill rate for offshore development of no more than .00001 barrels spilled per barrel produced (SP)	0.00000058	Estimate: 0.000005 (Reconciling data reported to NRC and MMS for FY 2003 is ongoing. FY 2003 appears to be trending like FY 2000, which was 0.000005)	.00001	.00001	.00001
Complete X% of offshore environmental assessments for development plans within 8 months (BUR)	100%	100%	100%	100%	100%
(SP) denotes that the MMS performance measure is a Departmental Strategic Plan measure. *(NK) denotes that the MMS performance measure is a Non-Key measure.* *(BUR) denotes that the MMS performance measure is a Bureau-level measure.*					

FY 2003 Program Performance Accomplishments
Leasing Activities

- *Planned:* Implement pre-lease steps for Gulf of Mexico and Alaska sales and plan to conduct two Gulf of Mexico sales, Sale 185, Central Gulf of Mexico, and Sale 187, Western Gulf of Mexico.
  Accomplished: In FY 2003, two Gulf of Mexico sales were conducted: Sale 185 and Sale 187. In addition, Sale 186, the Beaufort Sea off Alaska, was held. Pre-lease steps for the other scheduled sales in the 5-Year OCS Program for 2002-2007 were implemented on schedule.
- *Planned:* Conduct annual review of the 5-Year OCS Oil and Gas Leasing Program for 2002-2007 by July 1, 2003, as mandated by section 18(e) of the OCS Lands Act.
  Accomplished: As mandated by section 18(e) of the OCS Lands Act, an annual review of the 5-Year OCS Oil and Gas Leasing Program for 2002-2007 was completed on October 3, 2003. The review established that no revision to the current program is needed at this time.
- *Planned:* Complete revisions of the Code of Federal Regulations Part 256—Leasing of Sulfur or Oil and Gas in the OCS, into plain English to better reflect current processes and practices.
  Accomplished: The Notice of Proposed Rulemaking to revise the Code of Federal Regulations Part 256 was submitted into official surnaming in December 2003. The proposal revises Part 256 to simplify the language and to better reflect current processes and practices. We anticipate all revisions will be completed by September 2004.
- *Planned:* Continue determinations and depictions of U.S. offshore leasing boundaries and coordination with the Department of State on depiction of international boundaries.
  Accomplished:
  - Worked with the State of Alaska to start development of a Submerged Lands Act (SLA) boundary required for a planned 2005 oil and gas lease sale in state waters within Bristol Bay.
  - Produced multiple maps, graphics, and calculations as requested to answer questions regarding United States-Canada boundary disputes, wind farm proposals, sand and gravel activities, and the effects of proposed energy legislation.
  - Worked with NOAA and the interagency Baseline Committee (chaired by the Department of State) on national baseline development. Baselines were completed for the Northwest Pacific Islands and the Puerto Rico-Virgin Islands areas.

Environmental Assessment Activities

- *Planned:* Complete two multi-sale EISs covering the Beaufort and Cook Inlet Planning Areas of the Alaska Region.
  Accomplished: MMS completed one multi-sale EIS covering three expected lease sales in the Beaufort Sea Planning Area and one multi-sale EIS covering two expected lease sales in the Cook Inlet Planning Area.
- *Planned*: Complete one multi-sale EIS covering the Eastern Planning Area of the Gulf of Mexico Region.
  Accomplished: One EIS covering two lease sales in the GOMR Eastern Planning Area was completed.
- *Planned*: Complete an EA covering the Central Planning Area Lease Sale 190.
  Accomplished: The EA was completed.

- *Planned:* EAs will continue to be prepared on revisions to development plans, as appropriate, and pipeline and power cable replacements on existing leases in southern California.
  Accomplished: Completed two EAs in the Pacific Region, one covering a revised Point Arguello Field Development and Production Plan and one covering replacement of a failed power cable.
- *Planned*: Complete programmatic EA covering geologic and geophysical activities in the Gulf of Mexico Region and decide whether to prepare an EIS.
  Accomplished: Work on the final programmatic EA is ongoing.
- *Planned:* EAs will continue to be prepared for Pipeline Applications, Exploration Plans, and Development Operations Coordination Documents for proposed activities on the OCS in the Eastern, Central, and Western GOM Planning Areas.
  Accomplished: Five EAs were prepared for Pipeline Applications, 11 for Exploration Plans, and six for Development Operations Coordination Documents for proposed activities on the OCS. On an annual basis, the number of pipeline applications, exploration plans, and development plans that require an EA varies depending on industry activity and interest. The overall number of EAs completed in 2003 is what was expected.
- *Planned:* Two to three comprehensive (or Grid) EAs will be prepared for certain major surface facilities proposed in water depths greater than 400 meters in the Central and Western Planning Areas in the GOM.
  Accomplished: Three comprehensive (or Grid) EAs were prepared.
- *Planned:* Complete one multi-sale EIS covering the lease sales for the Central and Western Planning areas in the Gulf of Mexico Region.
  Accomplished: Completed one EIS covering five Central and four Western Planning Area sales.

Environmental Studies Program Activities

- *Planned:* The FY 2003 National Studies List (NSL) was approved by the Associate Director of Offshore Minerals Management on November 4, 2002. Approximately $7.5 million of the FY 2003 budget was allocated for the initiation of more than 29 new projects. The remaining funds were allocated to meet contractual requirements of 59 ongoing multi-year ESP studies initiated, but not fully funded, in prior fiscal years. Manage all studies to meet project milestones on time and within budget.
  Accomplished: During FY 2003 33 new projects with a total cost of $9.2 million were initiated; the remaining resources funded the successful continuation of 59 studies. In addition, more than 150 other studies were managed on time and within budget to meet project milestones.

FY 2004 Planned Program Performance

Leasing Activities

- Implement pre-lease steps for the remaining sales scheduled in the 5-Year OCS Oil and Gas Leasing Program for 2002-2007.
- Conduct annual review of the 5-Year OCS Oil and Gas Leasing Program for 2002-2007 by July 1, 2004, as mandated by section 18(e) of the OCS Lands Act.
- Participate in consultations with the Coast Guard on resource development implications of Liquefied Natural Gas facility applications filed under the Deepwater Ports Act.

- Continue determinations and depictions of U.S. offshore leasing boundaries and coordination with the Department of State on depiction of international boundaries.

Environmental Assessment Activities

- Work will continue on seven EAs in the Central and Western Gulf of Mexico Planning Areas and three EAs in Alaska. The EAs are required for proposed sales in the 2002-2007 5-Year Program.
- Will complete programmatic EA covering geologic and geophysical activities in the Gulf of Mexico Region and decide whether to prepare an EIS.
- Will complete a programmatic EA that was begun in April 2003 on structure removal activities in the Gulf of Mexico.
- EAs will continue to be prepared for Pipeline Applications, Exploration Plans, and Development Operations Coordination Documents for proposed activities on the OCS in the Eastern, Central, and Western GOM Planning Areas. We expect to complete 20 EAs in FY 2004.
- One to two comprehensive (or Grid) EAs will be prepared for certain major surface facilities proposed in water depths greater than 400 meters in the Central and Western Planning Areas in the GOM.
- EAs will continue to be prepared on proposed extended-reach exploration and development drilling from existing facilities; revisions to development plans, as appropriate; and pipeline repairs on existing leases in southern California.
- Environmental analysis work will continue on decommissioning proposals in southern California (for platforms and associated facilities/structures), working with the applicant and Federal, State, and local regulators to identify and resolve environmental issues associated with the proposals. Also, MMS will continue involvement with the Interagency Decommissioning Work Group (comprised of Federal, State, and local agencies) to identify critical longer term issues and strategize solutions.
- Preparation of EAs and other environmental analysis work in support of LNG, alternative energy, and OCS sand and gravel projects will continue.

Environmental Studies Program Activities

- The FY 2004 National Studies List (NSL) was approved by the Associate Director of Offshore Minerals Management on September 15, 2003. Approximately $7.3 million of the FY 2004 budget is allocated for the initiation of 27 approved new projects. The remaining resources will be used to meet contractual commitment for more than 40 ongoing multi-year ESP studies initiated, but not fully funded, in prior fiscal years. Manage all ongoing studies (approximately 300) to meet project milestones on time and within budget.

Justification of 2005 Program Changes

Leasing and Environmental

Redirection of Environmental Studies Program Funding for the Methane Hydrates Initiative

	2005 Budget Request	Program Changes (+/-)
$(000)	[400]	[400]
FTE	0	0

The FY 2005 budget request for the Leasing and Environmental Subactivity is $37,462,000 and 219 FTE, a net program increase of no dollars and no FTE from the FY 2004 enacted level.

The demand for natural gas is expected to rise significantly in the next 10-20 years as generation of electric power from cleaner burning natural gas increases. Demand from other industrial and domestic users will also contribute to the need for additional natural gas. In 2001, the United States consumed 23.26 TCF of natural gas but produced only 19.97 TCF; imported Canadian natural gas provided most of the balance. By 2025, it has been estimated that the U.S. demand for natural gas will increase to 35.8 TCF. An alternate domestic source of natural gas to meet the future demand may be gas hydrates. Preliminary estimates by USGS indicate potential natural gas from hydrates may be hundreds of times larger than current estimates of conventional offshore natural gas, and about 99.8 percent of this domestic hydrate potential is in the Federal offshore.

In FY 2005, MMS is requesting redirection of $400K within the Environmental Studies Program to conduct a geographically limited environmental characterization in specific areas of the Gulf of Mexico where there is a reasonable likelihood that hydrates might be co-produced with ongoing gas and oil production activities. It is also requesting an increase of $200K in the Resource Evaluation Program to begin tract-specific hydrate assessment to determine fair market value once production is practical. Collectively, these efforts will provide MMS decision makers with the information needed for proper policy and planning purposes.

▪ **Leasing and Environmental/Environmental Studies Program [$400,000 non-add]**
<u>Other Major Resources:</u> The Environmental Studies Program (ESP) has used reimbursables and partnering (e.g. the Coastal Marine Institute cooperative agreements) to help meet short and long-term ESP objectives. As indicated in the FY 2004 PART analysis for the ESP we always seek leveraging opportunities and will continue to do so. However, this hydrate initiative seeks to carryout research that will specifically fulfill MMS mandates and it is highly unlikely that other agencies will invest their resources in this effort.

Through funds provided to MMS for the Center for Marine Resources and Environmental Technology at the University of Mississippi, MMS partners with several federal agencies (NOAA, ONR, DOE, and USGS) in the development of a program to monitor the physical and chemical conditions that influence gas hydrate stability in the northern Gulf of Mexico. When it is possible to develop or participate in a multifaceted program that can address the objectives of a diverse group of sponsors tremendous leveraging is possible, as in this case. However, these resources cannot be redirected to meet the goals of the proposed initiative.

2004 Program: In FY 2003, funding for the Environmental Studies Program was reduced by $2.2M to redirect resources to higher priority Departmental needs. There were no funds requested in the President's FY 2004 Budget for the Methane Hydrates Program under the Leasing and Environmental Subactivity. However, $300K was requested in FY 2004 under the Resource Evaluation Subactivity. In FY 2004, MMS will continue participation in a $13M Joint Industry Project (JIP) formed in FY 2001 by Chevron-Texaco and the Department of Energy to conduct research concerning natural gas hydrate deposits in the deepwater portion of the Gulf of Mexico. The JIP will develop technology to characterize gas hydrate deposits, improve understanding of how they affect sea floor stability and climate change, and determine if and how gas hydrates act as trapping mechanisms for oil or gas reservoirs. MMS joined the JIP in FY 2002, providing $54K and scientific expertise and data to the research effort, resulting in a highly leveraged investment for MMS. MMS intends to renew its membership annually through FY 2004.

Consistent with the goals of the President's Management Agenda, the ESP completed a Performance and Management Assessment Program Assessment Rating Tool (PART) for the FY 2004 budget cycle for which it received the highest score in the Department of the Interior. The ESP success has been achieved with extensive customer input into the strategic planning for studies, most of which are competitively procured in the private sector. Annually, the ESP conducts a strategic program assessment and determines priorities for upcoming years based on numerous factors, but emphasizing the scope and magnitude of oil and gas and marine mineral activities in each of the OCS areas. Within the ESP, allocations are made to meet the most critical information needs for resource management decisions.

Justification of 2005 Program Change: The proposed redirection of $400K in FY 2005 and again in FY 2006 from the ESP base will be used to conduct a geographically limited environmental characterization to be targeted in an area of the Gulf where there is a reasonable likelihood that hydrates might be co-produced with ongoing gas and oil production activities. Based on the results of that study, MMS will determine whether additional resources will be required in subsequent years to conduct further research.

The private sector, governments, and academia all show ever-increasing interest in the recovery of gas hydrates from the OCS as a source of natural gas. The Department of Energy is conducting initial research into the potential of this resource on the OCS and is expending approximately $13 million (FY03-04) to characterize hydrates physical properties and to support other basic research, such as hydrate effects on climate. MMS is the only agency with the specific responsibility to protect environmental resources from impacts of gas hydrate extraction. Before the recovery of gas hydrates becomes economically viable, MMS must collect environmental information for evaluating the potential environmental impacts of the recovery of this energy resource.

This environmental research should be undertaken for several reasons:

- Research techniques and advancements need to be developed to properly assess risks to the environment from alternative hydrate production methodologies now under development.
- The concomitant environmental impacts from extracting location-specific hydrate deposits must be assessed to enable a proper geologic and FMV evaluation of the resource potential.
- MMS has need for resources now to collaborate with existing and imminent gas hydrate joint research projects, which leverage resources for all. MMS needs to maintain a leadership role in various aspects of hydrate research.
- Since the resource exists in relatively deep waters (300 to 1500 meters), collection of the needed environmental information will be expensive. The use of manned submersibles and remotely operated submersibles is anticipated. Assessment of baseline environmental communities associated with hydrates (i.e., chemosynthetics) must be done before bottom areas are disturbed.

Through recently conducted broad area wide studies we now know that the topography is varied and complex in deepwater areas of the Gulf where hydrates are likely to be developed. Because of this complexity and the diversity this brings to biologic communities on the seafloor, we will need to move from the broad scale characterization to a finer scale for environmental analyses.

Initially, a better understanding of the importance of deep-sea biological communities in the overall Gulf of Mexico ecosystem structure is needed. Because of the importance to deep-sea marine life of geochemical processes in the sediment and physical processes at the sediment water interface, these processes also need to be investigated since they could potentially be disrupted during a hydrate recovery process. This initiative would redirect $400K from base funds in FY 2005 and $400K in FY 2006 to conduct a geographically limited environmental characterization targeted in an area of the Gulf where there is a reasonable likelihood that hydrates might be co-produced with ongoing gas and oil production activities. This investigation would include quantitative sampling and analysis of biologic communities, biogeochemistry of sediments, deepwater circulation, and sediment geology.

This initiative supports the President's National Energy Policy for promoting "dependable, affordable and environmentally sound production and distribution of energy for the future" and the DOI Strategic Plan Goal "Resource Use – Provide Access for Responsible Use and Optimal Value (Energy)" by utilizing Strategy 2, "Enhance responsible use management practices." It also supports MMS mission and long-term goals and DOI goals focusing on environmentally sound development of our nation's natural resources. The MMS ESP conducts environmental research to meet information needs for the oil and gas program and recently expanded coverage to meet the needs of the sand and gravel program. The demand to satisfy the many programmatic information needs routinely exceeds the ESP budget. Through our management process, studies are prioritized and action on many information needs are deferred or dismissed. Funding for the Environmental Studies Program was reduced by $2.2 million in FY 2003 to meet higher-level Departmental needs. Funds for this study will be redirected from the ESP base in FY 2005 and FY 2006 only. In redirecting these funds, MMS will evaluate what programs or projects can be delayed that will cause the least disruption in the collection of time-sensitive environmental information needed to support management decisions and the least impact to current research leveraging opportunities.

Methane Hydrates Initiative			
	2004	**2005 Request**	**Change from 2004**
Methane Hydrates (Leasing & Environmental)	0	0	[400]*
Other Major Resources: The Environmental Studies Program (ESP) has used reimbursables and partnering (e.g. the Coastal Marine Institute cooperative agreements) to help meet short and long-term ESP objectives. As indicated in the FY 2004 PART analysis for the ESP we always seek leveraging opportunities and will continue to do so. However, this hydrate initiative seeks to carryout research that will specifically fulfill MMS mandates and it is strongly unlikely that other agencies will invest their resources in this effort.			
DOI End Outcome Goal 1: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value (Energy)			
Performance Milestones:			
With **FY 2005 Budget Request**: ▪ Solicit & evaluate proposals for deepwater environmental characterization study for a targeted area in the Gulf of Mexico. ▪ Initiate field study to include biological, geochemical, geological, and deepwater circulation components.			
** Note: The Methane Hydrates study will be funded from the base. Funds for this effort are reflected as a [non-add] item.*			

Resource Evaluation

Justification of Program and Performance
Analysis by Subactivity

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	26,831	27,081	+413	+563	28,057	+976
FTE	222	221	0	0	221	0

Program Overview

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

The Resource Evaluation (RE) program responsibilities encompass all cycles of OCS program activities. It conducts resource assessments to determine the hydrocarbon potential of Federal lands; estimates the amounts of oil and natural gas likely to be discovered and produced as a result of leasing; and conducts tract evaluations to ensure that the Federal government receives fair market value for rights to mineral resources on individual OCS tracts. The RE program utilizes the talents of an interdisciplinary staff of technical experts in the development and use of the technical methodologies and computer based models employed in the geologic and engineering assessments of mineral resource potential of the Outer Continental Shelf. The Resource Evaluation Program also hosts the sand and gravel program. Requests for OCS sand have increased significantly since 1999, and MMS must evaluate these requests to determine whether sources of OCS sand can be accessed in an environmentally safe manner.

The Resource Evaluation Program plays a critical role in supporting DOI's End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value, both Energy and Non-Energy. OMM outputs include the number of tracts assessed or evaluated. Performance indicators for the sand and gravel program include the timeliness of approving sand and gravel lease requests and the number of cubic yards of sand conveyed.

Resource Evaluation

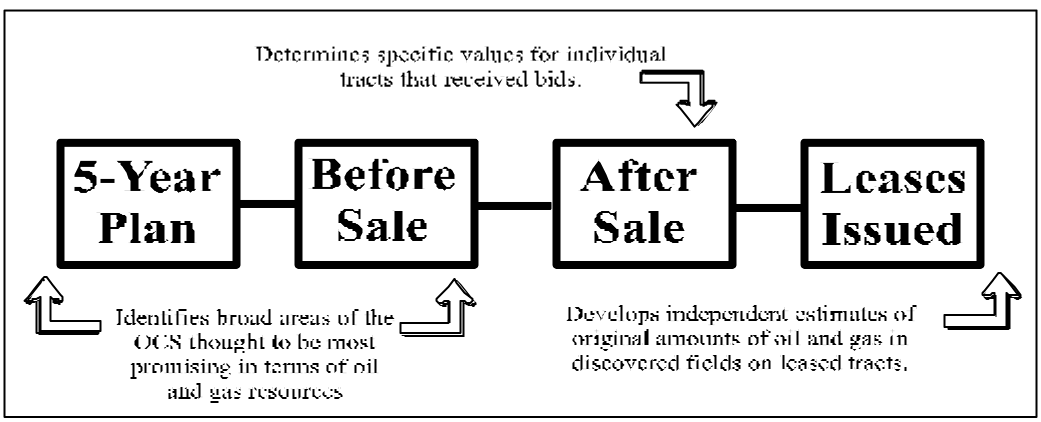
The resource evaluation activities within the Resource Evaluation Subactivity include:

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

Use of Cost and Performance Information

- In formulating budget requests for the RE program, trending performance data allows the program to analyze change in workload distribution in order to seek additional resources or shift existing resources to more active business processes. For example, performance data actuals and projections demonstrated the workload impact of implementation of the Deepwater Royalty Relief program. Analysis of data also leads to a shift in resources to the field determinations process in order to accomplish this mission function.
- Performance data also allows the program to calculate "return on investment" from the technology required to assist the often multi-million dollar decisions rendered by MMS staff (i.e. royalty relief decisions and conservation of resources decisions).
- Program responsibilities have shifted from one entity to another to better accomplish OMM mission goals. For example, the responsibility of qualifying New Producible Leases (NPLs) was moved from Field Operations to RE to improve the efficiency of the process. Specialists are shared, rather than duplicated. A staff Petrophysicist in RE performs petrophysical analysis for multiple offices in the Gulf Region to support FMV determinations, field determinations, reserves inventory, conductor casing waiver evaluations, unitization decisions & commingling decisions.

The RE Program is involved in all phases of OCS program activities. For the 5-Year Program, RE identifies broad areas of the OCS that are most promising for oil and gas development as well as resources expected to be available and resources expected to be produced. For individual lease sales, RE estimates the resources likely to be discovered and produced and the associated development activities. When a sale is held, RE determines fair market values for individual tracts receiving bids. Once leases are issued, RE works with regulatory personnel to ensure that discoveries are developed and produced in accordance with the goals and provisions of the OCSLA.



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

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

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

The RE Program is converting its seismic database into a digital form usable by its computer workstations, a project that will take several years. Digital seismic data are now the industry standard and upgrading the MMS database to this form will allow the Bureau to achieve the seismic interpretation capabilities now common within the oil and gas industry. In the case of digital well logs, a private contractor is converting paper well logs in the GOM into scanned images available on the desktop. Bureau-wide, approximately 90 percent of the data have been converted.

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

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

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

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

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

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

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

The high bids not accepted in Phase 1 receive further evaluation in Phase 2. MMS geoscientists conduct detailed geologic analyses, including reservoir studies, seismic stratigraphy, and prospect mapping, which support economic evaluations of oil and gas production from these tracts. The high industry bids are then compared to MMS estimates of Net Present Value (NPV) based on engineering simulation and discounted cash flow modeling.

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

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

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

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

***Geological Interpretive Tools* –** The Resource Evaluation Program implements and monitors the Geological Interpretive Tools (GIT) Program. GIT allows MMS to maintain technological parity with the private sector in order to ensure accurate evaluations for fair value determinations, field determinations for new producible leases, gas hydrates, royalty relief, unitization, reservoir analysis conservation, and shallow hazards processes. The accurate and improved quality of interpretation allows for better evaluations and estimates by mitigating risks.

Economic Analysis

The MMS:

- Determines the size and form of royalties, rentals, and minimum bids for newly offered leases;
- Develops and implements the procedures for filing and processing requests with MMS for royalty relief;
- Designs fiscal and administrative incentive programs for encouraging drilling and production on active leases in the presence of market failures;
- Addresses work on specific economic issues and program-related analyses, including the potential effects of alternative auction and leasing policies on MMS program objectives;
- Designs the procedures to be followed at lease sales for ensuring receipt of fair market value (FMV);
- Prepares an annual report to Congress evaluating bidding results and competition on the previous year's lease sales;
- Conducts assessment of fair market value rental charges for proposed liquefied natural gas (LNG) facilities; and

- Assists in the development of alternative energy program designs and regulatory responsibilities.

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

Economic Analysis Priorities

- Design financial terms for lease sales.
- Develop and implement royalty relief programs and regulations.
- Design and assess the performance of bid adequacy rules for lease sales.
- Review applications for royalty relief and requests for reconsideration of decisions to reject high bids.
- Provide economic analysis to other MMS program offices and activities and to the Office of the Solicitor.
- Design and study alternative auction and leasing arrangements.
- Design and implement regulatory responsibilities under the Energy Act.
- Evaluate MMS policies regarding conservation of resources.

Marine Mineral Activities

The Marine Minerals Program is responsible for all minerals on the OCS other than oil, gas, or sulfur. Currently, that responsibility is focused on Federal sand and gravel resources. Requests for OCS sand have increased significantly since the 1999 amendment to Section 8(k) of the Outer Continental Shelf Lands act eliminated fees for State and local communities' use of OCS sand for hurricane and shore protection projects. Consequently, the need to identify OCS sand sources that may be accessed in an environmentally sound manner has also increased significantly.

From 1995 to 2003, MMS conveyed rights to nearly 20 million cubic yards of OCS sand for shore protection and coastal restoration projects (see Table 1 below). In FY 2003, we conveyed 1.2 million cubic yards of OCS sand for two projects in Virginia. In FY 2004, we expect to convey Federal sand to coastal communities in Louisiana, Virginia, and New Jersey, based on discussions with those officials and information gathered through our State partnerships. Unanticipated requests are received throughout the year, and they need to be addressed in a timely manner. Some requests have been for emergency beach repairs to prevent imminent breaching and have required a rapid response by the MMS.

OCS Sand Conveyed through 2003 (by State)

State	Locality	Date	Sand Vol. (Cu. Yd.)	Borrow Area	Project Type
FL	Jacksonville Beach	1995	1,240,000	Duval Borrow Area	Shore protection
FL	Brevard Co. – North	2000	2,800,000	Canaveral Shoal	Shore protection
FL	Brevard Co. – South	2001	2,500,000	Canaveral Shoal	Shore protection
FL	Patrick Air Force Base	2000	560,000	Canaveral Shoal	Facility protection
LA	Holly Beach	2002	4,200,000	Peveto Channel	Shore protection
LA	South Pelto	2002	2,000	Ship Shoal	Test dredging
MD	Assateague Island	1998	134,000	Great Gull Bank	Emergency repair
MD	Assateague Island	2001	100,000	Great Gull Bank	Dune restoration
MD	Assateague Island	2001	1,800,000	Great Gull Bank	Coastal restoration
SC	Surfside Beach	1997	150,000	Surfside Borrow	Shore protection
VA	Sandbridge Beach	1998	1,100,000	Sandbridge Shoal	Shore protection
VA	US Navy – Dam Neck	1996	808,600	Sandbridge Shoal	Facility protection
VA	Sandbridge Beach	2002	1,500,000	Sandbridge Shoal	Shore protection
VA	US Navy – Dam Neck	2003	700,000	Sandbridge Shoal	Facility protection
VA	Sandbridge Beach	2003	500,000	Sandbridge Shoal	Shore protection

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

MMS will continue to work through the State Cooperatives to leverage the funding provided to the sand and gravel program in FY 2004 to identify OCS sand resources for priority shore and wetlands protection projects. In particular, the States of New Jersey, Louisiana, and Florida have indicated a need to identify and evaluate OCS sand resources for several projects along their coasts for which insufficient sand in State waters exists. The cooperative programs typically involve formation of a task force composed of an MMS representative and representatives from state and other Federal agencies. The task force meets periodically to review current work and recommend new projects. The projects usually involve identification of coastal areas in greatest need of restoration, locating and evaluating OCS sand deposits suitable for such restorations, and completing environmental studies to determine possible impacts of dredging the sand and placing it on an adjacent beach.

The New Jersey Offshore Sand Task Force was the first formed and is the furthest along in its organization and extent of work completed. As such, it is used as a model for other similar efforts. New Jersey not only has a large number of beaches and a very active beach restoration program, but there are also many other uses of the OCS off its shore including long-distance cables, artificial reefs, dump sites, and proposed wind farms. The task force includes a wide variety of agencies that are working closely together to minimize conflicts over access to sand deposits. New Jersey has completed evaluation of sand resources for about half of its 150-mile shoreline.

Florida and Louisiana also have active beach and coastal restoration programs. A regional offshore sand management project was initiated in Louisiana in 2003, where the demand for extremely large volumes of sand is very high and the environmental protection and restoration needs are very important. MMS is working cooperatively with the State in the planning and management of its offshore sand resources. The State has identified a coastal restoration plan and has proposed numerous projects to restore sustainability in Louisiana's coastal zone. However, resource issues in terms of the volume of sand that might realistically be available, how to allocate access to the available sand, and the environmental tradeoffs with large-scale dredging of the sand resources need to be resolved. The first meeting of the Louisiana Sand Management Working Group, which is composed of Federal, State, and local authorities, as well as academia and industry, was held in New Orleans in May 2003. At this meeting, issues were identified for evaluation and as work items to be pursued and discussed at future meetings. The second meeting of the group is scheduled for March 3, 2004 in New Orleans.

A number of environmental studies have been completed for OCS areas having high potential as sand borrow sites. These studies included numerical wave modeling to determine the effects of dredging on wave energy and adjacent coastal erosion and benthic biological surveys to assess the abundance and diversity of biota in and around the borrow areas.

In anticipation of the long-term use of Federal sand offshore the Atlantic and Gulf of Mexico states for beach nourishment and coastal restoration, MMS initiated a three-year test of biological and monitoring protocols on Sandbridge Shoal, a large sand deposit offshore Virginia Beach. The protocols were designed during an earlier MMS effort and are intended to investigate changes in the biological and physical environments where dredging is actively taking place. Once the testing is completed and changes/modifications have been implemented, the protocols will be put into place in areas where the long-term use of Federal sand is anticipated.

International Activities

While primarily responsible for managing mineral resources located on the Nation's OCS in an environmentally sound and safe manner, MMS finds itself regulating what is clearly a global industry. The offshore oil and gas industry routinely moves equipment, rigs and personnel from one part of the world to another in pursuit of investment opportunities. A company's investment dollars will go where the prospects are and where the regulatory regime is favorable. MMS takes an active approach to identify and become involved in international initiatives that promote better integration of safety and environmental concerns into offshore development decision-making. In FY 2005, our focus is on:

- Implementing relevant international components of the President's National Energy Policy;
- Monitoring, developing, and refining safety and environmental standards;

- Technical and information exchanges with our international regulatory counterparts;
- Providing technical advice to the Department of State.

National Energy Policy **-** Recognizing that today's offshore oil and gas industry is global in scope, MMS pursues an international strategy to enhance its domestic capability, share in the benefits of worldwide technology innovation, promote safe and environmentally sound operating practices, and enhance the role of our Nation in the global economy. The MMS's international activities are consistent with the President's National Energy Policy. In FY 2005, MMS will continue activities in the following areas:

- **Bilateral and Multilateral Relationships:** Many countries desiring to develop their offshore resources have contacted MMS to establish bilateral and, in some cases, multilateral relationships. MMS uses these relationships to encourage countries to consider implementing a system of clear, open, and transparent regulations and procedures to govern and at the same time facilitate foreign investment.
- **Memoranda of Understanding:** MMS has MOUs with our counterpart agencies in Australia, Canada, and Norway to exchange scientific and technical information related to offshore oil, gas and mineral activity. Discussions are underway regarding establishing MOUs with Brazil, Mexico and Russia. Subject to funding availability, cooperation includes exchange of information on resource assessment, administrative procedures and practices, leasing, development, environmental protection, economic analysis, risk perception, safety of personnel and offshore installations and pipelines, and public education.

Russia: With funding from the U.S. Agency for International Development (USAID), MMS has engaged the Russian Federation in cooperative activities related to the technical aspects of regulating and managing offshore exploration and development of oil and gas resources since the mid-nineties. Agency efforts have focused on information management, resource evaluation and international reporting methods, environmental risk assessment, methods of transferring mineral rights, and encouraging Russia to consider a new regulatory regime consistent with international practices that would promote safe and environmentally sound approaches to offshore oil and gas development while at the same time facilitate foreign investment.

Currently, MMS is working with the Russian Federation in the Arctic Council and International Standards Organization to promote and develop common environmental practices and technical standards for Arctic offshore oil and gas operations. Additionally MMS, with the State of Alaska and USAID, has been working with the Sakhalin Oblast in Far East Russia to exchange US Arctic experience and practices with regulators, industry, and stakeholders in exploration and development of offshore oil and gas and protection of the marine environment. Three exchanges involving US Alaska experts have taken place as of September 2003 and two more are planned in calendar year 2004.

- **Brazil:** MMS will continue to coordinate on several joint industry projects, international workshops and on going regulator-to-regulator discussions.
- **India:** MMS has developed contacts with the Indian Directorate General of Hydrocarbons of the Ministry of Petroleum and Natural Gas. Discussions are ongoing between technical experts from both organizations on laws and regulations regarding management of mineral resources, accident data and corrective measures, inspection and enforcement, economic analysis, and safety and environmental issues, as well as organization and staffing issues.

MMS is in discussions with the Department of Energy regarding a possible workshop in India on technological issues.

- **Caspian States:** With funding from the USAID, MMS continues to provide advice and assistance to the countries of Kazakhstan, Turkmenistan, and Georgia, as they continue their efforts to implement legislative and regulatory reforms to provide more stable regulatory regimes. The experience and expertise MMS provides through technical assistance workshops and regulatory partnerships is designed to help these countries develop and implement regulatory systems that incorporate modern-day safety and environmental standards.
- **Angola:** MMS is in discussions with the USAID concerning future technical assistance to the Angola Ministry of Oil regarding legal and regulatory frameworks for the management of offshore oil and gas resources and the management of oil and gas revenues.
- **Asia Pacific Economic Cooperation (APEC) Forum:** MMS provides support to the Department of State on the APEC Marine Resources Conservation Working Group. Under the auspices of APEC, MMS conducted two workshops in Indonesia on oil spill response and on platform decommissioning and in China on the structural integrity of offshore oil and gas platforms. MMS and DOS have an interagency agreement and will conduct a workshop in March 2004 to exchange information and improve response capabilities to spills in oil and will be held in Singapore and co-hosted by the Singapore Maritime and Port Authority.

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

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

Regulators around the world are increasing their participation in the development of international standards that meet established safety criteria. These standards can facilitate the movement of rigs, equipment, services, and personnel among offshore provinces, regardless of the regulatory regime. MMS is actively enlisting the participation of regulators from other countries and encouraging U.S. companies to contribute their resources and to support the work of the ISO.

MMS has been developing, both individually and through the International Regulatory Forum, a close professional relationship with members of the OGP, an international association of oil companies and petroleum organizations.

Technical and Information Exchanges - MMS exchanges information and expertise by:

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

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

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

Program Performance Summary – Resource Evaluation Subactivity:

Resource Use (Energy) End Outcome Measure					
Measure	2002 Actual	2003 Actual	2004 Plan	2005 Plan	2008 Target
Number of lease sales held consistent with the Secretary's Five Year Program (SP)	3	3	4	4	Current 5-year program ends 6/07. Legal requirements for analysis and public comment preclude projections beyond that point.
Resource Use (Energy) Strategy 3 Intermediate Measures					
Maintain the ratio of 1.8 to 1 (+/-0.4) of accepted high bids to MMS's estimated value (NK) (BUR)	2.4 to 1	1.9 to 1	1.8 (+/- 0.4) to 1	1.8 (+/- 0.4) to 1	1.8 (+/- 0.4) to 1
Resource Use (Non-Energy) Strategy 1 Intermediate Measures					
Issue X% of sand and gravel leases within 30 days of receipt of the formal request with final lease terms (NK) (BUR)	100%	100%	100% (estimated 3 leases)	100% (estimated 4 leases)	100% (Expect 3-4 leases per year to be issued)
(SP) denotes that the MMS performance measure is a Departmental Strategic Plan measure. *(NK) denotes that the MMS performance measure is a Non-Key measure.* *(BUR) denotes that the MMS performance measure is a Bureau-level measure.*					

FY 2003 Program Performance Accomplishments

Base Activities

- *Planned:* The Alaska, Gulf of Mexico, and Pacific Regions will release between 80,000 and 100,000 line miles of 2-D seismic information to the public as required under current regulations at 30 CFR Part 251.
  Accomplished: 113,000 line miles of 2-D seismic information were released to the public.
- *Planned:* Offshore acreage will be evaluated for Fair Market Value Determinations for two sales in the Gulf of Mexico and one sale in Alaska.
  Accomplished: A total of 4,880,874 acres for all three sales was evaluated.
- *Planned:* The Resource Evaluation and Assessment models will be refined and modified to better model constantly changing offshore scenarios. This is an ongoing effort based on differing economic conditions, legislative initiatives, etc.
  Accomplished: Refinement and modification of models is in process.

Economic Analysis

- *Planned:* Design fiscal aspects of three OCS lease sales. This consists primarily of determining the financial elements in the lease contract – the form and magnitude of royalties or other contingency payments, the form and size of rental payments, and the magnitude of the minimum bid requirement. The lease contract may vary both across and within a sale; in the latter case, for example, by water depth. The fiscal aspects of OCS lease sales also relate to the structure of the auction procedure, provisions for joint bidding, the content of the bid adequacy rules under which the high bid submitted on a tract is either accepted or rejected, and the provisions for penalties if the high bidder reneges on its bid offer.
  Accomplished: The two Gulf of Mexico sales generated high bids of $464 million on 896 tracts. These sales benefited from the provision of economic incentives designed by the Economic Analysis Activities. The incentives included royalty relief in the form of various suspension volumes for 1) production of natural gas at deep depths in shallow water, and 2) production of oil or natural gas in deep water in the Gulf of Mexico and at any water depth in Alaska. These incentives were conditioned on prices of gas and oil being below stipulated ceiling levels.
- *Planned:* Conduct one deepwater royalty relief case.
  Accomplished: No new applications for royalty relief were received. However, there was one existing applicant that submitted a required post-production report, which required review to determine whether certain mandated activities and expenditure floors were met.
- *Planned:* Publish proposed rule on deep gas drilling incentives.
  Accomplished: The proposed rule on deep gas royalty relief, which provides incentives for private industry to increase oil and gas recovery, was published on March 26, 2003. A workshop was held one month later to explain in further detail how the rule would work.
- *Planned:* Begin study of possible incentives for shallow water tracts.
  Accomplished: Work was started on refining the existing procedures for evaluating individual requests for royalty relief from shallow and deep water tracts. Very preliminary work commenced on the possible form of a categorical shallow water royalty relief program.
- *Planned:* Review appeals of bid rejections from three OCS sales.
  Accomplished: Evaluated five appeals of bid rejections in two different OCS sales and submitted recommendations to the Director.

- *Planned:* Review and monitor progress of extramural exploration study.
  Accomplished: Study has progressed successfully and was 50 percent completed at the end of fiscal year 2003.
- *Planned:* Initiate extramural study to improve tract evaluation methodology.
  Accomplished: Study was commenced and was two-thirds completed at the end of fiscal year 2003.
- *Planned:* Review CMI proposals.
  Accomplished: Contributed comments, input, and simulation runs for a "government take" analysis that was published November 10, 2003, and continued November 17, 2003, in the *Oil and Gas Journal*. Provided a proposal for a study on "capital investment decision making" that was funded by CMI.
- *Planned:* Provide economic input for tract evaluation in lease sales.
  Accomplished: Determined the appropriate oil and gas price parameters to employ in post-sale evaluations for three OCS sales.
- *Planned:* Initiate look-back study of deepwater program.
  Accomplished: Designed scope of work and selected a contractor who commenced work on this project.
- *Planned:* Complete development in incentives for Alaska Offshore program.
  Accomplished: Designed the Beaufort Sea Sale, which included royalty relief terms, price threshold ceiling and floors, lower minimum bids, and sliding scale rentals. The sale was the most competitive one in 12 years.

Marine Minerals

- *Planned:* In cooperation with the US Geological Survey's (USGS) Biological Resource Division, will begin work on two new environmental studies. The first study, to take place in Federal waters offshore southeastern Texas and southwestern Louisiana, will investigate finfish populations that utilize potential borrow areas as habitat. The second study is a literature synopsis. The objective of the study is to review and analyze existing literature and data sets to better characterize benthic communities that utilized shoal and ridge features along the United States East coast and Gulf of Mexico. The information gathered from this study will be used to aid in environmental assessments, needed to grant requests for the use of OCS sand by coastal States and to identify data gaps and provide insight as to the direction of future benthic studies.
  Accomplished: Both cooperative efforts with the USGS's Biological Resources Division were initiated. A cruise report for the finfish study was submitted and a draft report for the literature synopsis is expected shortly.
- *Planned:* Will gather information to determine the proper extent of buffer zones around shipwrecks, should they be identified, to avoid damage during dredging operations on Federal borrow sites. MMS maintains an extensive database of shipwreck and other historical artifacts and sites offshore, and we continue to gather and evaluate information to locate unrecorded shipwrecks or artifacts in the sand borrow areas we lease.
  Accomplished: A study to evaluate how best to protect historic and prehistoric artifacts offshore in the wake of potential dredging activities was initiated. A draft report was submitted in November 2003.
- *Planned:* Will lease additional sand resources to Virginia Beach, the State of Louisiana and possibly the State of New Jersey.

Accomplished: A multi-project EA to evaluate the potential impact associated with the leasing of Federal sand to the State of Louisiana was initiated and is due for completion in January 2004. A lease is likely to be issued shortly thereafter for a coastal restoration project at Whiskey Island. In addition, MMS worked cooperatively with NOAA Fisheries on an EA to evaluate the effects of using Federal sand offshore Louisiana for a project at Pelican Island. This EA will be completed the end of January 2004; a lease will be issued following EA completion.

- *Planned:* Pending new legislation, work with the U.S. Army Corps of Engineers on several wind farm permit applications.
  Accomplished: Although the new legislation was not enacted, we continued working with the Corps and other agencies on pending permit applications.
- *Planned:* Will continue work with 10 or 11 coastal states through cooperative agreements.
  Accomplished: MMS added three new State cooperative agreements (California, Maine, and Massachusetts), bringing the total to 13.

International Activities

- *Planned:* Conduct a joint workshop in Luanda, Angola, on the role of a regulatory agency in managing its offshore oil and gas resources.
  Accomplished: The joint workshop that was planned in Luanda, Angola, on the role of a regulatory agency in managing its offshore oil and gas resources, was cancelled due to reorganization of government and national oil company structures and responsibilities.
- *Planned:* Work with the Department of State to conduct an Asia Pacific Economic Cooperation forum workshop in the Asia Pacific area on oil spill response.
  Accomplished: An Interagency Agreement was signed on May 22, 2003.
- *Planned:* Continue to provide advice and assistance to the Department of State and other agencies in support of the international aspects of National Energy Policy.
  Accomplished: MMS entered into an Interagency Agreement with the Department of Energy to provide technical assistance to the Government of the Philippines regarding regulatory development and safety and environmental issues.
- *Planned:* With funding from the U.S. Agency for International Development (USAID), MMS plans to continue to provide technical and programmatic expertise through the Caspian Partnership for Regulatory Cooperation to our regulatory counterparts in Kazakhstan, Georgia, and Turkmenistan. During FY 2003, Kazakhstan will be the primary recipient of this assistance with a focus on leasing/tendering policies and methods of oil and gas resource evaluation.
- *Accomplished:* From November 12-14, 2002 in Astana, Kazakhstan, MMS provided computer-based training of its new Geologic Resource Assessment Program (GRASP II). This was a direct follow-up to the December 2000 activity. The program allows resource evaluators from the Ministry of Energy and Mineral Resources (MEMR) and other local agencies to assess both the geologic and economic value for hydrocarbon resources in Kazakhstan.
- *Accomplished:* From August 6-8, 2003 in Kazakhstan, MMS held a technical assistance workshop relating to MMS's pre-tender information collection and an overview of our offshore tendering procedures. Included in this was a simulated lease sale where MEMR economists and geologists went through the process of bidding for offshore resources following the MMS model. This training was particularly useful and timely due to the

MEMR's recent decision to reevaluate their existing production sharing agreement (PSA) structures, and their desire to move to a more open, transparent, and competitive process of tendering.

- *Planned:* Work with the Arctic nations and Arctic Council on issues relating to environmental protection and offshore oil and gas activities.
  Accomplished: In 2003, MMS played an ever- increasing role in work with the eight Arctic nations and permanent participants of the Arctic Council on issues related to environmental protection and offshore oil and gas activities. This includes leading the development of Guidelines for Arctic Offshore Oil and Gas Activities, input into development of an Arctic Marine Strategic Plan for managing resources, input into developing shipping and transport guidelines for Arctic waters, and leading the development of an Arctic Oil and Gas Assessment.

FY 2004 Planned Program Performance

Base Activities

- The Alaska, Gulf of Mexico, and Pacific Regions will release over 100,000 line-miles of 2-D seismic information to the public as required under current regulations at 30 CFR Part 251.
- Offshore acreage will be evaluated for Fair Market Value determination for three sales in the Gulf of Mexico and one sale in offshore Alaska with the possibility of a second in the Norton or Chukchi/Hone Planning Areas.
- The Pacific and Gulf of Mexico Regions will report on the development of independent estimates of proved oil and natural gas reserves in discovered fields.
- The Alaska Region will conduct field studies regarding the federal portion of the Northstar Field offshore Beaufort Sea and monitor the resource potential of other OCS prospects.
- The resource evaluation and assessment models will continue to be refined and modified to better model the constantly changing offshore scenarios. This is an ongoing effort based on differing economic conditions, legislative initiatives, etc.
- Work on the revised National OCS Assessment will begin, with completion expected in FY 2005.
- Development of a hydrates model will begin. Completion of the model is anticipated in FY 2005.

Economic Analysis

- Design fiscal aspects of the five proposed OCS lease sales that are in the 2002-2007 5-year program.
- Develop economic inputs for tract evaluations for five OCS lease sales
- Conduct reviews of appeals of bid rejections from five OCS lease sales
- Process one deepwater royalty relief application
- Update economic assessment of undeveloped Pacific leases as needed to support litigation/settlement discussions
- Review and monitor look-back study of deepwater program
- Publish final rule on deep gas drilling incentives
- Revise guidelines for evaluating requests for deepwater royalty relief
- Update computer model and user's guide for evaluating requests for deepwater royalty relief
- If Energy Bill passes, conduct rulemaking activities as required

Marine Minerals

The use of sand located in Federal waters as material for beach and coastal restoration purposes will continue to require environmental studies to assess the impacts of dredging to the physical, biological, and human environments before material is actually removed. FY 2004 studies will include:

- site-specific biological and physical environmental surveys in potential borrow areas identified in advance through MMS/State Cooperative geological investigations;
- studies of the importance of offshore shoal and ridge features as a food source to fish populations; and
- studies to evaluate how best to mitigate against potential impacts to and conflicts with commercial and recreational fishing activities.

Of particular importance will be studies to evaluate the possible impacts to the biological and physical environments offshore Louisiana. A major effort to rebuild the rapidly eroding Louisiana barrier islands is underway; the primary source of sand for this effort is sand deposits located in Federal waters. As much as 30 to 40 million cubic yards of Federal sand may be required over the next 5 to 10 years. MMS must evaluate the potential impacts of this large-scale extraction before activities actually take place.

- Convey Federal sand to coastal communities in Florida, Louisiana, and Virginia (4 to 6 leases).
- Continue to work through the existing State cooperative programs to identify OCS sand resources for priority shore and wetlands protection projects.
- Begin systematic assessments of OCS sand resources off the states of California and Louisiana.
- Initiate a study to evaluate the long-term biological and physical effects of dredging sand offshore Louisiana.
- Initiate a study effort to evaluate the effects of dredging on commercial and recreational fisheries.
- Initiate an Infrastructure Impact Study for the Gulf of Mexico. Since sand and gravel mining will create seafloor topography changes that may potentially affect platforms and pipelines, MMS will conduct a study to address the issue of seafloor stability and the impact on pipelines and other oil and gas infrastructure in the Gulf of Mexico as a result of projected dredging activities and the potential removal of large volumes of sand from Ship Shoal and other areas offshore Louisiana.
- Implement a new stipulation requiring the use of electronic positioning systems on dredges operating on the OCS and transmitting the information on the location and production rates to MMS on a real-time basis.

International Activities

- Implement relevant international components of the President's National Energy Policy. The USAID has requested MMS technical assistance in Angola in capacity building, regulatory development, and management of resource revenues.
- Monitor, develop, and refine safety and environmental standards.

- Continue technical and information exchanges with our international regulatory counterparts. The United States hosted the 10th Annual Meeting of the International Regulators' Form in St. Michael's, Maryland, in October 2003.
- Provide technical advice to the Department of State. An APEC workshop on oil spill response, co-sponsored by the MMS, Department of State, and the Singapore Maritime and Port Authority will be held in Singapore on March 25-26, 2004.
- Provide technical assistance to the Government of the Philippines under the Interagency Agreement with the U.S. Department of Energy.
- From December 8-10, 2003 in Astana, Kazakhstan, MMS held a technical assistance workshop on regulations covering offshore drilling construction, production, and occupational safety to our counterpart agency in Kazakhstan, the Ministry of Energy and Mineral Resources. A separate workshop covering the environmental aspects of these regulations will be conducted in the coming months.
- MMS will play a major role in two initiatives of the Arctic Council in the coming years. The first is the development of an Arctic Marine Strategic Plan for managing resources and the other is MMS leadership of the development of an Arctic Oil and Gas Assessment. The Arctic Marine Strategic Plan will be completed in October 2004 after negotiation of language between the eight Arctic nations and permanent participants. This plan will be non-binding, but will set the stage for an integrated policy for managing offshore resources in the Arctic. The Arctic Oil and Gas Assessment will address potential areas of oil and gas activities in the Arctic and the influence of these activities on the socio-economics and health of local populations and possible effects on the environment. A workshop led by MMS will take place in the summer of 2005. A third Arctic Council initiative that MMS will play a role in is the review of the Arctic Climate Impact Assessment, which the Department will convene in March 2004.
- MMS has been increasingly asked to assist the US Government in environmental compliance review of oil and gas projects that seek Multi-Lateral Bank funding. Sakhalin and Barents Sea projects in Russia may undergo such reviews with MMS as the advisor to the US Government.

Justification of 2005 Program Changes

Resource Evaluation

Increase for Gulf of Mexico Interpretive Technologies

	2005 Budget Request	Program Changes (+/-)
$(000)	1,943	+1,943
FTE	0	0

The FY 2005 budget request for the Resource Evaluation Subactivity is $28,057,000 and 221 FTE, a net program increase of $563,000 and no FTE from the FY 2004 enacted level.

Geological Interpretive Tools (GIT) were implemented in MMS in December 1993 and have been routinely used in support of mission goals since 1995. GIT allows MMS to maintain technological parity with the private sector in order to ensure accurate evaluations for fair value determinations, field determinations for new producible leases, gas hydrates, royalty relief, unitization, reservoir analysis conservation, and shallow hazards processes. The accurate and improved quality of interpretation allows for better evaluations and estimates by mitigating risks.

The cost of keeping pace with the private sector is significant. The private sector has embraced or developed new technology to meet the increasing challenge of competition in exploring for petroleum resources. Major technological advancements include 3-D depth migration, which provides imaging of complex structures, and 4-D and 4-C seismic acquisition. Improved interpretation techniques include amplitude versus offset (AVO), coherence/variance cube technology, and visualization technologies.

The funding increase will allow the Gulf of Mexico Region to reduce the disparity in technical capabilities with respect to private sector by implementing a 3-D visualization room, additional GIT training, workstation ready well logs and seismic data management. Proposed funding for the 3-D Visualization Room and GIT Training is reflected in the TIMS Exhibit 300.

3-D Visualization Room ($750,000)

Visualization technology allows for faster and more accurate evaluation and validation of geologic resource interpretations. Visualization is used for multi-disciplinary teamwork, project review sessions, detailed project work, and data quality assurance. Efficiencies stem from increased collaboration where multiple people can view, evaluate, and analyze data and interpretations at one session. Visualization rooms, a major technology implemented by operators to minimize risk, have been in use in the private sector since 1997, and over 100 have been installed in the world for use by the oil private sector.

The MMS's work on fair value determinations, field determinations for new producible leases, gas hydrates, royalty relief, unitization, reservoir conservation analysis, and shallow hazards processes will all benefit from a visualization environment because of reduced interpretation errors. This visualization room will directly support the President's National Energy Policy that envisions a comprehensive long-term strategy that uses leading edge technology to produce an integrated energy, environmental and economic policy. The technology supports the DOI Strategic Plan Goal "Resource Use-Provide Access for Responsible Use and Optimal Value Energy" utilizing Strategy 3, "optimize value through effective lease and permit management."

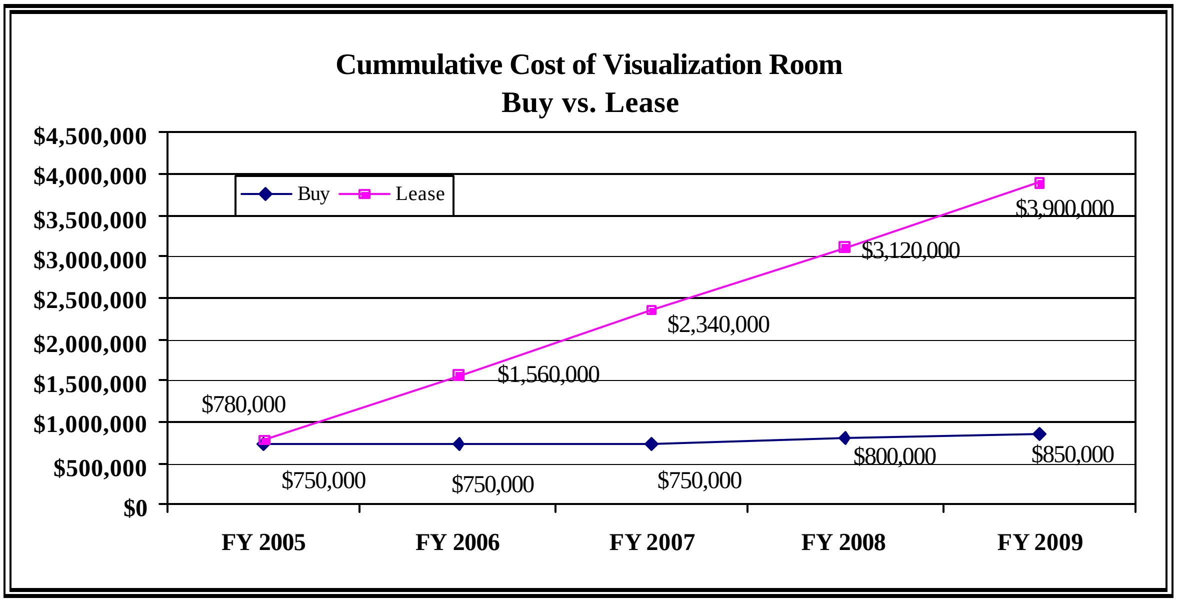
Return on Investment – The most effective demonstration of increase in performance is in terms of return to the taxpayer. For example, a visualization room will provide a 100 percent return on investment when any one of the following critical decisions is realized from use of 3-D visualization technologies:

- **Lease Sale Rejection decisions:** GIT has been routinely used for all fair market value determinations since 1995. During this period, the tools were regularly updated and technology kept current. The average net gain to the U.S. Treasury for each tract rejected in a lease sale and subsequently leased is $1.7 million.
- **Royalty Relief:** This recent technology would help us determine the size and delineation of fields more precisely, reducing the potential for misinterpretation that could result in erroneous decisions regarding granting or rejecting royalty relief applications. Depending on the water depth and size of the field, at $25/bbl, the misinterpretation could cost the taxpayers anywhere between $54,000,000 and $273,000,000 in royalty payments.
- **Conservation of Resources:** The Conservation Information Document (CID) is submitted prior to initial production from a lease and contains G&G data and engineering data. The CID is evaluated to ensure that all economically producible wells are planned for production and that no economic reservoirs will be bypassed. The duration of the G&G evaluation of conservation information documents is highly dependent on the complexity of the geology and can take from one to six months. With the aid of a visualization room, the time spent on each project could be reduced by 20 to 30 percent. This in return reflects cost savings to the government and faster response to operator requests. Access to a 3D visualization room would provide a better, more complete decision-making process. An incorrect G&G evaluation could result in an average reservoir of 12,000,000 BOE being bypassed, which would result in a loss of approximately $37,500,000 plus production to the taxpayer and Federal Treasury.

Contracting Out: Contracting for the use of a 3-D visualization room with some other business or organization is not a viable option for the GOMR because:

1) There are no publicly available visualization rooms in the greater New Orleans area to lease or rent. The market is limited for such services as major oil and gas operations continue to consolidate their operations in Houston. The only known visualization center in New Orleans is privately operated by a major oil company that uses the facility on a daily basis, and there can be no assurance that we would have access to the facility when needed. Even if our schedules permitted, proprietary data issues would be a concern for both parties.
2) There are at least six centers in Houston available for a fee. However, the cost would be prohibitive. In Houston, the cost to lease a visualization room is $750/hour or $6,000/day. If MMS contracted to use a visualization room for about 130 days (approximately half a work year) the cost would be $780,000. Not only is this prohibitive in terms of cost but productivity.
3) An offsite visualization room lessens the value of the collaborative capabilities of the environment. The visualization room will be an extension of the normal business work

process. Interpretations and data generated in-house will be immediately available for use in the in-house center. An offsite facility would require transferring data to another location and would break the flow of any collaboration and add to the cycle time of the process. Another site may also have different software from the software MMS geoscientists have been trained to use, which would require additional training costs and an extended learning curve.



Geological Interpretive Tools (GIT) Training ($200,000)

To keep costs minimized, GIT training is provided using the train-the-trainer concept. Under this program, software champions are provided expert training and in turn train other users of the software. Unfortunately, it takes an extended period of time for a champion to become a software expert and this sometimes delays critical training. With the implementation of visualization technology, upgrades to critical software, and the integration of existing technologies from the OMM OCS Connect initiative, technologies will be introduced too quickly for the train-the-trainer approach. The train-the-trainer approach needs to be supplemented or the implementation of critical new technologies will be delayed, the immediate benefit will be lessened, and the return on investment of the new technologies may be delayed. In order to maximize benefits, training will need to be contracted directly with software vendors for 150 scientists in the GOMR.

The GIT training is critical to the success of OMM and proper oil and gas resource assessment. Without adequate training, geoscientists and engineers cannot effectively use GIT software in performing their mission functions. Funding shortages have severely hampered the GIT training program, with little new vendor training scheduled for users. This increase for vendor training is critical for making progress under the training and development area of the Department's Strategic Human Capital Management Plan. If requested resources are made available, we can achieve an 80 percent increase in the number of GIT users provided outside vendor training in new software technology. It will also contribute to accomplishing the End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and

Ensure Optimal Value by developing and enhancing the technological and interpretive skills needed for proper resource assessment.

Digital Well Log Contract ($543,000)
For the GOM to meet its mission objectives, particularly with respect to fair market value, royalty relief determinations, and conservation of resource decisions, the use of state-of-the-art Geological Interpretive Tools (GIT) software is required. To use the full interpretive potential of the GIT software, accurate, complete, and properly processed workstation-ready digital well log data are required. This additional $543,000 will fully fund all of the tasks outlined in the Digital Well Log contract and provide the advanced processing techniques necessary to provide MMS with digital curve data comparable to that used by the private sector.

To provide accurate, defect free digital well log data in an efficient manner, MMS must contract out the collection, verification, documentation, data processing, management and distribution of digital open hole well data for the entire OCS. MMS lacks the resources and expertise to internally perform these required functions in a timely manner on the volume of digital data generated each year. Over 50,000 boreholes have been drilled in the OCS, with 1,100 to 1,200 new boreholes drilled annually. These boreholes generate a minimum of 85,000,000 curve feet of open-hole digital well log curve data per year. In addition, a minimum of 8,500 open-hole log images are generated each year. With more new wells being drilled, more digital data being acquired on older wells, and geologic evaluations becoming more sophisticated private sector wide, the usage of digital well data is increasing, as is the need to acquire more high quality digital well log data to meet the demands of today's more complex evaluations.

In the absence of a well log contract, the GOM has imparted significant time and effort to provide workstation ready curves for the GIT applications. Geoscientists who need to use the data have developed an inefficient ad hoc system to review, apply quality control measures, and process data. At a minimum, six different technological tools from four different offices are currently required to provide MMS geoscientists with workstation-ready data. This work is outside the expertise of the GOM personnel and has required additional training. More importantly, this process has removed resources from directly supporting mission activities. To remove the inefficient process, the workstation ready curves need to be outsourced to a private sector expert.

The complete funding of tasks for the digital well log contract will provide an efficient workstation ready process and private sector comparable data to the GOM and allow GOM geoscientists to concentrate on their areas of expertise. This funding reduces the risk of making decisions based on poor quality data. A return on investment of the magnitude outlined above under <u>3-D Visualization Room</u> for bid rejection decisions, royalty relief, and conservation of resources should be achieved when the improved process is implemented. The improved process should reduce the time necessary to provide users with workstation ready curves, provide the private sector with quality data, reallocate resources back to areas of expertise, and thus allowing the agency to reduce interpretation risk. The risk reduction will allow the agency to accurately identify (or not miss) any lease bid rejections or marginal reservoirs for development in Conservation Information Documents. With these resources we will be able to increase by 100 percent the number of private sector quality well logs. This initiative will contribute to accomplishing the End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value.

Seismic Data Management Contract ($450,000)

The Bureau acquires seismic data needed to perform critical functions in the Offshore Program, i.e., tract evaluation, field determinations of producible leases, royalty relief, unitization, reserves inventory, etc. Tremendous amounts of seismic data are in the OMM's inventory, which exceeds 16 terabytes. These data are mostly received in the private sector standard digital SEG-Y format, and are analyzed by the Bureau's geoscientists using the Geological Interpretive Tools (GIT). The seismic data are stored on magnetic tape in their original SEG-Y format. The data that are used by the geoscientists, or expected to be used, are stored on line on hard disks in the proprietary format required by GIT.

The seismic data are on magnetic tapes that will deteriorate with time, i.e., two to five years with a maximum of 10 years, depending on the type of tape. OMM acquires approximately two terabytes of new seismic data per year. Assuming that this acquisition rate of two terabytes per year is maintained, then two terabytes of data will eventually have to be written to new, longer lived tapes each year, which involves copying the data with current technology and additional time to verify the copy. This will be a continuing maintenance cost, as these data must be maintained as proprietary for 25 years and then made publicly available. Also, OMM has a strong interest in maintaining the integrity of these data and tapes once they become several years old, as they are still a valuable source of data used in the RE Program.

The goal of this initiative is to have a geophysical data service company to act on a continuing basis as OMM's storage/archive facility for the original format data (SEG-Y), and to serve as the repository of these data, actively managing the data to ensure they are recoverable when needed, and to deliver the data to OMM electronically as communication technology permits. The geophysical data service company would also be the repository that the public would be directed to, as the data become nonproprietary. The data would be released to the public at a nominal service fee paid to the service company.

The private sector is generally moving to the business practices described above in managing their own seismic data. Furthermore, as MMS moves towards e-government, it is anticipated that OMM will receive seismic data electronically from permittees at some point in the future. Using a geophysical service company as outlined above would facilitate this process and implement the best business practices. Outsourcing the seismic data management function is a tool that will allow better use of existing resources, reduce requirements for costly data storage, and lead to more efficient operations.

With the requested resources we will be able to begin the contracting process to manage this important data properly. This initiative actively serves the cross-mission support in the area of science in the Department's Strategic Plan, and directly supports the End Outcome Goal 2.1, "Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value."

GOMR Interpretive Technologies			
	2004	**2005 Request**	**Change from 2004**
GOMR Interpretive Technologies		1,943	+1,943
Other Major Resources (n/a)			
Performance Summary			
Resource Use End Outcome Goal: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)			
Return on investment expectation for the 3-D Visualization Room	n/a	100%	+100%
Provide all GIT users outside vendor training in new software technology	20%	100%	+80%
Private sector quality workstation- ready logs (Digital Well Log Contract)	n/a	100%	+100%
Seismic Data Management Contract Milestones for FY 2005 include: ▪ Draft requirements for the seismic data management functions. ▪ Issue SOW for seismic data management and advertise accordingly. ▪ Review, rate, and rank respondents to SOW and associated advertisement. ▪ Issue contract.	n/a	Periodic data submitted to the contractor.	

Justification of 2005 Program Changes

Resource Evaluation

Increase for Methane Hydrates

(thousands of dollars)

	2005 Budget Request	Program Changes (+/-)
$(000)	500	+200
FTE	0	0

The FY 2005 budget request for the Resource Evaluation Subactivity is $28,057,000 and 221 FTE, a net program increase of $563,000 and no FTE from the FY 2004 enacted level.

The demand for natural gas is expected to rise significantly in the next 10-20 years as generation of electric power from cleaner burning natural gas increases. Demand from other industrial and domestic users will also contribute to the need for additional natural gas. In 2001, the United States consumed 23.26 TCF of natural gas but produced only 19.97 TCF; imported Canadian natural gas provided most of the balance. By 2025, it has been estimated that the U.S. demand for natural gas will increase to 35.8 TCF. An alternate domestic source of natural gas to meet the future demand may be gas hydrates. Preliminary estimates by USGS indicate potential natural gas from hydrates may be hundreds of times larger than current estimates of conventional offshore natural gas, and about 99.8 percent of this domestic hydrate potential is in the Federal offshore.

In FY 2005, MMS is requesting $200K in the Resource Evaluation Program to begin tract-specific hydrate assessment to determine fair market value once production is practical. It is also requesting redirection of $400K within the Environmental Studies Program to conduct a geographically limited environmental characterization in specific areas of the Gulf of Mexico where there is a reasonable likelihood that hydrates might be co-produced with ongoing gas and oil production activities. Collectively, these efforts will provide MMS decision makers with the information needed for proper policy and planning purposes.

Methane Hydrates (+$200,000)

2004 Program: MMS is responsible for assuring safe operations, managing the development of energy resources from the Outer Continental Shelf (OCS), and assuring that the Government receives fair market value (FMV) for OCS lands that are leased. In FY 2004, MMS requested funding of $300K to develop a methodology for the evaluation of geologic risk and quantitative assessment of hydrates, with an expectation toward their FMV determination as a leaseable resource. The model will allow MMS to develop proper policy and plan for future gas production from hydrates in the OCS, once the private sector is ready with the technology for offshore hydrate production. The assessment will be conducted in two distinct phases. In the first phase, the methodology will be developed. The second phase will consist of the application of the methodology to assess the geologic risks, recoverability, and accurate estimate of hydrate volume in the OCS. The recent successful testing of gas flows from hydrates in the Arctic, and plans from the DOE-funded Joint Industry Project to drill and core hydrate sites in the OCS, may indicate the feasibility of commercial offshore gas production from the hydrates within 10 to 15 years.

Justification of 2005 Program Change: On a concurrent track with the process to identify and assess hydrate volumes on the OCS, which is scheduled to begin in FY 2004, MMS is requesting $200K in FY 2005 to begin tract-specific hydrate assessment to determine fair market value (FMV) once production is practical. This will involve a Bureau-wide team of geoscientists who will assess the potential value of methane hydrates on the OCS and build upon the methodology developed in FY 2004. The FMV determination will aid decision-makers in formulating future leasing decisions, and allow for timely analysis of Administration and Congressional proposals affecting future OCS lands activities. Since this initiative will be done with an eye toward the FMV determination of hydrate resources on the OCS, it will not conflict with USGS efforts to assess "in place" estimates of hydrates on a worldwide basis, or with DOE efforts to identify hydrates as a marine resource and develop research towards the production of hydrates. The proposed initiative supports the President's Energy Policy (NEP) for promoting "dependable, affordable and environmentally sound production and distribution of energy for the future." It also supports the DOI Strategic Plan Goal "Resource Use-Provide Access for Responsible Use and Optimal Value (Energy) by utilizing Strategy 3, "Optimize value through effective lease and permit management." Developing assessment of and conducting environmental research for methane hydrates is one of the Offshore Program's top strategies for addressing the future energy needs of the Nation.

This initiative will allow MMS to be ready with proper policy and planning for future gas production from hydrates in the OCS, once the private sector is ready with the technology for offshore hydrate production. If not properly funded, MMS will be behind the private sector in the evaluation of this resource once production becomes fully implemented.

<table>
<tr><th colspan="4">Methane Hydrates Initiative</th></tr>
<tr><th></th><th>2004</th><th>2005 Request</th><th>Change from 2004</th></tr>
<tr><td>Methane Hydrates (Resource Evaluation)</td><td>300</td><td>500</td><td>+200</td></tr>
<tr><td colspan="4">Other Major Resources: MMS and the Resource Evaluation Program coordinate methane hydrate activities with other Federal agencies, however, no resources are currently available to meet the goals of this proposed initiative.</td></tr>
<tr><td colspan="4">DOI End Outcome Goal 1: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value (Energy)</td></tr>
<tr><td colspan="4">Performance Milestones:</td></tr>
<tr><td colspan="4">With FY 2004 Budget:
▪ Establish Statement of Work and solicit proposals on model development.
▪ Award contract for assessment model.
With FY 2005 Budget Request:
▪ Test methodology.
▪ Hydrate resources identified for next 5-Year Program.
▪ Establish state-of-the-art hydrate technology information.</td></tr>
</table>

Justification of 2005 Program Changes

Resource Evaluation

Reduction in Funding for the Marine Minerals Technology Center

	2005 Budget Request	Program Changes (+/-)
$(000)	0	-790
FTE	0	0

The FY 2005 budget request for the Resource Evaluation Subactivity is $28,057,000 and 221FTE, a net program increase of $563,000 and no FTE from the FY 2004 enacted level.

The Marine Minerals Technology Center (MMTC) was reauthorized under the Marine Minerals Resources Research Act of 1996, and placed under oversight of the Department of the Interior. The Minerals Management Service manages the program. The mission of the MMTC at the University of Alaska-Fairbanks is to conduct research on the exploration and extraction of minerals from the seabeds of the continental shelves and deep ocean basins of the arctic region. The MMTC in Alaska was funded in the amount of $0.790 million in FY 2004.

MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for conventional oil and gas exploration and extraction, MMS is proposing to eliminate funding in FY 2005.

Justification of 2005 Program Changes

Resource Evaluation

Reduction in Funding for the Center for Marine Resources and Environmental Technology

	2005 Budget Request	Program Changes (+/-)
$(000)	0	-790
FTE	0	0

The FY 2005 budget request for the Resource Evaluation Subactivity is $28,057,000 and 221 FTE, a net program increase of $563,000 and no FTE from the FY 2004 enacted level.

The Center for Marine Resources and Environmental Technology (CMRET) was reauthorized under the Marine Minerals Resources Research Act of 1996, and placed under oversight of the Department of the Interior. The Minerals Management Service manages the program. The mission of the CMRET at the University of Mississippi is to conduct research on the exploration and extraction of minerals from the seabeds of the Gulf of Mexico. The CMRET in Mississippi was funded in the amount of $0.790 million in FY 2004.

MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for conventional oil and gas exploration and extraction, MMS is proposing to eliminate CMRET funding in FY 2005.

Regulatory Programs

Justification of Program and Performance
Analysis by Subactivity

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	50,773	49,465	+479	+494	50,438	+973
FTE	336	336	0	0	336	0

Program Overview

The Regulatory Subactivity funds two program elements: Regulation of Operations and Technology Assessment and Research.

Regulation of Operations oversees all aspects of offshore operations activities, from exploration to decommissioning. Its goal is to ensure that mineral development is conducted in a safe and environmentally sound manner. This challenge becomes greater every year as operators explore deeper geologic horizons and ultra-deep water to help meet the Nation's energy needs.

The Technology Assessment and Research program supports research associated with operational safety and pollution prevention. It operates through contracts with universities, private firms, and government laboratories to assess safety-related technologies and to perform necessary applied research.

This subactivity supports DOI's End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value.

MMS supports the President's Energy Policy to "promote dependable, affordable, and environmentally sound production and distribution of energy for the future." The OCS continues to play an important role in the Nation's energy supply, providing 23 percent of the natural gas and 30 percent of the oil produced in the United States. On behalf of the nation, MMS administers about 7,500 active leases on the 40 million acres of the OCS. The OCS is estimated to contain more than 50 percent of the Nations' remaining undiscovered oil and natural gas and so will continue to be an important national energy resource for years to come. Key indicators of MMS's performance and success in this area are the timeliness in which industry exploration and development plans and pipeline right-of-way applications are processed; limiting the amount of gas approved to be flared offshore; inspecting production facility components for compliance with safety and pollution prevention guidelines; and achieving an offshore development oil spill rate of no more than 10 barrels spilled per million barrels produced.

Use of Cost and Performance Information

- MMS has devised performance measures to monitor the activity of a wide spectrum of OCS operators. The Operator Safety Index (OSI), a normalized measure of regulatory compliance and accidents, provides a statistical means to allow MMS to determine poor operators, acceptable operators, and good operators. The OSI, coupled with other information, allows MMS to monitor operators over time in a consistent fashion and target limited resources where most needed. A poor OSI value may prompt MMS inspectors to visit certain facilities of operators more frequently than otherwise. Within the realm of operator disqualification, the OSI and other measures provide a consistent method over time to determine if an operator is making sufficient strides towards good or acceptable performance.

- A performance review meeting may occur annually following completion of each annual performance review. However, MMS may schedule a meeting as infrequently as once every four years for operators who maintain an OSI superior to the industry rate, remain free of significant events (i.e., fatalities, major accidents, major spills/fires, etc.), and foster a safe work environment through proven management systems, regulatory compliance, and safety practices. On the other hand, for operators whose OSI is inferior to the industry rate, meetings will be scheduled as frequently as needed to facilitate the operator's progress towards improved performance.

- The TAR program is revising performance measures to coordinate with new ABC cost and performance information in making management decisions. MMS continues to contract out safety and engineering studies to be used in the regulatory program, and collaborates research with industry and other government agencies internationally to leverage research dollars and achieve common goals with others.

Regulation of Operations

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	49,888	48,580	+479	+494	49,553	+973
FTE	336	336	0	0	336	0

Regulation of Operations activities include:

- Inspections
- OCS Infrastructure Security
- Safety and Environmental Management Program (SEMP)
- Annual Operator Performance Reviews
- Safe Award Program
- Approval of Industry Plans, Activities and Requests
- Civil and Criminal Penalties
- Medical Standards
- Industry Training
- Incident Analysis
- Industry Standards
- Rulemaking
- *eRulemaking*

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

MMS has adopted a phased program implementation process for the Coast Guard Fixed Platform Self Inspection Program. Before full implementation of the program, MMS inspectors received both classroom and field training by Coast Guard staff on the inspection of Coast Guard regulated items. Additionally, 27 Incidents of Noncompliance (INCs), which were jointly developed by the Coast Guard and MMS based upon the Coast Guard Self-Inspection Form (CG-5432), were issued by MMS, with the Final Potential Incident of Noncompliance (PINC) list having been placed on the MMS web site. As the final PINC list was posted to the MMS Regulatory Compliance web site on July 30, 2002, and in keeping with a 30-day operator review period, MMS began the inspection of Coast Guard regulated items on August 30, 2002. During the first six month period in which the Fixed Platform Self Inspection Program was in force, MMS conducted 1,108 inspections of manned and unmanned fixed facilities, and issued 140 INCs.

A web site dedicated to the Fixed Platform Self-Inspection Program, which contains training aids, the PINC list, and other information on the inspection program, was developed to assist operators in understanding program requirements.

> Over the past 20 years, less than 0.001 percent of the oil produced from the U.S. Outer Continental Shelf has been spilled from offshore oil production facilities. Through its regulatory program, MMS is working toward keeping this statistic as low as possible.

MMS utilizes aircraft to assist in the regulation and administration of oil and gas drilling and production leases and operations on the OCS. With approximately 4,000 oil and gas fixed platforms, 120 mobile offshore drilling units, and 33,000 miles of pipelines located and operating in Federal offshore waters, primarily in the Gulf of Mexico from 3 miles offshore to 180 miles offshore, the reliable and speedy transportation provided by small helicopters is necessary to perform the inspections required by the OCS Lands Act and to investigate accidents and incidents when they occur.

During the 12 months from September 1, 2002 through August 31, 2003, MMS utilized a total of 14 helicopters home-ported at its five District offices in the Gulf of Mexico OCS Region and two helicopters home-ported at its two District offices in the Pacific OCS Region to make 3,548 flights offshore in support of its regulatory responsibility.

OCS Infrastructure Security – In FY 2003, MMS provided critical support to the U.S. Coast Guard (USCG) in developing maritime security regulations that will ultimately help safeguard our Nations' most important oil and gas facilities on the OCS. MMS was instrumental in developing the "threshold characteristics" that the USCG will use to determine which of the more than 4,000 fixed and floating facilities would be subject to specific security measures mandated by the Maritime Transportation Security Act of 2002. In addition, MMS worked with the American Petroleum Institute to develop an industry-wide recommended security practice, "*RP70 Security for Offshore Oil and Natural Gas Operations.*" MMS also revised the "OMM Threat Advisory Guidelines for OCS Operations" and Emergency Notification System Standard Operating Procedures to improve the Bureau's response during a crisis. MMS continued to actively participate in regional coordination groups to increase vigilance, identify potential security risks, and establish procedures for communication and reporting suspicious occurrences near offshore production and transportation facilities.

In FY 2004 the Bureau will increase its focus on improving OCS security awareness and prevention measures and provide a similar emphasis to that traditionally afforded to response and recovery. MMS will work closely with the Navel Engineering Facilities Center to develop a security awareness training program for all MMS personnel that routinely go offshore. MMS will continue to participate in regional coordination groups to improve awareness and continue to analyze OCS infrastructure security. MMS will also continue to work closely with USCG to refine and update the "threshold characteristics" upon which the operating conditions of Title 33 CFR section 106.105 (a), (b) and (c) are based. In addition, work will begin soon on a new MOU with the USCG including an annex addressing OCS security.

In FY 2005, MMS will work to incorporate measures in support of the new Homeland Security Presidential Directive 7, "Critical Infrastructure Identification, Prioritization, and Protection" and continue to work with the USCG, industry, and other appropriate federal and state agencies to improve OCS security.

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

The American Petroleum Institute (API), the Independent Petroleum Association of America, and the Offshore Operators Committee (OOC), with MMS participation, developed an industry-wide recommended practice for implementing SEMP. MMS subsequently requested that industry voluntarily adopt the recommended practice, while MMS agreed to monitor industry's performance. From an API survey, MMS has learned that companies representing most of the OCS production reported having a SEMP generally in place. Based on this and acceptable industry performance, MMS has stated that the voluntary approach to operator implementation would be continued.

MMS and offshore industry formed a Performance Measures Work Group to develop an initial set of indicators to measure the success of SEMP implementation. Annually, beginning in 1998, MMS has collected industry data, performed analyses, and published reports of the aggregate information. Workshops were later held to promote the program and allow pacesetter companies to demonstrate methods that led to their exceptional performance. Since SEMP is a voluntary program, these performance measures are not used for enforcement actions or to set industry-wide performance targets. Additional performance measures data will be collected in FY 2005.

MMS continues to work collaboratively with industry representatives to revise the recommended practice, refine the performance measures and encourage widespread program participation. During FY 2004, MMS evaluated options for future development of safety management systems on the OCS. Results of those evaluations led to joint industry-government sponsorship of best practice workshops to address operational issues involving materials handling, hazards analysis, and maintenance. In FY 2005, MMS will continue to work with industry to improve safety and environmental performance through successful implementation of management systems.

Annual Operator Performance Reviews – MMS uses the Operator Safety Index (OSI) to prioritize communications with operators. In FY 2003, MMS refined its annual performance review process. The reviews assess how well the industry is performing relative to regulatory compliance measures, and center on an operator’s history of compliance, violations forwarded and assessed for civil penalty review, accident/incident history, and a company’s overall safety management plan. Introductory meetings are held with all new operators. Discussions focus on the company’s familiarity with governing regulations, operating structure, and any previous compliance problems with properties the new operators may be acquiring. Looking forward, alternatives under consideration for improving the performance review program include modified meeting structures and frequency as well as documenting worker activity and staffing levels in relation to INCs and accidents.

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

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

***Safe Award Program* –** Since 1983, MMS has presented the Safety Award for Excellence (SAFE) to energy companies that excel in the offshore oil and gas arena and who aid our ongoing effort to find new ways to develop domestic oil reserves in a safe and environmentally conscious manner. Beginning in 1999, the SAFE Award was presented at the Industry Awards Program and Luncheon where Industry's top finalists are recognized and the winners announced. The winners, selected from over 150 Outer Continental Shelf (OCS) companies represent the finest operators and contractors in their class at the district and national level.

In recent years, the SAFE Award Program has placed added attention on contractors due to their growing presence in offshore production and drilling operations. In FY 2003, MMS improved the review and selection process for both contractors and operators.

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

***Civil and Criminal Penalties* –** By pursuing, assessing, and collecting civil penalties, MMS encourages compliance with OCS statutes and regulations. Over the past five years, MMS has "reinvented" the program by rewriting, in plain English, the civil penalty regulations at 30 CFR 250.1400. This "reinvention" streamlined the civil penalty process by eliminating two layers of middle management. From 1990 through 1995, the program collected $350,000. Since 1996, following this reinvention effort, the program has collected over $8 million.

In FY 2001, MMS worked with the Inspector General (IG) and the Office of the Solicitor to develop guidelines for referral of potential criminal violations. In mid-FY 2002, the IG provided detailed training related to criminal penalty referrals to all MMS district and regional offices. These final guidelines were incorporated into the OCS Civil/Criminal Penalties Guidebook in FY

2003. The Annual Review of the Civil/Criminal Penalties Program was held in October 2002 in the GOMR. Updates to the Guidebook and policies associated with specific civil penalty cases were clarified and documented.

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

In accordance with OPA 90, MMS reviewed the maximum daily civil penalty assessment per violation for operators that threaten or harm humans or the marine environment. The result was a rise in the maximum daily assessment amount in accordance with the Consumer Price Index from $25,000 per violation per day to $30,000 per violation per day.

Medical Standards – On October 1, 2003, the Director signed a one year extension to the existing Interim Policy Document establishing the policy and guidance for the Medical Standards Program (MSP) within the MMS. The MSP is a medical qualification and evaluation program designed to safeguard the health and safety of all MMS employees working in the offshore environment. Medical standards provide a way for MMS to determine medical problems that may hinder an individual's ability to safely and efficiently perform the functional requirements of a position without undue risk to themselves or others.

Enrollment in the MSP is based on a position's exposure to arduous physical exertion or hazardous conditions during visits to platforms, rigs, or other hazardous work areas. The medical clearance process MMS uses to arrive at a medical fitness determination ensures a comprehensive and objective assessment of any given individual's ability to perform the full range of duties required for his or her position.

In 2003, MMS began the periodic examinations conducted by examining physicians for those employees who are enrolled in the program. A Medical Review Officer (MRO) evaluates the medical data provided by the examining physician as it relates to the known physical demand of the employee's position. The MRO uses a documented waiver and accommodation process to evaluate an individual's ability to perform the job safely and efficiently and issues a determination. The initial round of examinations will be completed in 2004. After the initial round of physicals, employees will have periodic exams every two years.

Implementation of this program brings MMS into compliance with the requirements of 5 CFR 339 and protects our employees at significant risk attributable to occupational and environmental exposure and demands.

Industry Training -- With full implementation of the new Subpart O performance-based training regulation on October 15, 2002, MMS is now actively engaged in monitoring industry compliance through implementation of a variety of techniques, including company training program audits and informal employee interviews. In FY 2003, MMS conducted 21 audits and 369 employee interviews.

Incident Analysis – In FY 2001, MMS continued development of its incident analysis program to promote safety, to identify operational trends and to gain a better understanding of safety problems on the OCS. An important part of the incident analysis program involves MMS conducting incident investigations. The focus of these investigations is to identify the circumstances surrounding the incident, the root cause(s), and recommendations to prevent recurrence of such incidents. MMS publishes major incident investigation reports on MMS Regional websites. We also advise operators and lessees of safety concerns identified through incident analyses and investigations through the publication of Safety Alerts. In FY 2003, MMS published seven major incident reports and 13 Safety Alerts.

MMS incident analyses over the last few years have identified crane operations as a safety concern. As part of the ongoing work to improve the safety of crane operations, in February 2003 MMS published a final rule incorporating API Specification 2C, Specification for Offshore Cranes, Fifth Edition, into the regulations. This API Specification incorporates minimum crane design standards for fixed platforms and incorporates the use of anti-two block safety devices on all cranes.

MMS is in the process of revising its regulations for incident reporting. The revised regulations will help MMS gather more consistent data, which will improve our ability to analyze incident information. We have been working on this effort with the USCG to align the two agencies incident reporting requirements for OCS activities. Our goals for the revised regulations are to (1) clarify what incidents are to be reported to MMS, (2) bring more consistency between MMS and USCG reporting requirements for OCS operators, (3) reduce duplicative reporting, and (4) streamline the reporting process between the two agencies. In order to reduce duplicative reporting and streamline the reporting process, MMS and USCG are also developing an electronic reporting system that will allow operators to send incident reports to both agencies through a single point.

An MMS proposed rule revising incident reporting was published in July 2003. A public meeting regarding the proposed rule was held on September 3, 2003 and the comment period closed on December 5, 2003. MMS is continuing to work with the USCG to analyze the comments and prepare the final rule. We plan to implement the electronic reporting system once the new reporting rule has been finalized.

In 2000, a review of incident data showed that a significant number of losses of well control (e.g. blowouts) were a result of the annular flow of gas during or after cementing operations. This has been a concern on OCS wells for many years and has resulted in the issuance of several Safety Alerts by MMS and participation in joint industry research projects aimed at better understanding this problem. These past efforts have proven unsuccessful in addressing this concern. In an effort to continue work in this critical area, MMS approached the American Petroleum Institute (API) in August 2000 and asked them to consider working with the agency to develop a best cementing practices technical standard on this topic. After discussing this issue it was agreed to develop a series of three separate standards, each addressing cementing practices and techniques which could be used by operators on different types of offshore wells. The first standard, API RP 65 – Recommended Practice (RP) for Cementing Shallow Water Flow Zones in Deep Water Wells, was issued by API in September 2002. MMS is currently in the process of developing a Notice or Proposed Rulemaking (NPR) to incorporate this standard into our regulations. This NPR should be published in the Federal Register for public comment during the first quarter of 2004.

Shortly after publication of API RP 65, the API working group started work on drafting the second cementing standard, API RP 66 – Isolating Potential Flow Zones in Offshore Shelf Wells and Deep Formations in Deep Water Wells. This standard should be completed and issued by API as a technical RP in early 2005. At that time, MMS will consider incorporation of the document into our regulations. After completion of the API RP 66 document, the work group will start efforts in drafting the third and final standard in this series of documents.

In 2001, MMS issued a Public Report investigating a loss of well control (e.g. blowout) and fire which occurred during a coil tubing workover operation on an OCS well. As a result of this incident and other OCS coil tubing related incidents, MMS decided to modify its current workover regulations to address coil tubing operations with the tree in place. In 2002, a proposed rule was started to update our regulations dealing with coil tubing blow out preventer (BOP) requirements and the use of down-hole safety devices. It is expected that this proposed rule will be published in the Federal Register during the second quarter of 2004 for public comment.

In a parallel effort to address the safety of coil tubing workover operations, MMS approached the American Petroleum Institute (API) in 2001 to revise API RP 5C7 – Recommended Practice (RP) for Coil Tubing Operations in Oil and Gas Well Services to reflect current BOP and coil tubing well control technology. API agreed to work with the agency to perform such an update. Currently, work continues on drafting this technical standard and it is anticipated that it will be completed by the end of 2004. At that time, MMS will consider incorporating this standard into our regulations.

In addition to using incident data to identify safety concerns related to OCS operations, these data are also used as a component for evaluating the performance of individual companies and industry as a whole (see other discussions on SEMP, Annual Operator Performance Reviews, and Safe Awards).

In addition to proposing revised incident reporting requirements for OCS operators, MMS also revised the agency's internal Manual Chapter for Incident Investigation and Information Management, which outlines broad internal agency policies and procedures for these activities. In FY 2003, MMS also initiated Incident Roundtable Meetings, where MMS technical and program staff meet to discuss the incidents that have occurred on the OCS during the previous quarter. MMS has found this to be a good way to share information about incidents that are occurring and to identify actions that MMS can take to enhance safety on the OCS.

MMS is working with the International Regulators Forum (IRF) to identify the incident data that the member countries collect in common and use that data to develop a set of performance indicators. These indicators will be used to compare the offshore performance among the member countries and to identify common areas of safety concern. Member countries can use this information to share best practices for promoting safety in these areas. During FY 2004, MMS will finalize the guidelines for data collection, facilitate collection of data from the member countries based on those guidelines, and work with other IRF members to synthesize the data and calculate the performance indicators.

Industry Standards -- Technical oil and gas standards form a very important component of MMS's overall regulatory program. At the present time, MMS incorporates 87 technical standards into its regulatory program related to equipment specifications, operational practices, equipment manufacturing, and hydrocarbon measurement. By participating in the standards development process, MMS provides a unique view in terms of how a particular standard would be interpreted by the agency if it were to be incorporated into our regulations. Currently, MMS is working with industry on a variety of standard related issues key to enhancing safety on the OCS, these include; cementing, coil tubing, cranes, and subsurface safety valves.

MMS participates in the development of standards by working on various industry task groups and working groups. MMS has participated in both domestic (e.g. American Petroleum Institute (API), Institute of Electrical and Electronic Engineers (IEEE), American Society of Mechanical Engineers (ASME)), and international (e.g. International Organization for Standardization (ISO)) standard developing organizations. It is not only beneficial to MMS, but industry as well to have an MMS representative involved in the standards development process.

Rulemaking -- Rules and regulations implement policies and procedures necessary to improve and ensure safe and environmentally sound offshore operations. MMS continually strives to improve the rulemaking process. New regulations are written to implement recent statutes, and existing regulations are revised so that those affected (such as new companies and small entities) can easily understand them and know how to comply. Rules are also revised to reflect technological advances and changes in industry practices. MMS also issues Notices to Lessees and Operators (NTLs) that clarify, supplement, or provide more detail about certain requirements. MMS issues Regional and National NTLs as necessary.

Final rules scheduled to be published in 2004-2005 pertain to OCS Rights-of-Use and Easement and Pipeline Rights-of-way; Plans and Information; Modification to Proprietary Terms; Incident Reporting; and Royalty Relief for Deep Gas. Proposed rules to be published include Leasing in the OCS; Definitions, Data Release, and Suspensions and revisions to 30 CFR 250 Subparts I and J (Structures and Pipelines). MMS will also publish proposed and final rules to incorporate by reference API documents and industry standards.

MMS will increase information collection burden hours for three Biological Opinion NTLs. These NTLs will ensure that MMS, as a Federal agency, continues its affirmative duty to comply with the Endangered Species Act (ESA). This includes a substantive duty to carry out any agency action in a manner that is not likely to jeopardize protected species as well as a procedural duty to consult with the Fish and Wildlife Service (FWS) and National Oceanic and Atmospheric Administration Fisheries (NOAA Fisheries) before engaging in a discretionary action that may affect a protected species. The 3 NTLs issued were:

- NTL 2003-G08 – Implementation of Seismic Survey Mitigation Measures and Protected Species Observer Program
- NTL 2003-G10 – Vessel Strike Avoidance and Injured/Dead Protected Species Reporting
- NTL 2003-G11 – Marine Trash and Debris Awareness and Elimination

eRulemaking: A “Regulations and Information Collection” element was designed for Public Connect – an online commenting system within OMM’s OCS Connect project . OCS Connect is a comprehensive reform project and an e-Government Initiative mandated by Legislation and Federal Guidance under the Information Technology Management Reform Act of 1996, the Government Paperwork Elimination Act of 1999, and the Paperwork Reduction Act of 1995. Public Connect is slated to be operational in early 2004 and will become a part of the government-wide eRulemaking Initiative that gives the public a single access point to have their voices heard and allows them to have a say in the federal regulatory process via the Internet. OMM staff from various program offices (operations, leasing, etc.) have been working with the OMM eGovernment office to develop and test the public commenting system.

Technology Assessment and Research

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	885	885	0	0	885	0
FTE	0	0	0	0	0	0

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

The TAR Program has four primary objectives:

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

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

TAR-Operational Safety and Engineering Research

The TAR-OSER Program activities address technological issues associated with the complete spectrum of operations, ranging from the drilling of exploratory wells to the removal and decommissioning of platforms and related production facilities. The expansion of industry operations into the deepwater areas of the GOM presents significant technological challenges to industry and MMS, the regulator. The industry is focused upon the development of new concepts, operational procedures, production facilities, and transportation facilities to meet the physical and economic challenges imposed by the operating environments associated with water depths up to 12,000 feet. In many cases, custom designs are being developed, employing new space-age materials and unique operating characteristics, all of which need to be independently verified by MMS to ensure safety of operations and protection of the environment.

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

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

Program Performance Summary – Regulatory Subactivity:

Resource Use (Energy) Strategy 1 Intermediate Measures					
Measure	2002 Actual	2003 Actual	2004 Plan	2005 Plan	2008 Target
Process X% of exploration plan in less than 30 days (NK) (BUR)	100%	100%	100%	100%	100%
Process X% of development plans in less than 120 days (NK) (BUR)	100%	100%	100%	100%	100%
Process X% of right of way pipeline applications within 140 days (BUR)	100%	100%	100%	100%	100%
(NK) denotes that the MMS performance measure is a Non-Key measure. *(BUR) denotes that the MMS performance measure is a Bureau-level measure.*					

Resource Use (Energy) Strategy 2 Intermediate Measures					
Measure	2002 Actual	2003 Actual	2004 Plan	2005 Plan	2008 Target
Achieve an oil spill rate for offshore development of no more than .00001 barrels spilled per barrel produced (SP)	0.00000058	Estimate: 0.000005 (Process of reconciling data reported to NRC and MMS for FY 2003 is ongoing. FY 2003 appears to be trending like FY 2000, which was (0.000005)	.00001	.00001	.00001
Inspect X safety and pollution prevention components per year (BUR)	69,715	63,260	63,560	64,560	65,560
X% of oil and gas production covered by safety and environmental management plans. (BUR)	81.6%	74%	70%	75%	85%
Maintain an annual composite operator safety index of 0.2 or less. (BUR)	0.14	0.18	0.2	0.2	0.2
Serving Communities (Protect Lives, Resources and Property) End Outcome Measures					
Number of fatalities among workers in DOI permitted activities (SP)	7 fatalities	11 fatalities	Reduce from 5-year average (1998-2002) of 7 fatalities	Reduce from 5-year average (2000 – 2004)	Reduce from 5-year average (2002-2007)
Number of serious injuries among workers in DOI permitted activities (SP)	21 serious injuries	23 serious injuries	Reduce from 5-year average (98-02) of 25 serious injuries	Reduce from 5-year average (00-04)	Reduce from 5-year average (02-07)
(SP) denotes that the MMS performance measure is a Departmental Strategic Plan measure. *(NK) denotes that the MMS performance measure is a Non-Key measure.* *(BUR) denotes that the MMS performance measure is a Bureau-level measure.*					

FY 2003 Program Performance Accomplishments - Regulation of Operations

Alaska OCS Region

- *Planned:* Monitor exploration activities and unit operations for the Cosmopolitan Unit/Hansen exploration well and process future suspension of operation and unit plans.
  Accomplished: Granted a suspension of operations to the Federal leases in the joint Federal/State Cosmopolitan Unit subject to the unit operator drilling a side-track well and conducting a long term well test. Conducted one inspection of the Cosmopolitan drilling program.
- *Planned:* Assist in pre-lease NEPA document preparation and consultation activities for all lease sales.
  Accomplished: Met with the North Slope Borough, Inupiat Community of the Arctic Slope, and Alaska Eskimo Whaling Commission to address outstanding concerns regarding offshore activities and developed an action plan to address seven specific issues.

- *Planned:* Increase liaison with other DOI agencies, State, and Joint Pipeline Office to process and administer a right of way for an Alaska Natural Gas Pipeline (ANGP); participate in pipeline bend tests directed at supporting pipeline standards for ANGP.
  Accomplished: Participated in several full-scale high strength steel bend/failure tests that will pave the way for future regulatory reviews of an Alaska Natural Gas Pipeline and other Arctic pipeline projects.
- *Planned:* Participate in expanding ISO/API standards for Arctic conditions, particularly for design, operation, and maintenance of subsea Arctic pipelines.
  Accomplished: Participated on a working group with the International Standards Organization to develop a comprehensive industry standard for design and operation of facilities in arctic conditions.
- *Planned:* Review, approve and conduct compliance inspections of the drilling, completion and workovers and production measurement systems for the Northstar development project.
  Accomplished: Conducted six inspections of the Northstar development facility. Issued one INC for violation of royalty meter tolerances.
- *Planned:* Continue to collect, monitor and verify production reports for the Northstar development project.
  Accomplished: Worked with BP Exploration to develop a plan to resolve continued royalty meter problems with the Northstar development project.
- *Planned:* Continue administrative oversight of the Northstar development project; annual performance review with operator, compliance audit of the approved development and production plan, and coordination with the State of Alaska under the joint Federal/State unit (e.g., unit plan of operations, modification to processing equipment, flaring).
  Accomplished: Approved two Applications for Permit to Drill and three Modifications for Federal OCS Wells.
- *Planned:* Participate in oil spill and technology research and development activities.
  Accomplished: Initiated discussions with the Environmental Protection Agency to clarify regulatory jurisdiction for oil spill response planning in the offshore portions of the National Petroleum Reserve, Alaska.
- *Planned:* Conduct compliance inspections and administrative oversight of the McCovey exploration project.
  Accomplished: Approved final site clearance and abandonment of the McCovey exploration drill site.
- *Planned:* Initiate the regulatory review of a new-start development and production plan for the Liberty development project.
  Accomplished: Conducted preliminary meetings between MMS, BPXA, the U.S. Army Corps of Engineers and the State of Alaska.
- *Planned:* Review and approve OPA oil spill contingency plans for facilities on State submerged lands.
  Accomplished: Approved several amendments to oil spill contingency plans.
- *Planned:* Participate in the annual oil spill response mutual aid exercise, project specific oil spill drills, and oil spill inspections.
  Accomplished: Participated in planning and execution of a multi-agency mutual aid oil spill response exercise for the North Slope/Beaufort Sea.
- *Planned:* Participate in program management activities; develop MOU with State of Alaska on coastal consistency review of post-lease activities; develop MOU with State of Alaska on

implementing OPA responsibilities on State submerged lands; develop internal guidance for conducting government to government consultation for post-lease activities.
Accomplished: Signed a Memorandum of Understanding with the State of Alaska, Department of Natural Resources that provides for improved coordination between MMS and State and to resolve several specific post-lease permitting issues.

Gulf of Mexico OCS Region

- *Planned:* Process and provide technical and environmental review of approximately 400 oil and gas exploration plans and 350 development plans.
  Accomplished: Processed 373 exploration plans and 294 developments plans.
- *Planned:* Conduct technical and structural review for the integrity of 125 new production platforms expected to be installed during the year.
  Accomplished: Conducted 135 new reviews.
- *Planned:* Conduct meetings and reviews with 95 individual companies concerning their performance for the year and focus on their safety record, violations, accidents, and steps to correct deficiencies.
  Accomplished: Conducted 105 annual performance reviews.
- *Planned:* Conduct approximately 16,000 inspections of drilling, workover, production, pipeline, and other operations.
  Accomplished: Conducted 21,402 inspections of various operational activities.
- *Planned:* Review and approve the installation of more than 1,300 new miles of oil and gas pipelines.
  Accomplished: Reviewed and approved the installation of 1,599 miles of oil and gas pipelines.
- *Planned:* Implement the new requirements related to offshore worker training. Conduct audits of individual companies.
  Accomplished: Implemented training standards in Subpart O. Conducted 19 company audits in the GOMR.
- *Planned:* Issue requirements for underwater inspections for structural damage from Hurricane Lili and evaluate necessity for repair and removal of structures.
  Accomplished: Issued a Notice to Lessee requiring the underwater review of facilities that were in the path of Hurricane Lili.
- *Planned:* Conduct technical reviews of new technology such as cell spars.
  Accomplished: Began review of cell spar technology and synthetic mooring systems.
- *Planned:* Conduct investigative work as part of formal accident reviews on 6 serious oil and gas accidents to establish lessons learned and changes needed.
  Accomplished: Completed five formal accident reviews. Ten Safety Alerts were issued based on findings of the accident reviews.

Pacific OCS Region

- *Planned:* Continue implementation of royalty relief, when appropriate, to conserve resources.
  Accomplished: Continued to manage royalty relief programs currently in place.
- *Planned:* Review and act on 10 industry plans, such as revisions to development and production plans, reservoir management programs, activities on wells, and unit plans of operation.

Accomplished: In FY 2003, approximately 30 industry plans were reviewed and acted on. This included one revision to a Development and Production Plan, ten Annual Plans of Operation, a variety of reservoir management requests (water/gas injection), and several plans related to the on-going operations on the POCSR.

- *Planned:* Conduct approximately 1,000 inspections of drilling, workover, production, pipeline and other operations.
  Accomplished: Over 2,000 component inspections were conducted. Some of these inspections were for the USCG, EPA, and the Nuclear Regulatory Commission.
- *Planned:* Conduct meetings and reviews with each operator concerning their safety performance for the year, focusing on violations, accidents and efforts to correct deficiencies.
  Accomplished: Met at least once with each operator.
- *Planned:* Continue to work with Headquarters and the DOI Solicitor's Office on responding to one operator's formal appeal (to the Interior Board of Land Appeals) of POCS Regional and District decisions and orders.
  Accomplished: Worked on two operator formal appeals.
- *Planned:* Continue to administer the OCS Civil/Criminal Penalties Program in the POCSR, by reviewing up to four regulatory violations and assessing civil penalties and by referring potential criminal penalty violations to the DOI Office of Inspector General, to further the MMS goal of safe and clean offshore operations
  Accomplished: Worked on one OCS Civil penalty case.

Technology Assessment and Research

- *Planned:* Research projects will be initiated to address 14 topics identified by MMS Regional Offices and technical experts in addition to continuation of studies being funded in FY 2002.
  Accomplished: MMS initiated research projects to address 12 topics identified by MMS Regional Offices and technical experts. Seven of these were completed in FY 2003 and the remaining five will be completed by the end of FY 2004. In addition, TAR continued the funding of studies initiated in FY 2002 but not completed until subsequent years.
- *Planned:* MMS and industry are jointly funding a major study to evaluate alternatives for developing and producing deepwater natural gas from Gulf of Mexico discoveries.
  Accomplished: Several studies were initiated in FY 2003 that will have applications in exploring and developing natural gas from Deepwater Gulf of Mexico discoveries. This includes a study of deepwater mooring systems. We anticipate the studies will be completed by the end of FY 2004.
- *Planned:* Research initiatives at the Offshore Technology Research Center (OTRC) will continue to focus upon deepwater Gulf of Mexico production systems and related topics.
  Accomplished: Through the cooperative agreement, eighteen deepwater tasks were initiated with OTRC. Examples include Floating Production Storage and Offloading roll motions, well blowout interventions, seafloor slope stability, subsea production systems, and extended reach wells. The tasks will be completed in FY 2006.

<u>FY 2004 Planned Program Performance – Regulation of Operations</u>

Alaska OCS Region

- Maintain significant safety and operational inspection and oversight of the Northstar development project.

- Manage the significant increase in regulatory responsibilities associated with development of the Liberty and Cosmopolitan projects, including work with BPXA to develop a memorandum of understanding between the MMS, US Army Corps of Engineers and BPXA to facilitate the NEPA and permitting process for a new Liberty development plan.
- Participate in field demonstrations and additional research to advance oil spill detection and response cleanup in ice.
- Participate in expanding ISO/API standards for Arctic conditions, particularly for design, operation, and maintenance of subsea Arctic pipelines.
- Increase liaison with other DOI agencies, State, and Joint Pipeline Office to process and administer a right of way for an Alaska Natural Gas Pipeline.

Gulf of Mexico OCS Region

- Process and provide technical and environmental review of approximately 425 oil and gas exploration plans and 325 development plans.
- Conduct technical and structural review for the integrity of 90 to 120 new production platforms expected to be installed during the year.
- Conduct meetings and reviews with 100 individual companies concerning their performance for the year and focus on their safety record, violations, accidents, and steps to correct deficiencies.
- Conduct approximately 21,000 inspections of drilling, workover, production, pipeline, and other operations. Review and approve the installation of more than 1,400 new miles of oil and gas pipelines.
- Develop appropriate protocols and review techniques to implement the new requirements related to offshore worker training.
- Complete the administrative and technical review of approximately:
  - 750 Exploration and Development Plans - for Conservation of Resources, Prevention of Waste, and Protection of Correlative Rights including Federal Royalty Interests
  - 15 Unitization proposals
  - 200 Suspension of Operation or Suspension of Production Requests
  - 100 Gas cap production requests
  - 120 Downhole commingling requests
  - 60 Conservation Information Document submittals
  - 300 Surface commingling applications
  - 2 Deep Water Royalty Relief requests
  - 60 Premature Reservoir Abandonment reviews
  - 50 Shallow Water Deep Gas reviews

Pacific OCS Region

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

- Review and act on industry plans such as revisions to development and production plans, reservoir management programs, activities on wells, and unit plans of operation.
- Continue implementation of royalty relief, when appropriate, to conserve resources.
- Continue cooperative efforts with the State, initiated in 2001, to develop shared reservoirs from existing Federal platforms.
- Continue to work with Headquarters and the DOI Solicitor's Office on responding to two operator's formal appeal (to the Interior Board of Land Appeals) of POCS Regional and District decisions and orders.
- Continue to administer the OCS Civil/Criminal Penalties Program in the POCSR, by reviewing regulatory violations and assessing civil penalties and by referring potential criminal penalty violations to the DOI Office of Inspector General, to further the MMS goal of safe and clean offshore operations.
- Conduct approximately 2,000 component inspections related to drilling, workover, production, pipeline and other operations. Some of these inspections are part of cooperative agreements the POCSR has with the USCG, EPA, and the Nuclear Regulatory Commission.
- Coordinate with the State of California to ensure all OCS operations, including proposed exploration, development, and production activities, satisfy the requirements of the Coastal Zone Management Act.
- Continue working with operators and lessees considering decommissioning their facilities. This will involve working with the applicant and Federal, State, and local regulators to identify and resolve issues related to environmental and technical issues associated with the proposals.
- Continue involvement with Interagency Decommissioning Work Group, made up of Federal, State, and local agencies, to identify critical longer term issues and strategize solutions.

Technology Assessment and Research

MMS TAR-OSER Program routinely participates in approximately 20-40 concurrent research project activities, most of which are multi-year activities, with several organizations and participants. Planned research project activities for FY 2004 include:

- Repair techniques for aging or damaged structure.
- Corrosion monitoring technology
- Probabilistic reliability and integrity assessment of deepwater steel production risers
- Evaluation of dropped objects and collisions
- Assessment of subsea system maintenance and intervention
- Early kick detection during lost circulation drilling activities using acoustic measurement devices
- Assessment of drill floor mud-gas separators on deepwater Gulf of Mexico wells
- Reducing the impact from drilling muds offshore
- Corroded pipeline reliability
- Real-time emergency response for floating offshore structures
- Fatigue life prediction of steel catenary risers based on types of materials and welding processes
- Comparative risk analysis of subsea versus surface processing
- Assessment of composite repair methods

Justification of 2005 Program Changes

Regulatory Subactivity

Increase in Funding for Gulf of Mexico Helicopters

	2005 Budget Request	**Program Changes (+/-)**
$(000)	494	+494
FTE	0	0

The FY 2005 budget request for the Regulatory Subactivity is $50,438,000 and 336 FTE, a net program increase of $494,000 and no FTE from the FY 2004 enacted level.

Gulf of Mexico Helicopters (+$494,000)
The requested increase of $494,000 is to restore full inspection capabilities to the Gulf of Mexico Region.

The OCS Lands Act Amendments mandate that annual inspections be performed on each permanent structure and drilling rig conducting drilling, completion, or workover operations in the Gulf. Other operational requirements include pollution inspections, accident investigations, spill investigations, and flyovers of critical, high production asset facilities. The reduced funding level in FY 2004 may potentially result in a five percent reduction (approximately 1,000) in the number of inspections conducted by the Gulf of Mexico Region. Additionally, follow-up inspections of poor performing facilities could be curtailed, as well as performing inspections for the Coast Guard for personnel protection, which began in 2003. The reduced funding also diminished the ability of the organization to observe the areas around critical infrastructure during the high state of alerts issued by the Department of Homeland Security. Increasing funding, as opposed to continuing the current reduction, will allow MMS to meet the growing annual inspections requirements and maintain the ability to perform regulatory oversight responsibilities.

Information Management Program

Justification of Program and Performance

Analysis by Subactivity

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	22,991	25,706	+120	+4,321	30,147	+4,441
FTE	63	65	0	+9	74	+9

Program Overview

The Information Management Program supports DOI's End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value, both Energy and Non-Energy.

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

Use of Cost and Performance Information

- The OMM has defined MMS work activities along the same functions that are being reengineered through the OCS Connect E-gov transformation process. The work activity costs and workload measures for the functions being redesigned and realigned are being tracked from FY 2003 forward. This cost and workload information will provide OMM a baseline against which activity costs for a specific workload will be compared to measure the results of the reengineering efforts. The data, along with supplemental information, will show if OMM is performing the same services with faster cycle time, less cost, and greater workload throughput after the new automated, electronically assisted business processes are implemented. These services will be measured both internally and externally for a variety of customers and stakeholders in areas such as customer results, processes and activities, mission and business results, and technology.

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

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

- Coordination with Interior's and MMS's Chief Information Officers, and adherence to Departmental Enterprise Architecture, Departmental Capital Planning and Investment Control process, and Departmental IT Security;
- Nationwide policy coordination and standardization for Offshore's IT Program;
- Nationwide management of the OMM IMP budget formulation, tracking distribution of funds and management of acquisitions, and implementation of procurements;
- Leadership in the design, development, implementation, and support of the Offshore corporate database and application systems;
- Coordination of Offshore information security activities and coordination with MMS and Department-wide security functions;
- Leadership in design, development, integration, implementation, and support of OMM and MMS architecture infrastructure;
- Coordination of Offshore-wide area network activities and Bureau-wide technology integration;
- Coordination of major IT activities related to nationwide procurements including hardware and software maintenance agreements;
- Acquisition management of all service contracts in Offshore in support of software development, help desk support, and Information Technology consulting;
- Acquisition and oversight of Geological Interpretive Tools to assist the geoscientists with the evaluation of Offshore leases and management of operations and environmental concerns on the OCS;
- Leadership in the evaluation and integration of new IT solutions;
- Supporting and providing transition services for the OCS Connect project; and
- Managing and coordinating A-76 responsibilities relating to the IT program.

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

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

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

- Users are more mobile and need remote access to information and systems;
- More applications requirements must be developed and maintained;
- Broadening of the level and number of users who require greater access to MMS data;
- More data must be maintained, processed and archived;
- Data management methods must be refined to support the additional data;

- Computers and networks must be faster and more powerful;
- Data must be structured according to industry and Departmental data standards;
- More resources must be applied to coordinating, testing, and implementing administrative systems and reengineering projects;
- Deployment and management of Offshore and MMS-wide systems and standards must be more carefully coordinated;
- Increased security requirements must be addressed;
- Skill levels must keep pace continually with the rapid rate of technology change; and
- Life cycle management requires additional attention and resources to meet the needs of the users and to keep up with the industry.

OCS Connect (E-Government Transformation)
Our goal for a citizen centered electronic government is to provide improved and secure online access for the public and to the business processes of OMM with better management of data and information. The result will be better communication and reduced costs and cycle-times for stakeholders in terms of accessing information, submitting applications and participating in MMS regulatory and planning processes.

The OCS Connect initiative, a cross-cutting component of the Department of the Interior's Management Reform Plan, transforms OMM's business processes and provides secure, online access for all citizens, including MMS employees, to appropriate MMS information and business processes. The OCS Connect project supports DOI's End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value – Energy and Non-Energy. OCS Connect directly links to the President's Management Agenda (expanded electronic government), and is listed under "Department-wide Activities and Plans" in the Secretary's plan for citizen centered governance (CCG initiative).

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

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

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

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

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

FY 2003 Program Performance Accomplishments
Base Activities

- *Planned:* Expand and strengthen the information security infrastructure of MMS and heighten the information security awareness of all MMS employees
  Accomplished: All employees receive annual security training. All employees with security responsibilities receive specialized annual training. ITD continues to coordinate with the newly formed CIO's office on all security matters. ITD ensures Windows, Unix, the firewalls and the Intrusion Detection System are patched with the necessary security updates. OMM's IT security strategy has been developed and is being implemented.
- *Planned:* Initiate system security certification and accreditation (C&A) activities
  Accomplished: Interim Authority to Operate (IATO) has been completed for the Technical Information Management System. Certification & Accreditation work is proceeding. IATO has been completed on the OMM Network and C&A work is proceeding. IATO has been completed on the OCS Connect project and C&A work is proceeding.
- *Planned:* Analyze Departmental IT architecture and applications as they relate to mission critical activities in the future
  Accomplished: ITD has completed the baseline Enterprise Architecture Inventory. This will be entered into Popkin – the DOI Enterprise Architecture modeling tool. ITD represented

MMS in the efforts to establish the DOI Enterprise Licensing Agreement with ESRI resulting in substantial savings for GIS software maintenance.

- *Planned:* Begin the transition to Electronic Government.
  Accomplished: ITD continues to develop the eWell pilot which will be deployed for oil industry customer use in January 2004. This will enable the electronic permitting and reporting processes for well activity. IATO has been completed for the OCS Connect System. ITD and OITS worked with BAH to install and integrate the hardware and software into the current OMM infrastructure. ITD staff is participating as Subject Matter Experts (SME) in the Leasing and Adjudication business processes reengineering efforts.
- *Planned:* Develop transition/integration plans for OCS Connect activities.
  Accomplished: The first deliverable for OCS Connect has been installed. Current change management procedures are being followed by ITD and OITS for updates to the new system. ITD is working with the OCS Connect contractor, Booz Allen & Hamilton, to establish the technical architecture. The transition and synchronization plans are a large part of this effort.
- *Planned:* Participate in the enterprise-wide software projects.
  Accomplished: ITD has represented MMS on several of the Domain Architecture Teams: geospatial, applications and data. The Information Technology Division continues to participate with MMS Technical Services Management teams. This ensures coordination of all enterprise projects such as standardized clients, active directory services, update of Microsoft Security patches, etc. The OMM provides representatives to Bureau and departmental initiatives.
- *Planned:* Maintain and enhance the Offshore corporate databases.
  Accomplished: ITD and OITS continue maintenance and enhancement on the Technical Information Management relational database. Support is also provided for the Geological Interpretive Tools databases.
- *Planned:* Support, test, install, and maintain new technologies.
  Accomplished: ITD successfully migrated the TIMS GIS system to the latest ESRI software – ArcGIS. This installation was accomplished using Citrix technology to allow regional access from Headquarters locations. Worked with Applications Branch and Booz Allen & Hamilton on system architecture for the eWell pilot. Completed design of the architecture and security zones for OMM. Implemented Veritas servers in January 2003 – helped eliminate servers in Herndon. Working on replacing functionality of Denver servers using a Citrix server – this will allow us to remove the Denver GIS and Oracle server.
- *Planned:* Develop and support Offshore software applications, and upgrade and expand computer network infrastructure.
  Accomplished: ITD assisted in loading contract deliverables for the Gulf of Mexico Environmental Special Studies and Analysis contract. ITD participated in the review of seven environmental studies. Continued on site support for the Sale Day system used in the GOMR lease sales. Alaska has now requested the use of this portable system for their next sale.

OCS Connect

- *Planned:* Online rulemaking system modeled after EPA EDOCKETS will be developed and launched.
  Accomplished: The plan for an online rulemaking system explicitly called out in the President's Management Agenda was integrated into an expanded plan for a public comment

and response system, Public Connect, for all OMM programmatic documents. The system was developed and a provisional Interim Authority to Operate (IATO) was obtained in November 2003. The system was launched during the first quarter of FY 2004.

- *Planned:* A public comment and response capability will be developed.
  Accomplished: In FY 2003, OMM completed the hardware and software acquisition for an OMM implementation of an electronic Public Commenting System and security and portal systems, to provide the public with the capability to participate online in the OMM programmatic processes. The Public Connect System is in the installation/user training phases. The system was launched both internally and externally during the first quarter of FY 2004.
- *Planned:* Core capability for an Electronic Document Management System (EDMS), including Electronic Records Management System (ERMS) will be developed for limited implementation.
  Accomplished: The applications and hardware to provide this capability underlie the Public Connect System that was developed in FY 2003. In the first quarter of FY 2004, OMM began the expansion of this capability through the re-engineered business process clusters.
- *Planned:* Management of Regulations, Laws and Notices to Lessees will be re-engineered and implemented within the relevant OCS Connect subsystems.
  Accomplished: For planned business process re-engineering (BPR) tasks, OMM evaluated the projected funding profile for the project based upon feedback from the administration and Congress, and determined that the original funding profile was unrealistic. In order to meet the funding level reduction identified in the decreased implementation alternatives, OCS Connect underwent significant re-scoping and reprioritization efforts in June 2003. This effort helped to identify core clusters and processes that required implementation for the project's success, versus certain clusters, and other third and fourth tier processes that could be eliminated with minimal impact on OCS Connect. While the project concept and goals remain viable, OMM elected to forgo business process re-engineering of the administrative and support related processes, and eliminated business process re-engineering of those business processes that were determined to be of lower return value (which included the cluster Management of Regulations, Laws and Notices to Lessees, above). OMM completed re-scoping and reprioritizing clusters of business processes to maximize benefits in a reduced funding scenario. OMM also completed planning of re-engineering of the first tier or prioritized clusters or processes, with goals to move them from a paper-based data stream to a web-based data stream. The BPR work for the first cluster, Manage and Administer Leasing Program, began in October 2003.
- *Planned:* Management of Cadastral and Thematic Maps will be re-engineered, aligned with Geospatial OneStop, and implemented within the relevant OCS Connect subsystems.
  Accomplished: During the project re-evaluation, it was determined that this cluster of business processes related to Geographical Information Systems (GIS) was relevant to every single business cluster to be re-engineered. Rather than address GIS aspects later as a separate, discrete cluster, it was decided to integrate the GIS aspects of each cluster as a part of the re-engineering of each business process cluster.
- *Planned:* Project Security Policy and Plan will be implemented.
  Accomplished: In the security area, the draft System Security Plan (SSP) was developed in September 2002 and updated in November 2003 to obtain a provisional Interim Authority to Operate (IATO). The plan calls for the development and deployment of Public Connect

(public commenting system), which was granted provisional IATO and is completing the Certification and Accreditation (C&A) process. While the initial SSP has been established, it will be further developed and refined as BPR is conducted and as additional OCS Connect modules are defined/designed. Both BPR and systems development will occur incrementally over the next five years, and the complete system will be re-certified with each release.

- *Planned:* Further development of OMM standardized data model. Work with relevant industry standards organizations to align data models.
  Accomplished: The OMM standardized logical data model (SLDM) was further developed and then compared against more than 70 industry standard data models for fit, and the strengths and weaknesses of each model assessed along with the suitability for development of the accompanying physical model. The SLDM work continued into FY 2004.
- *Planned:* "My OCS" portal will be developed to provide common, secure access for stakeholders, both external and internal.
  Accomplished: The "My OCS" portal was developed to provide common, secure access for stakeholders, both external and internal. The portal, along with the Public Connect subsystem was granted an IATO in November 2003. A pilot within the Project Office Management community was implemented during the first quarter of FY 2004.

FY 2004 Planned Program Performance
Base Activities

- Continue to develop/update policies consistent with appropriate regulations/guidelines in support of mission requirements;
- Continue to enhance the information security infrastructure of MMS and heighten the information security awareness of all MMS employees;
- Finalize system security certification and accreditation;
- Participate in the enterprise-wide software projects;
- Convert, maintain and expand the Offshore corporate data bases as part of the OMM OCS Connect project;
- Support, test, install, and maintain new technologies;
- As part of the OMM OCS Connect project, help develop the IT architectures and applications necessary to deploy OMM's next generation of Internet enabled applications and integrate related security requirements;
- Analyze current IT architecture and applications as they relate to mission critical activities in the future;
- Install and maintain life-cycle upgrades for the desktop workstations, upgrade desktop software applications, and upgrade storage and application servers; and
- Develop and implement an Enterprise Architecture Program for OMM and participate in the development of an Enterprise Architecture covering the Bureau.

OCS Connect

- In FY 2003, OMM revisited the original business case and reprioritized clusters of data-linked business processes to maximize benefits in a reduced funding scenario. OMM decided to continue re-engineering selected re-prioritized clusters of business processes. After reprioritization, the clusters to be re-engineered during FY 2004 have been identified as the *Protect Environmental Resources* cluster and the *Analyze and Coordinate Geological and Geophysical Reviews and Interpretation* cluster. The previously planned milestone of expanding development of the initial Electronic Documents Management System (EDMS) and the Electronic Records Management System (ERMS) during FY 2004 remains unchanged. OMM will have the EDMS fully functional for those processes that were re-engineered in FY 2003 and FY 2004, and will expand implementation of EDMS to additional processes as they are re-engineered. This will include integration with the DOI ERMS.

- Implement an external-facing portal that provides a single access point to the public for secure access to OMM business processes and public domain data. The portal will be secure and customizable by the user to retain automatic access to points of interest. It will provide controlled access and centralized authority, retain entitlements, and provide for audit trails all the way to the data to ensure accountability and responsibility. The electronic Public Commenting System will be enhanced to provide expanded document management capabilities, internal commenting and collaboration, as well as scanning and archiving of legacy data.
- Using lessons learned in FY 2003 on the importance of data management, an OMM Standard Logical Data Model will be developed to consolidate "best-of-breed" industry resources such as models, standard specifications, and reference dictionaries. Development will begin on a webXML data exchange protocol that will serve as the basis for a standard for the exchange of regulatory oil and gas data at all levels of government – federal, state, and international. OMM will work with the Bureau of Land Management, producing states, international regulators, the oil and gas industry, and relevant standards bodies on this effort.
- Conduct business process re-engineering of processes associated with management and administration of the OCS minerals leasing program to include lease adjudication and management of the financial responsibility program.

Justification of Program Change

Information Management Program

Increase in Funding for OCS Connect

	2005 Budget Request	Program Changes (+/-)
$(000's)	30,147	+4,321
FTE	*74*	+9

The FY 2005 budget request for the Information Management Program is $30,147,000 and 74 FTE, a net program increase of $4,321,000 and 9 FTE from the FY 2004 enacted level.

OCS Connect (+$4,021, +9 FTE): In FY 2003, MMS reduced the scope of the original project, dropping the Business Process Reengineering of selected business processes, and extending the project timeline by a year to accommodate cutover from and retirement of the existing legacy system, TIMS. This reduced project was carried into FY 2004, and will continue at that level, as a reduced effort on a six-year time line.

In FY 2005, OMM will continue re-engineering the next tier of clusters or prioritized processes. Two clusters planned for FY 05 are *Manage Plan Submittals* and *Manage Permit Requests*. The requested increase of $4.0 million in FY 2005 will allow MMS to:

- Complete the business process re-engineering earlier than the revised project schedule allows and conduct re-engineering of additional business processes that would otherwise be dropped, which will:
  - advance the date of completion of moving the OMM business processes into a web-based online environment,
  - reduce the Information Collection costs on the regulated private sector,
  - increase the public's access to the OMM government business processes, and
  - address human capital issues by accelerating the movement of FTE from re-engineered process areas to other program areas where there are existing unfilled resource needs and providing greater flexibility in accommodating a changing workload.
- Accelerate the accomplishment of the performance measures included in the cross-mission Management portion of the Department's draft Strategic Plan for MMS.

The OMM OCS Connect project is being conducted under a Systems Integration Contract, and the OMM has contracted for those skills of change management, communications management, content management, business management, and other related skills that lie outside of the core competencies of the personnel of the program offices. This contract has been and continues to be acquired under the principles of competitive sourcing. There is also an Independent Verification and Validation (IV&V) contractor responsible for providing IV&V services for the transformation effort, which will provide a higher level of risk management, allow for early adjustments to plans, requirements, and designs, and provide decision criteria for the next phase of the project.

The requested change will result in improved performance in the out-years above 2005 levels not just in terms of number but also in the quality of products. The project is an integrated evolutionary effort to re-engineer all of the higher value business processes of the OMM over a 5-year period. As each cluster of business processes is re-engineered and then moved online, the performance will increase incrementally. It is anticipated that the re-engineering of the business processes will be complete in FY 2007. During this period, the legacy system will continue to run in parallel, and in FY 2008, all of the processes and data will be transferred from the legacy system to the new system.

Increased resources are requested for MMS's OCS Connect as more of the processes that the private sector is required to comply with may be completed online with a lesser burden of information collection imposed upon the private sector, and the Bureau's ability to analyze and act on private sector requests is much faster. The ultimate result is to bring offshore oil and gas resources on-line more quickly.

The change in FTE will accomplish the complete staffing of the OMM OCS Connect Project Management Office (PMO) to ensure proper project management and risk management of the project. These FTE will be filled with term appointments not to exceed the life of the project.

The OMM's OCS Connect project uses four of the tools outlined in the President's Management Agenda to manage the government more effectively for the American people:

- Strategic Management of Human Capital – Enhances use of agency technical expertise by decreasing time spent on retrieving and collecting data and changing focus to quality technical analysis of data.
- Competitive Sourcing – Focuses agency on development and use of core competencies and provides for outsourcing of skills outside of those core competencies.
- Expanding Electronic Government – Will provide secure, web-based access to appropriate OMM data and business processes for the public, including the regulated community. Will streamline interactions with citizens, minimize redundant reporting, and increase timeliness of agency decisions by reengineering and automating major business transactions. OMM's e-Gov initiative is listed under "Department-wide Activities and Plans" in the Secretary's plan for citizen centered governance (CCG initiative).
- Budget and Performance Integration – The IT Capital Plan is based upon a Return on Investment that projects cost savings and cost avoidance for both OMM and the regulated community. Reengineered business processes serve as the basis for linking activity-based cost information with measuring the Bureau's performance and achievement of strategic goals.

TIMS Extended Maintenance (+$0.300): As reflected in the updated Exhibit 300 for TIMS, delayed funding and subsequent implementation for the OCS Connect project requires extended support for a number of TIMS modules. Over the life cycle of TIMS, this amounts to a $1.5 million increase, of which $300,000 falls in FY 2005. This funding is primarily for contract support in maintaining and supporting modules that will not be transitioned to OCS Connect as originally scheduled. TIMS maintenance is required to correct errors and effect small changes to meet program needs. As the new OCS Connect system becomes a critical part of OMM's business processes, the need to integrate with the remaining TIMS system will add to the system maintenance needs. Additional TIMS maintenance will reduce system failures and facilitate necessary integration with OCS Connect, increasing data reliability and reducing duplication in supporting critical functions such as lease sales, environmental monitoring and operations oversight.

OCS Connect and TIMS			
	2004	**2005 Request**	**Change from 2004**
OCS Connect/TIMS	**11,650**	**15,971**	**+4,321**
Other Major Resources (n/a)			
Performance Summary			
OCS Connect			
% increase of final actions transmitted electronically over baseline	10%	35%	+250%
% reduction in average waiting time for industry over baseline	5%	10%	+100%
% increase of discrete information item types that OMM produces but are not currently available electronically (via the web)	10%	25%	+150%
% reduction of time required to document NEPA compliance for all proposed actions per unit time to prepare the documents	5%	25%	+400%
% of OMM staff trained in new skills to operate in the emerging OCS Connect environment	20%	50%	+150%
% of systems (either new or existing) that interface with the My OCS Portal.	25%	50%	+100%
TIMS			
Maintain the TIMS eWell Pilot which is part of the MMS/OMM Burden Reduction Initiative	100%	100%	n/a
Make necessary changes to TIMS components as required by regulation changes	100%	100%	n/a
Make necessary changes to TIMS as required by operating system upgrades or software upgrades	100%	100%	n/a
Continue to complete work based on requests approved by the Change Control Board and the IMC	100%	100%	n/a

Oil Spill Research

Justification of Program and Performance
Analysis by Subactivity

	2003 Actual	2004 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	6,065	7,017	0	+88	7,105	+88
FTE	22	22	0	0	22	0

Program Overview

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

The OSR Program plays a critical role in supporting DOI's End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value. The program supports the DOI strategy of Enhancing Responsible Use Management Practices by focusing on research, planning, preparedness, and select response-related activities related to oil and gas exploration. These activities contribute to DOI's Intermediate Outcome Measure to achieve an oil spill rate for offshore development of no more than 10 barrels spilled per million barrels produced. The OSR program also supports the DOI strategy to Improve Information Base, Resource Management and Technical Assistance. This is accomplished through research results from studies funded with OSR dollars and the body of knowledge acquired through the testing of equipment, techniques, and methodologies at Ohmsett, the National Oil Spill Response Test Facility in Leonardo, New Jersey.

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

The OSR Appropriation funds:

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

Use of Cost and Performance Information

Managed by the same office, the Technology Assessment and Research Program (TAR) (funded under the Regulatory subactivity) and oil spill research program (funded under OSR) are refining performance measures that will be implemented to use cost and performance information in making management decisions. Quantitative performance measures allow the program to monitor and report on individual research projects. Research priorities are ranked and the result of each project and task order will be scored as it is completed. Concurrently, the Bureau is developing computer applications to monitor and report on individual Research and Development projects. The effort is designed in three phases: Phase I will consist of automated tracking of procurement and deliverable milestones for each project. Phase II will be at the COTR level, establishing an index providing any necessary warnings early enough into the life of a project so that problems can be rectified. Phase III is envisioned as an intranet, web-based e-Gov initiative tying Phases I and II together.

Research

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

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

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

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

Mitigation of Pollution Associated with Pipelines. Pipelines are the source of about 97 percent of oil-spill volume associated with OCS oil and gas operations. MMS is actively pursuing research to ascertain the integrity of the 33,000 miles of oil and gas pipelines on the OCS and the additional 10,000 miles of pipeline that exists in State waters. A risk analysis and management database is being devised to provide valid assessments of the conditions of aging pipeline systems as well as the probabilities and consequences of leaks. MMS pipeline research is intended to improve leak detection capabilities, improve internal and external inspection practices, improve shutdown systems, and develop a better understanding of the environmental forces active on pipelines. MMS is also working with the States to map pipelines in State waters and incorporate them into the Federal database.

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

Oil Spill Response and Planning
The Minerals Management Service (MMS) is responsible for planning, preparedness and selecting response related activities related to oil and gas exploration, development, and production in the Outer Continental Shelf (OCS). The authority of MMS to administer and oversee requirements for spill planning and preparedness is derived from the Outer Continental Shelf Lands Act, the Oil Pollution Act, the Federal Water Pollution Control Act, and Executive Order 12777.

In response to requirements established by law, MMS published 30 CFR Part 254 – Response Plans for Facilities Located Seaward of the Coastline. The regulation, which was effective June 23, 1997, established requirements for the preparation of Oil Spill Contingency Plans that would provide information on how an Operator would respond to an oil spill. The regulation also outlined training requirements, alternative response techniques, sensitive resource identification,

> Under Federal law, all offshore operators are required to have oil spill response plans. Unannounced drills to test these plans are conducted. The Government also requires companies to show adequate financial responsibility to pay for damages if they occur from a spill.

identification of pre-trained spill management team members, locations of pre-designated incident command posts, and other key elements.

For all oil and gas activities, including oil spill preparedness and response, MMS's jurisdiction extends from the boundary of the OCS out 200 miles, covering almost eight billion acres in Alaska, the Pacific, the Gulf of Mexico, and along the Atlantic Seaboard. The OCS boundary has been agreed upon through Memoranda of Understanding with each State and can be located from three miles from shore, such as in Louisiana, to three leagues (nine miles) from shore, as in Texas. It should be noted that the OCS boundary has no relationship to the geological feature known as the continental shelf.

MMS also has authority over oil spill response planning in State offshore waters, which start at the recognized shoreline of the State, extending to the OCS boundary. In this capacity, MMS reviews and approves Oil Spill Response Plans for oil and gas facilities in State offshore waters, often collaborating with the State response agencies in plan approval.

MMS also has a Memorandum of Understanding (MOU) with the U.S. Coast Guard that includes items on oil spill preparedness and response. The MOU, which was effective December 16, 1998, addresses oil spill financial responsibility, oil spill preparedness and response planning, response inspection requirements, and unannounced drills. Issues associated with authority for the shutting in of offshore facilities and for returning facilities to production status are also addressed, with MMS retaining authority over all actions that would warrant cessation of production pending determination of a spill's source. The decision to return wells to production also remains with the MMS. In cases of imminent hazard, however, the Federal On-Scene Coordinator is empowered to order facilities to shut-in.

Existing mandated oil spill preparedness and response activities will continue throughout the coming fiscal year, including unannounced drills, equipment inspections, review of Oil Spill Response Plans, attendance at tabletop exercises, and providing support to the Federal On-Scene Coordinator during spill events. The major focus of activity during the fiscal year, however, will shift toward implementation of the DOI Emergency Preparedness & Response Strategy – Oil Discharges & Hazardous Substance Releases. The strategy, which was approved by the Director of MMS on August 8, 2002, and which is part of an overall agency initiative, requires that MMS take actions to ensure that policies and programs designed to improve oil spill preparedness and response are prepared, adopted, implemented, and consistent with the National Response System. Compliance with the 16 directives of the Strategy, which range from increased participation in National, Regional, and Area Contingency Planning and Federal On-Scene Coordinator Support to creation of communications protocols, will require active participation of staff at the District, Regional, and Headquarters levels. Through a phased approach, several activities will be assimilated by existing staff, while others, such as training and travel expenses, will require additional dedicated funding in order to increase the level of commitment that is required by the DOI Strategy.

Under Homeland Security Presidential Directive 5, the Secretary of the Department of Homeland Security has been directed to develop a new all-hazard National Response Plan. As envisioned, the plan will "harmonize the operational processes, procedures, and protocols detailed in such documents as the Federal Response Plan, U.S. Government Interagency Domestic Terrorism Concept of Operations Plan, Federal Radiological Emergency Response Plan, Mass Migration Emergency Plan, and National Oil and Hazardous Substances Pollution Contingency Plan" and will be supplemented by a National Incident Management System. Upon adoption, MMS will be required to review existing emergency procedures and response programs to determine the impacts of the new NRP and make changes to programs as required. Additional requirements fostered by adoption of the Incident Command System as the nationally-mandated emergency response method will require training of MMS staff to ensure adequate knowledge of the system and proper integration into the ICS structure during spill events or other emergencies on the OCS.

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

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

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

To respond to the challenges of testing and evaluating the equipment required to respond to oil spills in ice infested waters, the Ohmsett facility has been upgraded to offer cold water testing (with or without ice) and training. These upgrades will enable the Ohmsett facility to remain open year round for testing and training. Planned activities in FY 2004 include evaluation of oil spill skimmers for collecting spilled oil in broken ice, cold water dispersant effectiveness tests, evaluations of viscous oil pumping equipment, cold water oil spill response training, and evaluations of fast water oil spill response equipment.

A base program increase of $1.0 million was provided in FY 2004 to begin a four-year, $4.0 million phased replacement of equipment at Ohmsett, and to provide needed funding for increased operational expenses at the facility. In FY 2004, the increased funding will be used to replace the high-pressure filtration system that is capable of processing all of the 2.6 million gallons of water in the testing tank in about 24 hours. In FY 2005, the main electrical control system for the bridge tow system drive and two 100 horsepower electric drive motors will be replaced. In addition, major external concrete repairs to cracking and spalling areas of the test tank will be undertaken. A 50-ton hydraulic crane with extendable boom arm, which will be mounted on the main bridge for equipment deployment and retrieval in the test tank, will be purchased and installed.

Oil Spill Financial Responsibility

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

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

Activities in State Waters

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

- Reviewing oil spill response plans submitted by more than 160 companies; Conducting annual unannounced oil spill response drills (30 CFR 254.42(g));
- Performing annual inspections of oil spill response equipment (30 CFR 254.43 (a) & (b));
- Providing staff assistance to train more than 500 oil spill responders annually for contractors, the Texas General Land Office, the Louisiana Oil Spill Coordinator's Office and other Federal, State, and local agencies; and
- Participating on two Regional Response Teams in the Alaska and Pacific Regions as part of the National Response Team's National Contingency Plan. The National Response Team includes representatives from 16 Federal agencies and is chaired by the EPA and the USCG.

Program Performance Summary – Oil Spill Research:

Resource Use (Energy) Strategy 2 Intermediate Measures					
Measure	2002 Actual	2003 Actual	2004 Plan	2005 Plan	2008 Target
Achieve an oil spill rate for offshore development of no more than .00001 barrels spilled per barrel produced (SP)	0.00000058	Estimate: 0.000005 (Process of reconciling data reported to NRC and MMS for FY03 is ongoing. FY03 appears to be trending like FY00, which was 0.000005)	.00001	.00001	.00001
Percent of studies validated through independent peer review or other validation method (SP)	N/A	N/A	Develop Peer-Review Definitions and Standards	Establish Peer-Review Baseline Information	N/A
(SP) denotes that the MMS performance measure is a Departmental Strategic Plan measure.					

FY 2003 Program Performance Accomplishments

? *Planned:* MMS will conduct additional experiments at Ohmsett – The National Oil Spill Response Test Facility to evaluate the effectiveness of dispersants on Alaska crude oils.
Accomplished: MMS successfully conducted two series of research experiments that evaluated the effectiveness of Corexit 9500 and Corexit 9527 dispersants on a variety of Canadian and Alaskan crude oils in cold water and broken ice conditions. Final reports are available from a series of experiments.

? *Planned:* MMS will assemble a group of Federal agencies (NOAA, USCG, others) to cooperatively fund an update of "Using Oil Spill Dispersants on the Sea" that was published by the National Research Council in 1989.
Accomplished: The MMS, along with funding from the American Petroleum Institute, the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Coast Guard have initiated a project to update a 1989 National Research Council (NRC) publication entitled: "Using Oil Spill Dispersants in the Sea". The NRC is currently assembling a team of scientists to conduct this project. MMS has sent its list of nominees to the NRC.

? *Planned:* MMS will work with the Environmental Protection Agency (EPA) and NOAA to conduct research experiments at Ohmsett – The National Oil Spill Response Test Facility to characterize the wave energy and spectra in the tank. This research information will be used to plan and conduct oil spill modeling and dispersant experiments.
Accomplished: MMS has met several times with representatives from EPA and NOAA to develop a scope of work for this project. The lack of matching funds from EPA and NOAA has delayed initiation of this project.

FY 2004 Planned Program Performance

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

- ***Technical Support****:* Projects and activities will continue to focus on deepwater oil spill issues and detection, tracking, and cleaning up oil in ice-infested areas. These activities are aimed at providing MMS decision makers with data and information necessary to evaluate industry exploration and development proposals for GOM and Alaska operating areas and support MMS directives for requiring mitigating measures.
- ***Technology Assessment****:* Projects and activities under this category will continue to focus on various aspects of in-situ burning, effectiveness of oil spill chemical treating agents, effectiveness of dispersants, feasibility of satellite oil spill tracking devices, and related and associated technological innovations for detecting, tracking and cleaning up oil spills in the marine environment.
- ***Research Catalyst****:* Activities will continue to focus on joint project research with traditional MMS research partners – including the USCG, U.S. Navy, EC, the Canadian Coast Guard, and Fisheries and Oceans Canada.
- ***International Regulatory****:* OSR Program activities under this category tend to be structured more towards "International Co-operation" rather than "Regulatory." MMS is expanding its efforts to jointly sponsor international oil spill research projects, workshops, and conferences with governmental and private research organizations interested in marine oil spill response and cleanup technology. In addition to pursuing joint projects with Norway, Canada, United Kingdom, Mexico, and Brazil, MMS is currently working with the State Department to sponsor an Oil Spill Workshop in 2004 to address issues of interest to the members of the Asian-Pacific Economic Cooperation (APEC).
- ***Alaska Region:*** Continue implementation of the Oil Pollution Act by (1) working on oil spill contingency plans and prevention of oil spills in State waters with the State and other Federal agencies; (2) active participation in implementation of the OPA rules for financial responsibility; and (3) increasing coordination with the State of Alaska to administer provisions of 5(j) of the OSCLA and certificate of financial responsibility responsibilities under the OPA for oil and gas facilities on submerged lands in state waters.
- ***Gulf and Pacific Regions:*** Continue implementation of OPA requirements concerning spill response plan review and approval and oil spill financial responsibility.

Justification of Program Change

Oil Spill Research Program

Increase in Funding to Restore FY 2004 Rescission

	2005 Budget Request	**Program Changes (+/-)**
$(000s)	7,105	+88
FTE	22	0

The FY 2005 budget request for the Oil Spill Research Program is $7,105K and 22 FTE, a net program increase of $88K and no FTE from the FY 2004 enacted level.

The requested increase will allow MMS to fully fund the second year of a four-year phased replacement of equipment and increased operational costs at the National Oil Spill Response Test Facility.

Minerals Revenue Management Activity

Analysis by Subactivity

dollars in thousands

Subactivity		2003 Actual	2004 Enacted	Uncontrollable & Related Changes	Programmatic Changes	2005 Budget Request	Change From 2004
Compliance & Asset Management	$	48,493	45,857	+646	+1,246	47,749	+1,892
	FTE	377	377	0	+2	379	+2
Revenue and Operations	$	34,407	33,860	+282	0	34,142	+282
	FTE	181	181	0	0	181	0
Indian/Allottee Refunds	$	15	15	0	0	15	0
	FTE	0	0	0	0	0	0
Total MRM	$	82,915	79,732	+928	+1,246	81,906	+2,174
	FTE	558	558	0	+2	560	+2

MMS collects, accounts for, and disburses more than $6 billion yearly in revenues from offshore Federal mineral leases and onshore mineral leases on Federal and Indian lands.

The Federal Government has been collecting revenues from mineral production on Federal onshore lands since 1920, from American Indian lands since 1925, and from Federal offshore lands since 1953. In 1982, MMS was created, establishing a comprehensive, consolidated system for the collection, accounting, and disbursement of these revenues. Since that time, MMS has provided nearly $135 billion to Federal, State, and Indian accounts, including more than $3 billion from compliance activities.

Since its inception in 1982, through 2003, MMS has disbursed:

- $84.7 billion to the U.S. Treasury
- $3.0 billion to the National Historic Preservation Fund
- $18.9 billion to the Land and Water Conservation Fund
- $9.4 billion to the Reclamation Fund
- $15.3 billion to 38 States
- $3.7 billion to 41 American Indian tribes and 30,000 individual Indian mineral owners

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

MMS collects mineral royalties both in-value and in-kind. In-value royalties are paid directly to MMS, which then appropriately disburses them. In-kind royalties are taken, at the discretion of the Government, by delivery of oil and gas production to MMS for sale in the marketplace.

Headquartered in Washington, DC, Minerals Revenue Management (MRM) has its primary operations in Lakewood, Colorado, with field offices in Texas, Oklahoma, and New Mexico. MMS processes more than 250,000 transactions each month from more than 26,000 producing Federal and Indian leases. Royalty management efforts are coordinated with the Bureau of Indian Affairs (BIA), Bureau of Land Management (BLM), Office of the Special Trustee for American Indians (OST), Department of Energy (DOE), U.S. Forest Service, Army Corps of

Engineers, and the U.S. military. MMS also works closely with State governments, Indian tribes, individual Indian mineral owners, and industry to improve overall royalty management.

New systems, implemented during 2001 through 2003, support MMS's core end-to-end business processes – the financial management process and the compliance and asset management (CAM) process. Through these new systems and processes, MMS is well positioned to contribute dramatically to two of DOI's strategic missions.

DOI Strategic Missions:

- **Resource Use—*Provide access for responsible use and optimal value***
- **Serving Communities—*Fulfill Indian trust responsibilities***

DOI Mission: Resource Use—*Provide access for responsible use and optimal value*

MMS is a comprehensive mineral resource steward, managing the mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance public and trust benefit, promote responsible use, and realize fair value. MMS is committed to managing the mineral revenue asset to enhance public and trust benefit and to ensure optimal value.

Collection and Disbursement of Revenues. MMS achieves optimal value by ensuring that all revenues from Federal and Indian mineral leases are efficiently, effectively, and accurately collected, accounted for, and disbursed to recipients.

Approximately 63 percent of all annual collections go to the U.S. Treasury, 23 percent to special purpose funds, 11 percent to States, and 3 percent to the American Indian community. Revenues directed to the Federal Government are used to fund appropriations for programs Congress approves. Monies that go to the States are used as the States deem necessary, oftentimes for schools, roads, libraries, public buildings, and general operations. Revenues collected from mineral leases on Indian lands work directly to benefit members of the American Indian community.

Special purpose funds, including the Land and Water Conservation Fund (LWCF), the National Historic Preservation Fund, and the Reclamation Fund, have received more than $31 billion in MMS-collected mineral revenues since 1982. During the past decade, mineral revenues from the Outer Continental Shelf (OCS) have accounted for more than 90 percent of the deposits to the LWCF. Most LWCF revenues in recent years have been used to purchase or acquire through exchange about 4.5 million acres. Acquisitions funded through LWCF grants must remain in recreation use in perpetuity.

Asset Analysis. MMS promotes realization of optimal value through the asset analysis process. Key to this process is the capability that our new systems and core business processes provide to gain sufficient understanding of the production and marketing environment to make asset management decisions regarding whether to take royalty-in-kind or in-value. If there is an economic advantage to the Government, either because of increased revenues, greater administrative efficiency, or security needs of the Nation, MMS will take royalties in-kind. MMS manages in-kind royalties so that the resources received are distributed in a manner that best benefits the Nation. This may include transferring resources to the DOE to fill the Nation's Strategic Petroleum Reserve (SPR) or selling the received product in the market place and then disbursing revenues as prescribed by law.

Strategic Petroleum Reserve (SPR). With approximately 60 percent of the Nation's supply of oil coming from foreign sources, the SPR provides a critical buffer for potential disruptions in oil supplies. Responding to a Presidential directive issued in November 2001, MMS, in partnership with the DOE, launched the SPR Fill Initiative. The remaining capacity of three SPR storage facilities in Louisiana will be filled using royalty-in-kind oil. By the end of 2005, delivered volumes will approach the 120 million barrels initially estimated to fill the existing SPR capacity. Aggregating, transporting, and delivering that amount of oil to DOE is a formidable challenge for MMS and will provide the country with improved economic security in the event the import stream is interrupted. When full, the SPR will contain approximately 700 million barrels of oil providing a key link in the Nation's security network.

Royalty-in-Kind. Through implementation of MMS Royalty-in-Kind (RIK) Road Map to the Future, we have incorporated standard energy business practices, management information systems, and proven RIK methodologies into our overall royalty asset management strategy.

MMS and Louisiana Launch RIK Pilot

MMS began awarding sales contracts in August 2003 as part of a joint pilot project between MMS and the State of Louisiana. This project will test potential for sales of RIK oil and gas to increase revenues and decrease administrative costs for managing mineral royalties resulting from production on leases within the 8(g) zone offshore Louisiana.

In conjunction with the pilot project, MMS and the State of Louisiana also agreed to joint decision-making on all aspects of commercial sales of RIK energy commodities, providing the State with a more active role in managing its oil and gas resources.

RIK is a viable asset management option where its application is at least revenue neutral and promotes efficiency and cost effectiveness for both the Government and industry. Studies to date by MMS indicate that revenues received under RIK programs have equaled or surpassed estimates of those that would have been received under comparable RIV programs. Independent studies by MMS's policy office have determined that the Wyoming and Texas 8(g) projects were essentially revenue neutral - RIK revenue increases of less than 2% were estimated. Analyses conducted by MMS RIK staff before conversion of oil and gas properties to RIK consistently estimate that slight revenue uplifts are realized from such conversion. In early 2004, MMS will implement a comprehensive risk and performance management system designed to monitor and measure the revenue performance of the RIK program in relation to fair market value and comparable RIV programs.

Tool Helps MMS Determine Government's Best Interests – In Kind vs. In Value

A unique partnership between the Interior Department's Minerals Management Service and the Colorado School of Mines in Golden, Colo., has produced new computing models to help optimize federal royalties from natural gas produced in the Gulf of Mexico. The new computing models are the result of a letter of cooperation signed by MMS and the Colorado School of Mines (CSM) with the objective of maximizing royalties from natural gas produced in the Gulf of Mexico. In particular, the goal was to help develop new tools that MMS could use to determine whether it was in the government's and taxpayers' best interests to take natural gas royalties "in-kind," in the form of product or natural gas, as opposed to the more traditional royalty "in-value," or cash payment.

Determining whether it is in the Government's best interests to take royalties "in-kind" or "in-value," however, can be a daunting task. What is the history of the gas field? What is the current fair market value of the gas? Which pipelines are available to transport the product, and at what cost? What sales arrangements are required, and where can the gas be processed?

Faced with this challenge, a Colorado School of Mines graduate student worked with MMS employees to merge mathematics, economics, systems design and raw data to develop the new computing models to answer these and other questions. The "Royalty Maximizer" computer model is the key that "solves the problem." The new computing model tells which conversion is best (in-kind or in-value), which pipeline(s) should be used to transport the gas, and to which gas plants the product should be delivered. All with the aim of optimizing government and taxpayer royalty assets. And the time it takes to complete the process has been dramatically reduced.

In addition to taking the "mystery" out of RIK options, the new computing models provide an effective tool to improve government efficiency and reduce costs. Staff time required to evaluate royalty-in-kind options is substantially reduced. In addition, taking royalties in-kind in the form of product eliminates costly and time-consuming audits to validate that royalty-in-value cash payments were properly calculated. In the past, that auditing process for royalty payments could take several years to complete, which is one reason the oil and gas industry generally supports the Government's RIK efforts.

MMS's ongoing RIK efforts include partnership efforts with Wyoming, Texas, and Louisiana. RIK provides simplicity, accuracy, and certainty for lessees enabling compliance within 120 days as opposed to royalty in value compliance within three years. Ongoing RIK operations have also increased efficiency and certainty in the accurate fulfillment of royalty obligations for Federal hydrocarbon resources.

In 2003, a contract was awarded to Lukens Energy Group for RIK program assessment, performance metric development, alternative marketing strategies, and necessary organizational structures and human resource needs. In Spring 2004, based largely on the Lukens Energy Group's efforts, MMS will release a Business Plan for 2004-2008, including action elements to further evolve RIK business activity in the areas of strategic principles and objectives, enhanced human resources and skill sets, focused organizational structure, establishment and routine use of performance metrics, improved management information systems, and diversified marketing strategies. Implementing this plan will continue to enhance MMS's ability to assure the taxpayer of proper collection of royalty receipts and continued future use of RIK. It will also ensure MMS's ability to track, analyze, control, and manage the over $1 billion federally owned oil and gas royalties taken in kind.

Compliance Assurance. MMS compliance activities have yielded significant additional revenues to States, Tribes, individual Indian mineral owners, and the Federal Treasury. Between 1982 and 2003, additional collections of royalties and interest, attributable to our compliance activities, totaled more than $3 billion.

During the MRM reengineering effort, we challenged ourselves to cut the 6-year compliance cycle in half. MMS has demonstrated the feasibility of completing the compliance function in 3 years or less. In FY 2003, MMS completed compliance work within 3 years for 46 percent of the entire 2000 royalty universe. As a result, MMS is positioned with a national compliance program for the future that is dramatically improved and will be less costly to administer.

MMS property compliance focus provides efficient and effective compliance services and also supports managing the royalty resource through the use of the in-kind royalty option when it makes good business sense. We continue to expand compliance coverage within the shortened compliance cycle, to ensure that the Government is realizing fair market value, and that companies are in compliance with applicable laws, regulations, and lease terms. During FY 2005, we plan to complete compliance work within 3 years for properties representing 69 percent of 2002 royalties. By FY 2008, our goal is to complete compliance work within 3 years for over 90 percent of 2005 royalties.

Revised Valuation Regulations. As a Bureau continuously striving for improvement, MMS believes there is potential to improve the existing valuation regulations to ensure that the American public continues to receive a fair return on Federal resources. Adding clarification and simplicity to the existing rules will reduce litigation, assure more contemporaneous compliance, reduce administrative costs to lessors and lessees, and make Federal leases more attractive for development. MMS conducted eight public workshops in 2003 in various geographic areas. After considering the input from these workshops, MMS will publish amended rulemakings in 2004:

- *Federal Oil Valuation* - MMS published a proposed rule on August 20, 2003. The comment period closed November 10, 2003, and MMS is drafting a final rule for publication in 2004.
- *Federal Gas Valuation* - In FY 2004, MMS will publish a proposed rule for valuing natural gas produced from Federal leases.

MMS's goal is to ensure that its valuation regulations are not an obstacle to increased exploration and production while at the same time collecting the proper amount due to the public.

Information Technology. MMS implemented a new financial system on November 1, 2001. The new system is an integrated minerals revenue management system consisting of a

PeopleSoft financial module, a Compliance and Asset Management (CAM) module, a relational database environment, a robust data warehouse, and a variety of technology tools. During FY 2002, MMS continued to phase in other components that support our reengineered business processes. MMS also implemented new RIK management information systems in 2003 that integrate with all MRM systems.

Transition to Web-Based Electronic Reporting

In FY 2003, MMS transitioned to a total Web-based, electronic reporting application with our electronic commerce service provider, Inovis Corporation.

This seamless transition from the previous electronic reporting application facilitated a more streamlined, accurate transmission of company-reported data.

RIK Management Information Systems. Based on the success of the RIK pilot projects, MMS decided to adopt RIK as one of two royalty asset management methods to be used in tandem with the traditional cash royalty system. The January 2001 "RIK Road Map to the Future" arrayed a series of management actions to transition RIK from pilot projects to an integrated operational program, and included implementation of management systems, internal controls, organization, and performance measurements. Fiscal Year 2003 witnessed the implementation of all three of the new RIK management information systems, namely:

- Gas Management System: A commercial off-the-shelf system from the Caminus Corporation (named Nucleus) was integrated with MRM's financial system and data warehouse through the efforts of MMS's contractor Accenture. This system was implemented in January
- Liquids Management System: The Nucleus system was also selected for the crude oil RIK program and was integrated with existing MRM systems and implemented in July 2003.
- Risk and Performance Management System: Accenture designed and implemented this system using baseline capabilities of Nucleus to measure the revenue effectiveness of the RIK program. Commercial consulting recommendations on performance metrics from the Lukens Energy Group were incorporated into the system, and initial measurements of RIK revenue performance are anticipated early in 2004.

These three RIK systems are now providing the information management support tools and internal controls necessary to successfully manage a commercial energy commodity portfolio.

During FY 2004, MMS is supporting contractor development work and conducting comprehensive acceptance testing of PeopleSoft's Education and Government software during the upgrade to a more efficient Web-enabled version of the financial software package.

MMS plans to combine the Reengineering and RIK Capital Asset Planning Documents (Exhibit 300's) into one document during 2004, now that all major system development initiatives are completed. This will reflect their integrated nature.

FY 2005 Budget Request – DOI Resource Use. In FY 2005, the President is requesting funding that impacts MMS's ability to ensure optimal value:

- *Provide Funding for the State Delegated Audit Program.* The President's requested funding will partially cover cost-of-living increases for the 10 States currently in the delegated audit program. In 1992, MMS's State and Tribal delegated and cooperative agreement programs received an appropriation, currently funded at $6.9 million. However, since that initial appropriation, MMS has added a cooperative agreement with New Mexico and provided over a decade of cost-of-living increases to the States in the program, for which funding has not been adjusted accordingly. MMS is also funding a new delegated agreement, including startup costs, with the State of Alaska beginning in January 2004 to begin conducting audits of Federal mineral properties within Alaska.

Expanding State 205 Delegated Audit Program

With the addition of Alaska in January FY 2004, the MMS State 205 Delegated Audit program now includes 11 States. Costs of the program have grown from $3.1 million in 1992 to an estimated $6.3 million in FY 2004.

State Delegated Audit Costs
(dollars in thousands)

	FY 2003 Estimate	FY 2004 Estimate
Alaska	n/a	99
California	1,097	1,152
Colorado	911	957
Louisiana	69	73
Montana	170	179
New Mexico	924	970
North Dakota	425	446
Oklahoma	409	429
Texas	151	159
Utah	514	539
Wyoming	1,291	1,355
Total States	**5,961**	**6,358**

DOI Mission: Serving Communities—*Fulfill Indian Trust Responsibilities*

MMS is a steward of the royalty asset from Indian trust properties and serves as an advocate for the interests of Indian mineral owners, ensuring fulfillment of our Indian trust responsibility. MMS serves American Indian Tribes and individual Indian mineral owners (IIMOs) by ensuring that they receive accurate returns for mineral production on their land. While working to protect American Indian mineral interests, MMS also emphasizes American Indian empowerment. We contract with eight tribes who choose to handle their own royalty audit work through cooperative agreements.

Through FY 2003, MMS has disbursed over $3.7 billion to 41 American Indian Tribes and approximately 30,000 IIMOs. Revenues generated from mineral production on Indian lands go to those Tribes and IIMOs, meeting a wide variety of their needs, and in many cases, providing their daily sustenance.

MMS contributes to DOI's ability to provide accurate and timely information and revenues to Trust beneficiaries. As an example, we transfer American Indian mineral revenues to the Office of Trust Funds Management (OTFM) within 24-hours of receipt. Our goal in FY 2004 is to improve timeliness of lease data to BIA, enhancing their ability to provide revenues more quickly to the ultimate Trust recipients.

Communication and Consultation with American Indians. During FY 2003, the MMS Director visited the major energy-producing tribes for which MMS collects royalties and assigned her Special Assistant as a liaison for the tribes. MMS also continued an extensive outreach program for IIMOs, resolving over 6,800 inquiries and conducting 69 outreach sessions. Through continuous communication and consultation with American Indians, MMS:

- Serves as an advocate for Indian mineral interest owners;
- Identifies and resolves mineral related problems in partnership with BIA, BLM and OTFM;
- Informs and educates Indian owners about issues related to Indian minerals, which includes meeting with Indian IIMOs and allottee associations;
- Provides forums to listen to Indian mineral owners' suggestions for improvement; and
- Conducts and coordinates field trips with BIA, BLM and Industry to IIMO locations.

MMS also uses innovative outreach methods, such as Navajo radio broadcasts and attending pow-wows, to reach our American Indian constituents. This reflects MMS's goal to fulfill the Secretary's trust responsibility to the American Indians.

American Indian Records. MMS continues to ensure communication, awareness, training and enforcement of Indian record keeping requirements. We are committed to ensuring all files and tracking systems meet standards as required under the Record Management Guidelines and are up-to-date. In addition, MMS is IRFXVHGRQGRFXPHQWLQJ QHZ UHFRUGNHHSLQJ SURFHGXUHVIRUWKH new HQG-WR-HQG compliance process.

The Tribal 202 Cooperative Audit Program Continues To Expand

The 202 Cooperative Audit Program has expanded from 4 participating Tribes in FY 1992 to 9 participants in FY 2005. Total cost of the program has grown from $812 thousand in 1992 to a FY 2004 estimated cost of $2.3 million.

Tribal 202 Cooperative Audit Costs
(dollars in thousands)

	FY 2003 Estimate	**FY 2004 Estimate**
Blackfeet	235	247
Crow	87	91
Jicarilla	158	166
Navajo	546	574
Shoshone Arapaho	157	165
Southern Ute	422	443
Northern Ute	188	198
Ute Mt. Ute	354	371
Chippewa Cree	n/a	n/a
Total Tribes	**2,147**	**2,255**

American Indian Empowerment. MMS encourages and promotes American Indian management of their mineral revenue assets, to the extent that they seek to do so. While working to protect American Indian mineral interests, MMS also emphasizes American Indian empowerment through government to government relationships. Our goal in the DOI Strategic Plan is to expand the percentage of mineral revenues audited by tribes. Currently, eight tribes have Cooperative Audit Agreements to perform audits on mineral-producing properties on Indian lands. Through the Intergovernmental Personnel Act (IPA) Fellowship Program, MMS provides hands-on opportunities to give knowledge and experience to Tribal members performing royalty management processes. We anticipate these IPAs will eventually lead to additional cooperative agreements with the Tribes to perform their own audits. In 2003, MMS initiated IPAs with the Chippewa Cree and Hopi Tribes. In 2004, MMS will initiate a new IPA with the Navajo Tribe.

FY 2005 Budget Request – DOI Serving Communities. In FY 2005, the President is requesting funding that impacts MMS's ability to fulfill our Indian Trust Responsibilities:

- *Provide Funding for the Indian Cooperative Audit Program.* The President's requested funding will partially cover (1) cost-of-living increases for the Indian tribes currently in the cooperative audit program, and (2) a new cooperative agreement with the Chippewa Cree Tribe, including start up costs.
- *Increased Funding to Consult with American Indians.* For fiscal year 2004, MMS has available 2.5 FTE to perform 58 outreach sessions to service approximately 35,000 IIMOs. These 2.5 FTE service IIMOs in 9 different western states and 15 different Indian reservations which involves extensive travel and working on the weekends. By FY 2005, 73 outreach sessions will be required to service over 35,000 IIMOs. In addition, the number of inquiries from IIMOs has increased approximately 39 percent from 4,964 in fiscal year 2001 to 6,899 in FY 2003. It becomes increasingly more resource intensive and difficult to maintain the same level of service while continuing to answer the increasing volume of IIMOs inquiries without additional FTEs and funds. The President's requested funding and FTEs will provide for additional outreach sessions in various locations in Indian country and new outreach-training sessions targeting Tribal members and over 35,000 IIMOs.
- *Funding for Safeguarding Indian Records.* The President's requested funding will be used to create the capability in MMS systems to separate Indian/mixed from Federal-only electronic records upon records accessioning and archiving actions. Funding will enable a contractor to design, develop, and test appropriate software to separate the electronic records in accordance with the National Archives and Records Administration media and retention requirements.

Lillian Dennis attempting a 'first' for Hopi Tribe

Native American Lillian Dennis is on a quest. That quest is to become the first member from her Hopi Tribe in northern Arizona to complete an Intergovernmental Personnel Act Fellowship through the Minerals Management Service and gain the necessary training to help the Tribe establish its own auditing and compliance function to improve management of its coal resources.

"I'm not here to learn for myself," Dennis said, "but to learn for all the Hopi people. I'm a strong believer that everyone has a purpose in life. I believe my being here has something to do with my purpose . . ."

Dennis came to Denver in April 2003 after spending nearly 15 years working for the Hopi Tribe in Arizona. "When I learned of the Fellowship opportunity, I was told that nobody would commit to the years of study and the move out of state," Dennis said. "So I offered to go," recognizing it would be a great sacrifice to separate from her family and religion. She is the first from the Hopi Tribe to enter the program, which was started by the Minerals Management Service in 1985 to help promote Tribal self-control and self-determination over tribal trust lands and resources.

The IPA Fellowship Program is open to participants from Tribes, individual states or federal employees to assist Tribes and states with minerals management functions. Participants develop audit and compliance experience and knowledge, and learn of federal, state or tribal functions with the aim of improving understanding and communication among the parties. Completion of the program, in turn, can lead to cooperative audit agreements between Minerals Management Service and individual Tribes to assume more responsibility in the areas of compliance and auditing. Tribes that currently have cooperative agreements include the Blackfeet, Navajo, Shoshone Arapaho, Crow, Jicarilla, Southern Ute, Ute Mountain Ute, and the Ute Tribe.

"I'm determined to finish it," Dennis said of the IPA Fellowship, noting the support and help she has received from the MRM staff in Denver. "I'm not here to have fun," she insisted. "I'm here to learn all I can, to help the Hopi People establish its auditing and compliance office, and help us in the process of self-determination."

2003 MRM Performance Accomplishments

The MRM Strategic Performance data for FY 2003 is presented below, providing linkage to the DOI Strategic Plan for 2004-2008.

DOI Mission: Resource Use—*MRM strategic performance in FY 2003*

- Disbursed 92.6 percent of revenue to recipients by the end of the month following the month received.
- Completed compliance work for 99.9 percent of royalties associated with year 2000 properties (representing 46 percent of the entire royalty universe) within 3 years.
- Provided the SPR with 38.2 million additional barrels of oil taken in kind, achieving cumulative deliveries of 49.2 million barrels.

Significant Deviation from FY 2003 Planned Performance: MMS offered and contracted for our targeted deliveries of 100,000 bbls/day for the SPR during the first half of FY 2003 and 130,000 bbls/day during the final two quarters of FY 2003. However, total barrels delivered to DOE for the SPR were 38.2 million barrels, instead of the 42.1 million barrels projected. Actual deliveries to the SPR were less than volumes offered during the 1st, 3rd, and 4th quarters of FY 2003 due to temporary production declines resulting from hurricanes in October 2002 and July 2003, a temporary operational issue on a large producing property (reducing 3rd quarter volumes by approximately 5,000 bbls per day), and production declines on other properties.

DOI Mission: Serving Communities—*MRM strategic performance in FY 2003*

- Disbursed 99 percent of American Indian revenues to OTFM within 24 hours of receipt.
- Tribes managed audit activities for 88 percent of Tribal mineral royalties.
- Completed index/major portion pricing work through the order stage for 98 percent of CY 2001 properties.
- Ensured for the years 1984-1999 that 98 percent of Indian gas-producing properties were in compliance with dual accounting requirements.

There were no significant deviations from planned FY 2003 performance.

<u>2004 MRM Planned Performance</u>

The MRM Strategic Performance Goals for FY 2004 that relate to the DOI Strategic Plan for 2004-2008 are shown below.

DOI Mission: Resource Use—*MRM strategic goals for FY 2004*

- Royalties received for mineral leases are 98 percent of predicted revenues, based on market indicators, in the production year.
- Compliance work is completed within the 3-year compliance cycle for 69 percent of royalties for production year 2001.
- 94 percent of revenues disbursed on a timely basis per regulation.
- Offer up to 130,000 barrels per day of RIK oil and provide 38.3 million barrels of oil to DOE for the SPR.

Significant Change from 2004 targets presented in 2004 Budget Justification: In FY 2004, MMS will continue to contract for 130,000 barrels per day of RIK oil for the SPR. However, based on our knowledge of current production levels, we have reduced our targeted total deliveries to DOE in FY 2004 from our previous target of 47.6 million barrels to 38.3 million barrels. We remain on track to complete the entire 120 million barrel delivery to DOE for SPR by the end of 2005.

DOI Mission: Serving Communities—*MRM strategic goals for FY 2004*

- 99 percent of revenue disbursed to the Office of Trust Funds Management (OTFM) within 24 hours of receipt.
- 60 percent of royalties for which lease data is provided to BIA by the first semi-monthly disbursement.
- Tribes manage audit activities for 88 percent of Tribal mineral royalties.
- Complete index/major portion pricing work through the order stage for 90 percent of CY 2002 properties.

Significant Change from 2004 targets presented in 2004 Budget Justification: The goal regarding semi-monthly distributions to BIA is a new goal in FY 2004. The FY 2004 goal is to provide lease data to BIA representing 60% of revenues by the first semi-monthly disbursement. This differs from our previous FY 2004 target of 90% within 21 days. At the time we set the 21-day goal, we were providing 3 distributions per month; however, at the request of BIA and the American Indians themselves, we changed to semi-monthly disbursements. Because the first semi-monthly disbursement can be anywhere between the 10th to the 18th of a month (or later), 60% is an appropriate target for FY 2004. However, we have targeted increasing to 90% by FY 2008.

PART Recommendations

During 2003, MMS completed a Performance Assessment Rating Tool (PART) exercise on the entire MRM, providing valuable information for the program. The assessment found that the program has a clear purpose, and noted specific opportunities for improvement. MMS has implemented the Inspector General's recommendation to conduct an external quality control peer review on MRM audit activities, and we are awaiting the final report. In addition, MMS is beginning the process of revising our performance measurement architecture, and we are also developing new performance measures, baselines, and targets.

MRM Core Business Processes

The MRM supports two end-to-end core business processes—Compliance and Asset Management and Financial Management. We meet our Indian Trust responsibilities throughout both business processes.

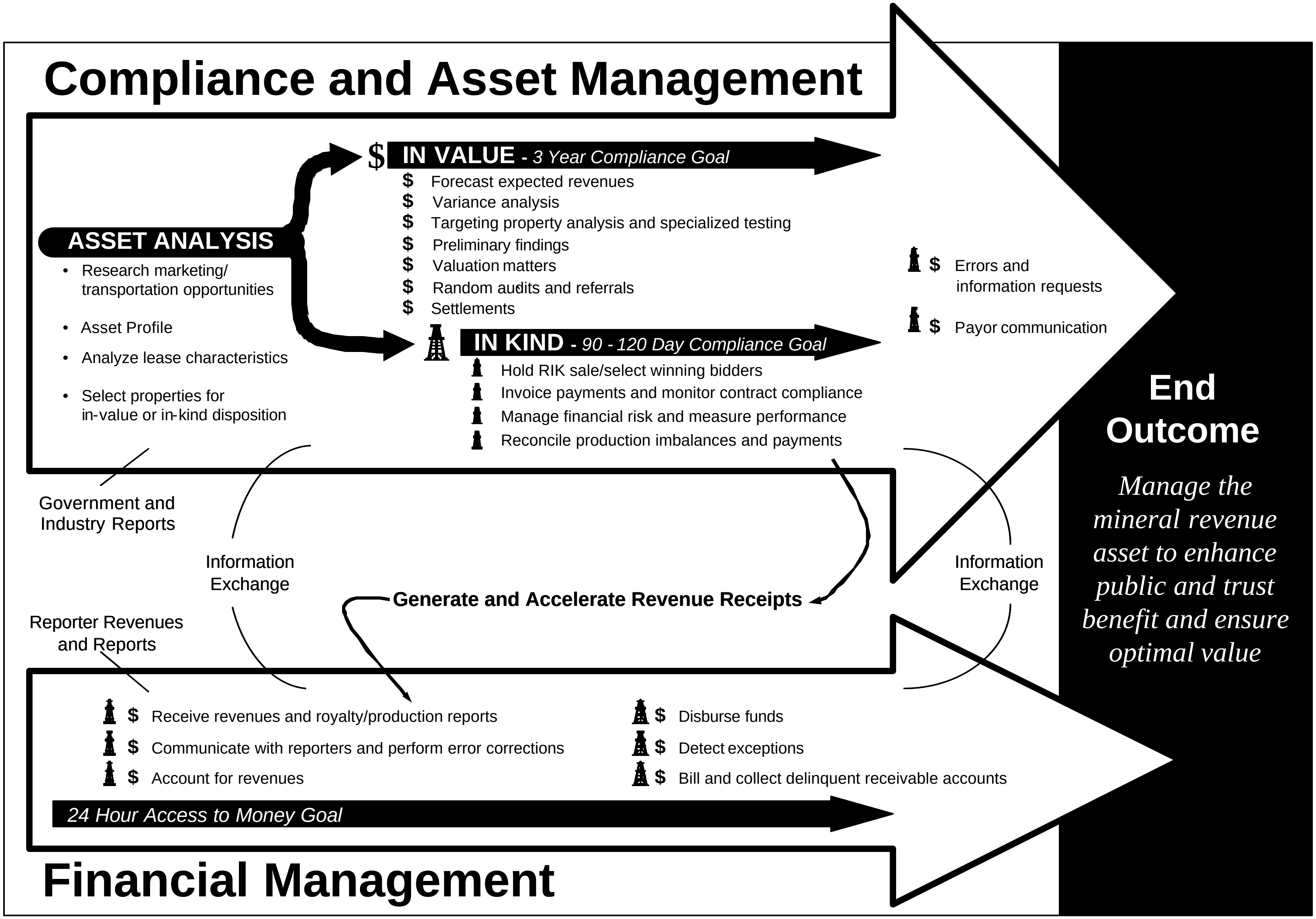
The Compliance and Asset Management (CAM) process ensures that Federal and Indian mineral revenues, whether received through in-kind or in-value royalties, are accurately reported and paid and that the compliance status of all leases is known. Integral to this process is the asset analysis decision to take royalties in kind or in value.

The Financial Management process ensures the proper receipt and timely processing of Federal and Indian mineral revenues and information to the appropriate recipient. The goal of the financial management process is to give recipients access to their revenues within 1 business day of MMS receipt.

The two business processes are integrated through effective use of the new MRM systems. Royalty and production information received from reporters is entered into a program-wide data warehouse. This information, combined with industry, government, and market data, is exchanged extensively within MMS, facilitating informed asset analysis, financial management, compliance, and Indian Trust decisions.

The interrelationship of MRM core business processes is shown in the graphic that follows. The two large arrows represent the two end-to-end processes. Within these two processes are components and subprocesses, each of which will be described in the Subactivity narratives. In the CAM arrow, the dollar symbols indicate in-value processes, and the derrick symbols indicate in-kind processes.

MRM Core Business Processes



Compliance and Asset Management

Justification of Program and Performance
Analysis by Subactivity

	2003 Actual	2004 Budget Appropriation	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	48,493	45,857	+646	+1,246	47,749	+1,892
FTE	377	377	0	+2	379	+2

Program Overview

Compliance and Asset Management includes all MMS activities associated with ensuring that the Nation's oil, gas, solid minerals and geothermal resources receive optimal value. This activity supports DOI's Resource Use Strategic Goal***, to assure the receipt of optimal value*** by the American taxpayer. MMS staff assesses the best opportunity available for receiving the royalty share of energy produced on Federal and Indian properties. MMS either elects to receive Federal royalties in-value or to receive the royalty share in-kind and then sells the resource on the open market or otherwise uses it to fill the SPR. Our goal is to complete the in-value compliance process in 3 years or less. For in-kind compliance processes, the goal is to confirm and reconcile RIK royalties within 120 days.

MMS has delegated and cooperative audit agreements with 10 states and 8 tribes. The states and tribes are working partners and an integral aspect of the overall onshore compliance effort. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Sections 202 and 205, authorized the Secretary to develop delegated and cooperative agreements with States and Tribes to carry out certain inspection, auditing, investigation, or enforcement activities for leases in their jurisdiction.

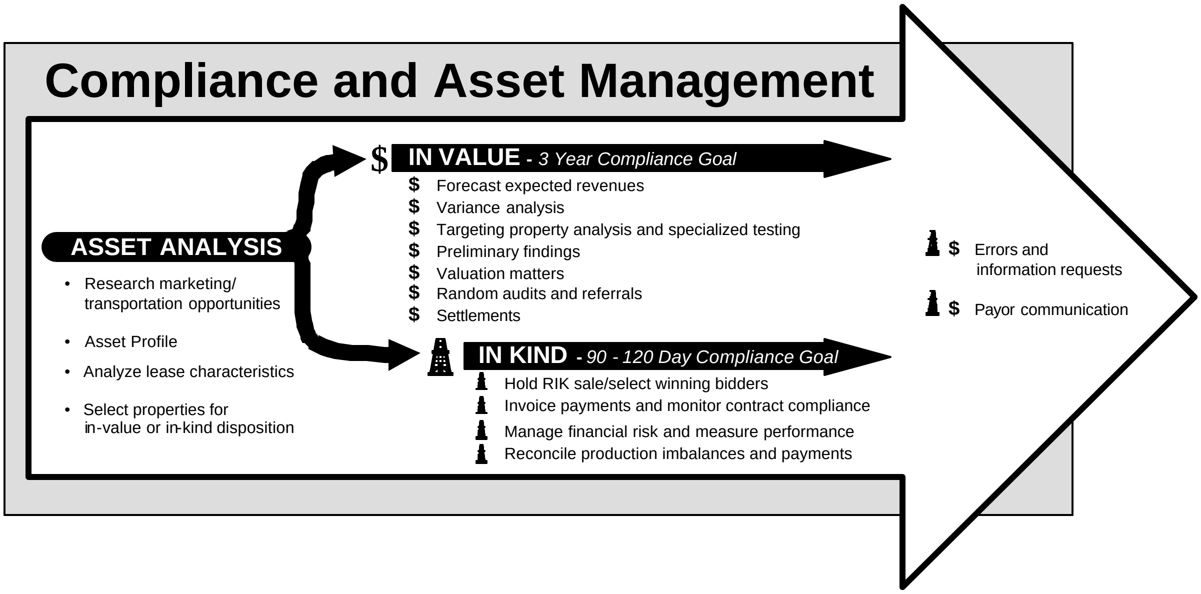
Cost/Performance Based Decision-Making: **IN-KIND VERSUS IN-VALUE**

Activity Based Costing (ABC/M) data is being collected to assess the benefits and impacts of taking royalties in-kind (RIK) rather than royalties in-value (RIV). To accomplish this, MMS must identify and capture the cost to the government for administering RIK compared to RIV. Significant assessment work has been performed through RIK pilots to determine the impact on mineral revenues of collecting royalties in kind versus in value. In addition, by implementing the ABC/M system, MMS now has the tools to capture and compare costs.

MRM managers have developed ABC work activities to capture government cost and workload data related to RIK and RIV business processes. This data will provide capability to analyze and identify governmental efficiencies of RIK and make decisions on MMS resource utilization. Based on this analysis, some staff may be reassigned to RIK as that workload grows. However, many employees will continue to perform RIV work, which will increase compliance coverage to ensure that MMS has received full value due on these properties. Gathering and analyzing ABC cost and workload data will enable MMS to know the government costs and efficiencies related to implementing RIK as a part of MMS's overall asset management strategy.

Compliance and Asset Management Process

The Compliance and Asset Management (CAM) process focuses on the same areas of operation as industry—the property and producing areas. Through this approach and the application of the reengineered processes, MMS's goal is to complete our compliance verification in the shortest possible time but no later than 3 years from the royalty payment due date.



Asset Analysis

1. Research marketing/transportation opportunities

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

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

2. Asset profile

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

3. Analyze lease characteristics

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

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

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

In-Value

For in-value transactions, MMS compliance and asset management staff predict expected revenues and analyze variances, perform targeted and random audits, resolve valuation discrepancies, and negotiate settlements to ensure that optimal value is received by the American taxpayer and Indian recipients.

1. Forecast expected revenues

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

- Price data will often be formula driven from external market sources,
- MMS rules and regulations establish allowances,
- Volume estimates will generally be derived from trending production increase/decline calculations.

Preliminary forecasts are reviewed for reasonableness, and analyses are performed to explain the major causes of changes from the previous forecast. In addition, lessons learned and best practices are monitored for incorporation in subsequent guidelines and for implementing process improvement initiatives.

2. Variance analysis

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

3. Targeting property analysis and specialized testing

MMS formulates and maintains targeting policies and procedures and issues periodic guidelines to apply to our properties. These policies set the standard for reasonableness and materiality within the targeting process. Using these targeting guidelines, the data generated from the variance analysis process is analyzed.

The units that are most in need of further detailed analysis and compliance testing are identified. Property testing, surveillance activities and specialized testing are

<u>Accomplishments</u>

Began a new Intergovernmental Personal Act (IPA) Fellowship Agreement with the Hopi Tribe in FY 2003 and the Navajo Nation in FY 2004. The ongoing agreement with the Chippewa Cree Tribe brings the current number of IPA Agreements to three.

Resolved over 6,800 inquiries and conducted outreach supporting approximately 30,000 individual Indian mineral owners through 69 outreach meetings.

On December 10, 2003, MMS Johnnie Burton approved Alaska's Section 205 Delegation Agreement. The State of Alaska proposes to conduct audits and investigations for producing Federal oil and gas onshore and offshore leases. This agreement begins in January 2004 and will be fully funded in FY 2005.

Developed and evaluated proposed incentives for enhancing production on onshore properties in an ongoing joint task group with BLM, DOE, and the States of New Mexico and Wyoming.

performed to determine whether production and royalties have been accurately reported and paid.

4. **Preliminary findings**
Comprehensive compliance reviews and audits are conducted by MMS employees and members of the state and tribal delegated and cooperative audit program. These reviews are in accordance with the Government Auditing Standards, the MRM *Audit Procedures Manual* and other audit regulations and policies.

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

5. **Valuation matters**
In-value royalties are based on the value of the commodity produced, the volume of production sold, and the royalty rate applicable to the lease, minus allowable deductions.

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

MMS also updates and issues product valuation regulations, guidelines and interpretations. Training, outreach and technical support to industry is also provided.

RIK Accomplishments

Oil
MMS takes in kind more than 80 percent of the federal royalty share of the total Gulf of Mexico (GOM) oil royalties and 78 percent the federal royalty share of the total Pacific oil royalties. These in kind royalties include royalties taken for the Strategic Petroleum Reserve and the Small Refiners Program.

Strategic Petroleum Reserve - 130,000 barrels/day from 271 GOM leases

Small Refiner Program - 50,000 barrels/day from 108 GOM leases **and** 10,000 barrels/day from 19 Pacific leases

Wyoming - 1,000 barrels/day from 348 leases

Gas
MMS takes in kind approximately 25 percent of the federal royalty share of the total GOM gas royalties.

GOM Gas RIK Program - 500,000 MMBtu per day from 370 leases.

6. **Random audits and Referrals**
In addition to the targeted audits, we perform property-based random audits, ensuring that the targeted audit process identifies all variances and provides audit coverage for the majority of all properties. Further, we receive audit referrals from other Federal agencies and from individuals that are then incorporated into our compliance strategy.

7. **Settlements**
Even after efforts have been made to collect delinquent receivables and collection steps have been performed on unpaid balances from payors, lessees and lessee sureties, royalties may remain unpaid and become subject to litigation. MMS provides litigation support to the Office of the Solicitor and Department of Justice.

Through the litigation efforts, settlement opportunities arise that often will resolve outstanding royalty obligations.

In-Kind and SPR Fill Initiative

For in-kind transactions, MMS compliance and asset management staff hold RIK sales and select winning bidders or transfer volumes to the DOE to fill the Nation's SPR. Additionally, our staff monitors contracts, analyzes bidder credit risk, invoices payments, and reconciles production imbalances and payments. When royalties are received in-kind, MMS either sells the volumes and disburses the proceeds, or delivers the volumes to DOE to fill the SPR. With either disposition, the general RIK process is described below.

Planned Activities

MMS anticipates publishing a final Federal oil valuation rule in early 2004. On August 20, 2003, MMS published a proposed Federal oil valuation rule following a series of public workshops.

In the spring of FY 2004, MMS plans to publish a proposed rule for valuing natural gas from Federal leases.

MMS's goal for royalties taken in-kind is to complete all compliance activities within 120 days. The RIK process continues to evolve as MRM implements its RIK Strategic Business Plan and the President's 2001 Strategic Petroleum Fill Initiative.

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

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

3. **Manage financial risk and measure performance**
   Similar to royalty in value, RIK programs bring an element of risk to the Government, whether it be price risk, risk of purchaser default, or general contract performance risks. MMS actively manages such risks by evaluating purchasers' financial standing and taking management actions to mitigate financial exposure by measuring sales performance in relation to price benchmarks. MMS implemented a Risk and Performance Management System that uses the capabilities of the RIK management systems to assess and document counter-party risks and sales program

performance relative to standard industry benchmarks for oil and gas commodity sales. System use is "real-time" allowing for prompt management actions to minimize risks and enhance performance.

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

Elements Used by Both In-Value and In-Kind

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

2. **Payor communication**
   On an as-needed basis, MMS employees contact payors to proactively resolve reporting errors. On a regular basis, MMS provides payor training to explain how to submit information and payments that are error free. The result of these aggressive outreach efforts has resulted in approximately 96 percent of royalty payors reporting correctly the first time.

Justification of Program Changes

Compliance and Asset Management

Increase in Indian Trust Initiative

dollars in thousands

Budget Activity & Subactivity	2003	2004	2005 Request	Change from 2004
Royalty Management / Compliance & Asset Management	48,493	45,857	47,749	1,892 4%
Indian Trust Initiative	**2,485**	**2,551**	**3,492**	**+941** **36%**
FTE (ITI)	2.5	2.5	4.5	2.0 50%

- **Provide funding for the Tribal Cooperative Audit Partners (+$245,000)**

2004 Program: Section 202 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) as amended authorizes the Secretary to develop cooperative agreements with American Indian Tribes to ". . . carry out inspection, auditing, investigation or enforcement [not including the collection of royalties, civil or criminal penalties or other payments] activities . . . ."

In 1992, MMS's state and tribal delegated and cooperative agreement program (202/205 program) received an appropriation, currently funded at $6.9 million. However, since that initial appropriation, MMS has added four new Tribal cooperative agreements and provided over a decade of cost-of-living increases to the Indian Tribes in the program, for which funding levels have not been adjusted accordingly. For each of the last 3 years, MMS has had to provide an approximate $1.5 million out of its own operating budget to provide funding for the entire 202/205 program. MMS is also anticipating funding a new cooperative audit agreement with the Chippewa Cree Tribe in FY 2005.

Justification of 2005 Program Change: The additional funds requested would partially cover the $95,000 cost-of-living increases for the 8 Indian Tribes currently in the program, and a new cooperative agreement with the Chippewa Cree Tribe in FY 2005, including start-up costs associated with the agreement.

The current cooperative audit agreements have a cost/benefit ratio of 1 to 5.4. That is, for every dollar that we fund the delegated and cooperative agreement program, the Federal Government or the Tribe receives 5.4 dollars in return. We believe this new cooperative agreement will provide the same level of royalty compliance and collections.

This new cooperative agreement will also help MMS achieve its 3-year compliance goal by providing more lease coverage for the Chippewa Cree leases and will support the Secretary's goals of consultation, cooperation, and communication, all in the service of conservation.

Should the Increase be Denied: MMS cannot continue to fund the additional dollars for these programs out of its existing operating budget. Without sufficient funding for the

202/205 program, MMS will be forced to reduce the cost of the current 202/205 program, potentially reducing receipts to Treasury and adversely affecting MMS's 3-year compliance goal.

Sustaining the level of effort for the Tribal cooperative audit program will result in reduced funding for the state delegated audit program. This will allow the Secretary to continue to honor the Department's commitment to fulfill Indian Trust Responsibilities.

Performance Impacts: MMS's goal is to complete compliance work and issue necessary orders within 3 years of the due date for 95 percent of royalties. MMS targets are to ensure compliance of 60 to 69 percent of all 2002 onshore royalties by 2005, and 95 percent of all 2005 onshore royalties by 2008. Adding Tribes will assist us in increasing coverage of the Indian royalty universe.

This funding will contribute to the Department's Comprehensive Trust Management Plan. Specifically, this initiative contributes to our ability to achieve goal 1.6, related to Cooperative audit agreements: **"Increase the number of Tribes that participate in cooperative audit programs for mineral leases."** This goal also contributes to the goals in the plan related to land and natural resource management that maximizes return while meeting beneficiary desires.

- **Expanding MMS outreach to Tribes and IIMOs; (+$196,000; 2 FTE)**

2004 Program: MMS's continuing objective is to provide the highest possible Indian trust service relative to our role in collecting and disbursing royalties on Indian lands. We focus our efforts on the accuracy and timeliness of collections and disbursement of Indian mineral revenues as well as on private sector compliance, to ensure Indian Tribes and IIMOs receive all money due them. We also provide assistance to tribes and IIMOs so they may better understand their mineral assets and royalty functions performed by MMS.

In the outreach program, MMS organizes and advertises outreach sessions on Indian lands and we invite area BLM, BIA, and OTFM personnel to the sessions to assist in answering IIMO inquiries relating to their mineral assets. We have had to reduce the number of outreach sessions in recent years because of a loss in funding and associated staff; furthermore, this has placed an unrealistic workload on the remaining staff to continue to service the IIMOs.

Justification of 2005 Program Change: For fiscal year 2004, MMS has available 2.5 FTE to perform 58 outreach sessions to service approximately 30,000 IIMOs. This provides minimum outreach services at best to the approximately 30,000 IIMOs. By FY 2005, 73 outreach sessions will be required to service over 35,000 IIMOs. With the number of IIMOs increasing every year due to probate and new leases issued, it will become increasingly difficult to maintain the current level of service to the IIMOs. In addition, the number of inquiries from IIMOs as well as the number of inquiries serviced by MMS has increased approximately 39 percent from 4,964 in fiscal year 2001 to 6,899 in fiscal year 2003. It becomes increasingly difficult for 2.5 FTE to maintain the same level of service and to continue to answer the increasing volume of IIMO inquiries without an increase in FTEs and funds. These 2.5 FTE service IIMOs in nine different western states and on 15 different Indian reservations involving extensive travel and working on the weekends. All of this places an unrealistic workload on the outreach staff

One additional FTE is necessary in the Northern Region to reduce the existing workload on the current FTE covering 7 states and 12 reservations and to conduct additional outreach sessions in the Northern Region. The other FTE will cover the following: the increased outreach sessions in the other regions, the new outreach training sessions coordinated with the other bureaus and answering the projected increase in inquiries as well as servicing new IIMOs. In addition, some of the funding will be used to train new personnel to perform the outreach function and answer inquiries. An additional person will attend each outreach session along with experienced personnel in fiscal year 2005 to accomplish this training.

This funding will increase the total number of outreach sessions and inquires serviced by approximately 12 percent from current levels. Outreach-training sessions will include on-site "cradle to grave" lease training with participation from BIA, BLM, and OST. The outreach training will involve all activities related to Indian mineral ownership, from exploration and leasing, to drilling, production, royalty reporting, royalty disbursement and check receipt. The outreach training will also be tailored so it may be provided to Tribes in the regions.

The additional outreach sessions also support the Secretary's "4-Cs" by increasing communication and consultation in Indian country and fulfilling the Department's trust responsibility to Indian communities regarding Indian mineral assets.

The President's support of the private sector's access to more land in the West for mineral development, including more mineral leasing in Indian country, makes this type of outreach training essential to current and new IIMOs. The Indian Mineral Steering Committee (IMSC- the DOI executive management committee) also recommends and endorses this type of multi-bureau outreach training.

Performance Impacts: Through communication and consultation with Tribes, we will better implement the Secretary's Four Cs. The targeted need for outreach is projected to increase significantly by FY 2005 – from 58 sessions in FY 2004 to 73 sessions in FY 2005. Without this funding, we will be unable to achieve these targets.

This funding will contribute to the Department's Comprehensive Trust Management Plan. Specifically, this initiative contributes to our ability to achieve goal 1.3, related to Beneficiary Communications: "Develop and maintain effective communications with beneficiaries to facilitate their involvement in improving trust management, acquisition and disposal, and conveyances of trust assets, consistent with DOI's fiduciary duties."

- **Safeguarding Indian Records ($500,000)**

2004 Program: MMS/MRM continues to implement its plan to bring its records, paper, electronic, and other media, into full compliance with requirements of the National Archives and Records Administration (NARA). MMS continues to lay essential groundwork: hiring a professional records staff to guide and facilitate records policy and practices; receiving NARA approval of our proposed disposition records schedules for former electronic legacy systems; and providing NARA with our draft proposed schedules for the newest MRM electronic systems.

During Fiscal Year 2004, as NARA works to approve our electronic records schedules and we receive additional special records requirements, MMS will compile the specific criteria from which to design and develop accessioning and archiving requirements. In addition to the NARA requirement to separate records, paper and electronic, which have different retention dates, MMS must have the capability to separate the Indian and the Indian/Federal mixed records from Federal-only electronic records. This work will enable MMS to meet the Secretary's goals of documented, preserved records for Indian historical trust mineral revenue accounting.

Justification of 2005 Program Change: Indian Trust records are to have permanent retention, Federal-only records are to have a 15-year retention period. The funding would be used to create the capability in MMS systems (Financial, Compliance and Asset Management, Data Warehouse, and possibly RIK) to separate Indian/mixed from Federal-only electronic records upon records accessioning and archiving actions. Funding is needed to have a contractor write code to enable MMS to comply with the NARA requirements for separating records that have different disposition requirements where this is technically and logically feasible.

NARA also has specific requirements regarding the media for electronic records that will be accepted in their records centers and archives. Therefore, as the electronic records are separated, they would be placed on a media acceptable to NARA. Federal and Indian records are required to be segregated upon archiving and be extracted and put in a format acceptable to NARA.

Funding of $500,000 should enable the contractor to design, develop, and test appropriate software to separate the electronic records in accordance with NARA's media and retention requirements. The actual cost will be dependent on the archival requirements developed during the scheduling of our systems with NARA. This software will require rigorous testing by MMS along with NARA.

Performance Impacts: Our goal is to address NARA requirements for our permanent Indian records. If we do not receive this funding, we will be unable to archive Indian records in accordance with the NARA retention schedule. This could compromise our ability to access electronic Indian Trust records in the future for historical research related to mineral revenue collections for American Indians.

This funding will contribute to the Department's Comprehensive Trust Management Plan. Specifically, this initiative contributes to our ability to achieve goal 6A.5, related to

Records Management: **"Create, manage, and preserve trust records with adequate and proper documentation so that the information necessary to fulfill DOI's fiduciary responsibilities is protected, available, and accessible to beneficiaries."**

Performance Summary Table - Indian Trust Initiative Program			
	2004	**2005 Request**	**Change from 2004**
Indian Trust Initiative	2,551	3,492	+941 (36%)
Other Major Resources (n/a)			
Performance Summary			
Resource Use End Outcome Goal: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)			
Intermediate Outcome Measure: Complete compliance work and issue necessary orders within 3 years of the due date for 95% of royalties.	95% of properties (73% of 2001 royalties)	95% of properties (73% of 2002 royalties)	0
Serving Communities End Outcome Goal: Fulfill Indian Trust Responsibilities			
Intermediate Outcome Measure: Conduct 40 or more Indian outreach sessions per year.	58	73	15
Intermediate Outcome Measure: Tribes manage audit activities for 95% of Tribal mineral royalties.	88%	92%	4%
Output Measure: Number of Indian Inquiries Serviced	6,300	7,000	700
Output Measure: Number of Indian 202 Cooperative Agreements	8	10	2
Note: *DOI measurement designation: SP for DOI Strategic Plan measure, NK for DOI non-key measure, BUR for measure, and PART for measures in Performance Assessment Rating Tool.*			

Justification of Program Changes

Compliance and Asset Management

Increase in State 205 Delegated Audit Program

dollars in thousands

Budget Activity & Subactivity	2003	2004	2005 Request	Change from 2004
Royalty Management / Compliance & Asset Management	48,493	45,857	47,749	1,892 4%
State 205 Cooperative Program	**4,727***	**4,869**	**5,174**	**+305 6%**
FTE (State)	0	0	0	0 0%

** Note: State portion of appropriation given by Congress each year since 1992 for 205 State Audit program.*

2004 Program: Section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) authorizes the Secretary to delegate audit, inspection, and investigations to any State. The Federal Oil and Gas Royalty Simplification Act of 1996 (RSFA) amended Section 205 of FOGRMA to expand the States' delegation of functions to include the processing of reports and the correction of errors; automated verification; and the issuance of orders, subpoenas, and orders to perform.

In 1992, MMS State and Tribal delegated and cooperative audit program (202/205 program) received an appropriation, currently funded at $6.9 million. However, since that initial appropriation, MMS has added a delegated audit agreement with New Mexico and provided over a decade of cost-of-living increases to the States in the program, for which funding has not been adjusted accordingly. For each of the last 3 years, MMS has had to provide approximately $1.5 million out of the operating budget to provide funding for the 202/205 program. MMS is also anticipating funding a new delegated agreement with the State of Alaska in FY 2004.

Justification of 2005 Program Change: The additional funds that are requested would partially cover $162,934 towards cost-of-living increases for the 10 states currently in the program and for a new delegated agreement with the State of Alaska.

The current delegated and cooperative audit agreements have a cost/benefit ratio of 1 to 5.4. That is, for every dollar that we fund the delegated and cooperative agreement program, the Federal Government or the Tribe receives 5.4 dollars in return. We believe this new delegated audit agreement will provide the same level of royalty compliance and collections.

Should the Increase be Denied: MMS cannot continue to fund the additional dollars for these programs out of its existing operating budget. Without sufficient funding for the 202/205 program, MMS will be forced to reduce the cost of the current 202/205 program, thus reducing receipts to Treasury and adversely impacting MMS's 3 year compliance goal.

We would sustain the level of effort for the Tribal cooperative audit program at the expense of fully funding the state delegated audit program which will allow the Secretary to continue to honor the commitment to fulfill Indian Trust Responsibilities.

Performance Impact: MMS's goal is to complete compliance work and issue necessary orders within 3 years of the due date for 95 percent of royalties. Onshore Compliance and Asset Management targets are to ensure compliance of 60 percent of all 2002 onshore royalties by 2005, and 95 percent of all 2005 onshore royalties by 2008.

We used these goals to guide our decisions on where to eliminate State cooperative agreements – if MMS does not receive the requested funding – focusing on States that would have the least impact on our goals. As the table below illustrates, reducing 205 funding would still affect our goals significantly in FY 2005 as well as in later years.

Impact of State 205 Cooperative Program Funding

		FY 2005	FY 2006	FY 2007	FY 2008
Percentage of onshore royalty universe in 3 year cycle	Target w/ Funding	60% of 2002	70% of 2002	80% of 2002	95% of 2002
	Without Funding	51% of 2002	61% of 2002	71% of 2002	85% of 2002
Number of onshore properties in 3 year cycle	Target w/ Funding	316	610	1,192	4,694
	Without Funding	287	559	1,059	4,390

Performance Summary Table - State 205 Cooperative Program

	2004	2005 Request	Change from 2004
State 205 Cooperative Program	4,869	5,174	+305 (6%)
Other Major Resources (n/a)			
Performance Summary			
Resource Use End Outcome Goal: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)			
End Outcome Measure: Royalties received for mineral leases are confirmed to be at correct value (determined by regulation) after verification and audit.	Confirm that value is correct for 69% of 2001 royalties	Confirm that value is correct for 69% of 2002 royalties	0
Intermediate Outcome Measure: Complete compliance work and issue necessary orders within 3 years of the due date for 95% of royalties.	95% of properties (73% of 2001 royalties)	95% of properties (73% of 2002 royalties)	0
Output Measure: Number of properties reviewed for compliance	# properties representing 73% of 2001 royalties	# properties representing 73% of 2002 royalties	n/a

Revenue and Operations

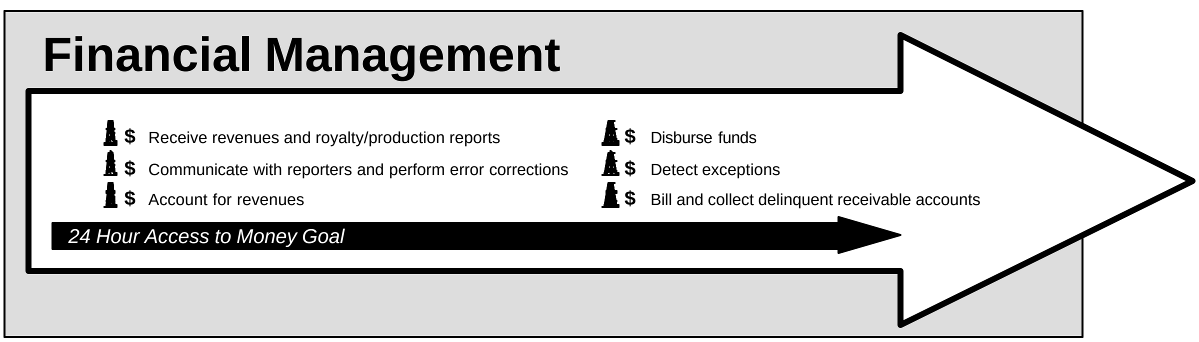
Justification of Program and Performance
Analysis by Subactivity

	2003 Actual	2004 Budget Appropriation	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2004 (+/-)
$(000)	34,407	33,860	+282	0	34,142	+282
FTE	181	181	0	0	181	0

Program Overview

MMS collects and processes reports and payments from bonuses, rents, and royalties for more than 80,000 leases each month. We distribute and disburse these revenues— more than $6 billion annually—directly to recipients: States, the Office of the Special Trustee's Office of Trust Funds Management (OTFM), Federal agencies, and U.S. Treasury accounts. The Bureau of Indian Affairs (BIA), working with OTFM, disburses revenues to the appropriate Tribes and IIMOs.

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, requires monthly distribution and disbursement of payments to States and Indians for their share of mineral leasing revenues. The MRM's long-term goal is to provide mineral royalty recipient's access to their funds within 1 business day of MRM receipt.



Financial Management Process

Through MMS Financial Management Process, we receive mineral revenues and reports from industry, account for and disburse revenues, and communicate with companies to resolve reporting errors. The following steps help MMS accomplish this goal:

1. **Receive revenues and royalty/production reports**
   Royalty reports are due when lease production begins. Production reports are due once production begins and are required until the lease is closed and relinquished. About 3,700 reporters submit various reports and payments to MMS each month on more than 80,000 Federal and Indian leases.

For oil, gas, geothermal, and solid minerals, MMS is responsible for:

- Processing all incoming royalty and production reports related to Federal and Indian leases;
- Collecting royalty payments on Federal and Indian leases;
- Collecting rents and bonuses on offshore and onshore Federal leases; and
- Collecting rentals on producing Indian leases. (The BIA collects rentals and bonuses on non-producing Indian leases.)

Reengineering has resulted in the following improvements to this aspect of financial management:

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

2. Communicate with reporters and perform error corrections

The MRM receives between 7 and 8 million lines of report data each year. Over the last several years, the error rate has been about 3 percent on all royalty and production lines submitted. Weekly reports summarize the number and source of all rejected lines. MMS staff researches each of the lines, contacts the reporter, if necessary, and resolves the error. Error correction is critical because the royalty dollars associated with rejected lines cannot be distributed to the proper recipient until the lines have been corrected.

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

Accomplishments

Complied with aggressive new mandates from the U.S. Treasury and Department of the Interior for accelerated reporting and quarterly accruals.

Resolved backlogs for the Indian Over-Recoupment and Financial Terms exception processing modules and began an aggressive two-year project to clear the Interest exception-processing backlog.

Streamlined the process and significantly reduced unmatched payment backlogs: Indian from $27 million to $9 million and Federal from $127 million to $60 million.

Processed the 2 million-line backlog of production reports that was caused in large part by the 107-day Internet shutdown. Production reports are now processed as received.

Distributed a new release of the Minerals Revenue Reporter Handbook-Oil, Gas, and Geothermal Resources, which provides instructions and examples for reporting to MMS. Mailed 4,600 CD ROMs to companies and also published the handbook on the MRM Internet site.

3. Account for revenues

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

The reengineered financial system has automated internal controls and accounting processes to reconcile subsidiary and control accounts and to ensure proper recording and reporting of revenues.

4. Disburse funds

The distribution and disbursement function ensures that approximately $6 billion collected annually from Federal and Indian mineral leases is properly disbursed to the appropriate recipients including the U.S. Treasury, 5 Federal agencies, 38 States, and 41 Indian Tribes. These amounts are disbursed in accordance with distribution formulas required by 20 different legislative acts. Information regarding the disbursement of revenues is found in the Receipts section of this document.

Federal disbursements occur on or about the 20th of every month. MMS has until the month following the receipt of funds to disburse payments before owing interest to the State leaseholders for the undistributed Federal funds. Additionally, MMS disburses to the OTFM into interest-bearing accounts on a daily basis and identifies the funds applicable to Tribal and allotted leases. Twice monthly, MMS provides detailed distributions of lease data information to BIA for Tribal and allotted leases.

<u>Planned Activities</u>

Reduce courier costs by partnering with the U.S. Treasury to streamline their check processing system enabling MMS to electronically debit checks to a payor's account.

Refine General Ledger procedures to further comply with the requirements of the Federal Financial Management Improvement Act to report data to the U.S. Government's General Ledger at the transaction level.

5. Detect exceptions

MMS automated exception detection processes can be placed in three categories:

- Interest exceptions,
- Indian overrecoupment, and
- Financial terms.

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

Indian over-recoupment exceptions occur when a company violates the recoupment limitations in adjusting prior months' payments.

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

Each month MMS runs automated exception detection processes. Pre-bill documents are created for further manual verification. The verified pre-bills are used to create invoices that are issued to the payors.

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

Cost/Performance Based Decision-Making:
IMPROVE FINANCIAL CYCLE TIME

MMS is using performance and ABC/M cost data to improve the cycle time for financial management of mineral revenues; i.e., to reduce the time to accurately accomplish all phases of the mineral revenue financial process: collection; report processing; payment matching; accounting; distribution; and disbursement.

One cost to which MMS pays special attention is the amount of late disbursement interest paid. This cost relates to the disbursement timeliness of state-shareable Federal mineral revenues. While monitoring staff costs and late disbursement interest costs, we also monitor related financial performance measures:

- Percentage of royalty information reported accurately the first time;
- Percentage of Indian revenues disbursed to OTFM within 24 hours of receipt; and
- Percentage of revenues disbursed on a timely basis per regulation (by the end of the month following the month of receipt).

By utilizing cost and performance data to align staff resources, MMS is well on its way toward achieving its goal of streamlining processes in order to provide mineral revenue recipients access to their entitled revenues in the shortest possible time.

Refunds on Behalf of Allottees

Justification of Program and Performance
Analysis by Subactivity

	2003 Actual	2004 Budget Enacted	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2005 Budget Request	Change From 2003 (+/-)
$(000)	15	15	0	0	15	0
FTE	0	0	0	0	0	0

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

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

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

MRM Program Performance Summary Tables

The table below shows how MMS's Minerals Revenue Management (MRM) program contributes to several end and intermediate outcome goals in the DOI Strategic Plan. The tables below present MRM's end outcome measures that support the DOI goals, including actual performance for the last 2 years (where applicable) and planned performance for FY 2004 and FY 2005.

Identifier	Measure
SP	DOI Strategic Plan
PART	PART Measure
NK	Non-Key
BUR	MMS Measure

Resource Use (Energy) End Outcome Measures						
Measures	**2002 Actual**	**2003 Actual**	**2004 Plan**	**2005 Plan**	**Change in Performance 2004 to 2005 Planned**	**2008 Target**
Provide the Strategic Petroleum Reserve X million barrels of oil by 2005 (BUR)	11.0 million barrels	38.2 million barrels (cum. 49.2 million barrels)	38.3 million barrels (cum. 87.5 million barrels	32.5 million barrels (cum. 120 million barrels)	Additional 32.5 million barrels	N/A – Fill completed in 2005
Royalties received for mineral leases are X percent of predicted revenues, based on market indicators, in the production year (SP)(PART)	.9870	N/A – Metric being developed	98% of predicted revenues for 46% of 2001 royalty universe	98% of predicted revenues for 69% of 2002 royalty universe	23% change in compliance coverage between FY04 and FY05	98% of predicted revenues for 88% of 2006 royalty universe
Compliance work is completed within the 3-year compliance cycle for X% of royalties for production year X. (SP)(PART)	10.5% of 1999 royalties	46% of 2000 royalties	69% of 2001 royalties	69% of 2002 royalties	0	88% of 2005 royalties
X percent of revenues disbursed on a timely basis per regulation (SP)(PART)	80%	92.6%	94%	95%	1%	98%

Resource Use (Energy) Strategy 2 Intermediate Measures						
Measures	**2002 Actual**	**2003 Actual**	**2004 Plan**	**2005 Plan**	**Change in Performance 2004 to 2005 Planned**	**2008 Target**
Take in kind X barrels of oil per day for the Strategic Petroleum Reserve through 2005 (BUR)	60K barrels a day avg 04/02-09/02	100K barrels a day 10/02-03/03; 130K barrels a day 4/03-09/03	130,000 barrels a day	130,000 barrels a day	No Change	N/A
Resource Use (Energy) Strategy 3 Intermediate Measures						
Measures	**2002 Actual**	**2003 Actual**	**2004 Plan**	**2005 Plan**	**Change in Performance 2004 to 2005 Planned**	**2008 Target**
X% royalty information reported accurately the first time (NK)	86%	96%	96.5%	97%	.5%	98%
Compliance work is completed within the 3-year compliance cycle for X% of royalties for production year X (NK)	Assured compliance for 97.2% of properties representing 11% of 1999 royalties	Assured compliance for 99.9% of properties representing 46% of 2000 royalties	Assure compliance for 95% of properties representing 73% of 2001 royalties	Assure compliance for 95% of properties representing 73% of 2002 royalties	Royalty universe covered by compliance activities remains the same (no change in coverage)	Assure compliance for 95% of properties representing 93% of 2005 royalties
X% of royalty share taken in kind (NK)	45% offshore oil; 15% offshore gas	80% offshore oil; 25% offshore gas	80% offshore oil; 30% offshore gas	80% offshore oil; 45% offshore gas	No Change	TBD
Obtain unqualified audit opinion on MMS Annual Financial Statement for Custodial Accounts (BUR)	Unqualified	Unqualified	Unqualified	Unqualified	No Change	Unqualified

Serving Communities (Indian Trust Responsibilities) Strategy 1 Intermediate Measures						
Measures	**2002 Actual**	**2003 Actual**	**2004 Plan**	**2005 Plan**	**Change in Performance 2004 to 2005 Planned**	**2008 Target**
Conduct X Indian outreach sessions per year (BUR)	62	69	70	73	3	75

Serving Communities (Indian Trust Responsibilities) Strategy 3 Intermediate Measures						
Measures	**2002 Actual**	**2003 Actual**	**2004 Plan**	**2005 Plan**	**Change in Performance 2004 to 2005 Planned**	**2008 Target**
Disburse X percent of revenue to OTFM within 24 hours of receipt (SP)	NA	99%	99%	99%	No Change	100%
Provide lease data to BIA for X percent of royalties by first semi-monthly disbursement (SP)(PART)	New Measure	New Measure	60%	65%	5%	80%
Tribes manage audit activities for X% of Tribal mineral royalties (NK/PART)	88%	88%	88%	92%	4%	95%

Serving Communities (Indian Trust Responsibilities) Strategy 5 Intermediate Measures						
Measures	**2002 Actual**	**2003 Actual**	**2004 Plan**	**2005 Plan**	**Change in Performance 2004 to 2005 Planned**	**2008 Target**
Establish at least X number of Tribal internship per year (BUR)	8	9	10	11	0	14

General Administration

Analysis by Subactivity

(dollars in thousands)

Subactivity		2004 Enacted	Uncontrollable And Related Changes	Programmatic Changes	2005 Budget Request	Change From 2004
Executive	$	2,049	23	0	2,072	+23
Direction	FTE	20	0	0	20	0
Policy & Management	$	4,111	65	0	4,176	+65
Improvement	FTE	33	0	0	33	0
Administrative	$	16,639	362	180	17,181	+542
Operations	FTE	227	0	0	227	0
General Support	$	21,690	927	1,249	23,866	+2,176
Services	FTE	0	0	0	0	0
	$	44,489	1,377	1,429	47,295	+2,806
GA Total	FTE	280	0	0	280	0

The Minerals Management Service General Administration activity is broken down into four subactivities:

- Executive Direction provides Bureau-wide leadership, direction, management, coordination, communications strategies, and outreach;
- Policy Management and Improvement coordinates the Bureau's policy management and strategic planning efforts;
- Administrative Operations encompasses budget, financial, personnel, procurement, facilities, and information management services; and
- General Support Services ensures infrastructure support to the Offshore Minerals Management and Minerals Revenue Management Programs.

Among the key reasons for MMS's current programmatic achievements is the ability of our senior managers to develop a sense of direction regarding the industry and the public we serve. This has been achieved through communication outreach via advisory councils, discussions with members of Congress, Congressional Committees and their staff, industrial and environmental stakeholders, community representatives affected by ongoing and proposed MMS activities, the media, and the public.

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

Executive Direction

Justification of Program and Performance

	2004 Budget Enacted	Uncontrollable And Related Changes	Programmatic Changes	2005 Budget Request	Change From 2004
$(000)	2,049	23	0	2,072	+23
FTE	20	0	0	20	0

The Executive Direction subactivity comprises the Office of the Director, the Office of Public Affairs, the Office of Congressional Affairs, and the Office of Document Management.

Office of the Director (OD) includes the Director, the Deputy Director and their immediate staff and is responsible for providing general policy guidance and management of MMS organization.

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

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

Office of Congressional Affairs (OCA) serves as the primary point of contact with Congress. OCA is responsible for the coordination of all communication and outreach with congressional offices, as well as ensuring a coordinated and consistent message and the effective exchange of information. The OCA serves as the liaison for all MMS congressional and legislative matters with Congress, state and local governments, the Department of the Interior, and other Federal executive agencies on congressional activities and legislative proposals that affect MMS. OCA activities include the evaluation of legislative proposals, official communication regarding programs, policies and positions on matters under consideration by the Congress, the preparation and coordination of testimony for MMS and AS/LM witnesses, and the coordination of arrangements for MMS's involvement in congressional meetings and hearings.

Office of Document Management (ODM) is responsible for managing all of the official documents of the Office of the Director. In addition, this office ensures the timely development and coordination of MMS documents requiring review, action, or signature by the Director, Deputy Director or Departmental officials and that documents, correspondence, or actions under review are complete, accurate, and timely. To accomplish this, the staff maintains an automated tracking system with electronic capture, archiving, and dissemination of controlled documents and produces management reports as necessary.

The ODM is also responsible for managing Freedom of Information and Discovery requests that require a response from the Director's office. The ODM serves as a clearinghouse for the consolidation of several channels of information, all of which require action, review, or follow-up. The ODM works closely with the Departmental Executive Secretariat to ensure conformance with Secretarial and Departmental guidance and policies and is responsible for providing training within MMS on document preparation procedures and policies. The ODM maintains contact with the staff of the Assistant Secretary of Land and Minerals Management and other DOI Assistant Secretaries to ensure coordination on issues of multi-bureau interest and concern.

Policy and Management Improvement
Justification of Program and Performance

	2004 Budget Enacted	Uncontrollable And Related Changes	Programmatic Changes	2005 Budget Request	Change From 2004
$(000)	4,111	65	0	4,176	+65
FTE	33	0	0	33	0

Overview
The Office of Policy and Management Improvement (PMI) provides the Director with a relatively small but agile organization capable of providing an impartial review, analysis and assessment of policies, procedures, and organizational performance. Because of its size, and freedom from the operational requirements of MMS's larger programs, PMI can be responsive in providing objective views, recommendations, and leadership on a broad range of high priority, high visibility, and policy and management issues.

These include: strategic planning, performance measurement and management, coordinating MMS initiatives in response to the President's National Energy Policy; evaluation of current and emerging regulatory and statutory issues; conducting and coordinating internal reviews; coordinating audits performed by the Office of the Inspector General and GAO; assuring implementation of recommendations derived from internal reviews, Inspector General audits, and GAO reviews or audits; managing MMS Activity Based Cost/Management System to provide cost and performance information for decision-making, managing MMS's compliance with the Departmental regulatory process; coordinating information collection requirements; and assuring program compliance with the requirements of the Federal Advisory Committee Act (FACA), Paperwork Reduction Act (PRA), Small Business Regulatory Enforcement and Fairness Act (SBREFA), Government Performance and Results Act (GPRA), and citizen-centered customer service initiatives.

The PMI Office also initiates pilot and laboratory projects for the Director and promotes efforts aimed at improving organizational performance and management such as those advanced by the President's Management Agenda (PMA). The PMI has overall coordination responsibility for the PMA and specifically leads initiatives in Budget and Performance Integration and Electronic Government. PMI has overall responsibility for ensuring that all the PMA initiatives are incorporated into MMS's management culture.

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

Organizational Structure and Responsibilities
The Associate Director of PMI and immediate staff are located in Washington, D.C. Supporting staffs capable of conducting reviews and analyses are located in Lakewood, Colorado, close to the Minerals Revenue Management (MRM) program, and in Washington, D.C., near the Offshore Minerals Management (OMM) program and Departmental

Headquarters offices. Administrative Appeals are evaluated and processed in both Lakewood and Washington.

Policy Reviews and Program Analyses

Evaluation of MMS's existing and proposed policies and programs is generally conducted through economic and programmatic analyses. PMI provides policy reviews and analysis on a broad range of matters within MMS. Assignments are typically conducted in support of proposed or existing MRM and OMM program issues or to evaluate or implement new Bureau initiatives.

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

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

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

- Supporting departmental implementation of energy policy
- Future Bureau policy for offshore oil and gas incentives;
- The sale of royalty oil and gas from Federal leases directly to the open market;
- Ongoing evaluation of alternative valuation methods of gas and oil on Federal lands with related cost benefit analyses;
- Jurisdictional issues for off-shore gathering and transportation.
- Final resolution on complex issues under administrative appeal to the Director; and
- Level of services provided to individual Indian mineral landowners.

Royalty-in-Kind (RIK) Pilots

Under the terms of standard Federal oil and gas leases, the Government is entitled to a share (royalty) of production removed or sold from the lease. Historically, the Government has received this share in value (i.e., as a percentage of the sales proceeds received by the mineral lessee). There are, however, reasons to examine whether the Government should receive at least some of its royalties not in-value, but in-kind, that, by taking and selling volumes of oil or gas equals the percentage royalty share. A primary reason to examine this issue is that taking royalty-in-kind (RIK) may provide opportunities to substantially reduce disputes between lessees and the Government over the value of Federal production.

The PMI office initially directed the implementation of longer term RIK pilots and has evaluated the feasibility and efficiency of the RIK pilots. Two final reports, (Wyoming Oil and Texas 8-G,) have been completed and a third, (Gulf of Mexico Gas,) is being completed. Since the RIK program has moved from pilot to program, PMI participates in policy development and planning for the integration of RIK into the Minerals Revenue Management Program.

Administrative Appeals

Sometimes companies or individuals disagree with compliance actions taken by MMS. Most of these disagreements arise when MRM finds that the company did not pay sufficient royalties and orders the company to correct the error. Any party disagreeing with a final order or decision issued by an officer of MRM has a right under Federal regulations at 30 CFR Part 290 (2000 Subpart B) to appeal to the MMS Director; or, if Indian land is involved, the appeal is filed with the Deputy Commissioner of Indian Affairs. The program office (generally MRM) reviews the appeal, and if it is not resolved at that stage, they forward it to the Appeals Division, PMI, for review and recommended decision.

The PMI Appeals staff is insulated from MRM so they can render an independent review of the issue under appeal. Appeals staff reviews the facts and arguments presented by both the appellant and the program office, analyze the case against legal and policy precedents, and recommends a decision for signature by the Director, the Associate Director, PMI, or the Deputy Commissioner of Indian Affairs for cases involving Indian leases. If the appellant disagrees with the decision of MMS or BIA, they can appeal further to the Interior Board of Land Appeals (IBLA).

Increasingly, Appeals staff has become more involved in settlement or alternative dispute resolution activities.

The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA) requires the Department to render final decisions on administrative appeals involving Federal oil and gas leases within 33 months of the filing of the appeal. Emphasis for the Appeals Division will be on resolving outstanding appeals cases within the first 16 months of the RSFA review period so that IBLA has adequate time to review lessee's appeals of MMS decisions; collaboration with the Minerals Revenue Management program and to use Alternative Dispute Resolution to effectively resolve disputes.

Implementation of the President's Management Agenda and the Secretary's Plan for Citizen-Centered Governance

On August 25, 2001, OMB released the President's Management Agenda (PMA), an integrated plan to reform the management of the Federal Government. The Agenda sets out specific steps to accomplish reforms through five government-wide initiatives:

- Strategic Management of Human Capital
- Competitive Sourcing
- Improving Financial Performance
- Expanding Electronic Government
- Budget and Performance Integration

The PMI Office is actively engaged in working on these initiatives, bringing an objective focus and consistent direction across MMS and ensuring that they are implemented in a mutually reinforcing manner. PMI serves as the principal in administering implementation of the PMA initiatives, reporting on their status, and ensuring improvement plans are in place. PMI leads two of MMS initiatives on Expanding Electronic Government and Budget and Performance Integration.

Expanded electronic government is a consistent thread woven through all the PMA initiatives. To ensure that opportunities for electronic government are actively explored, PMI leads efforts to develop MMS e-gov strategic plan, implement departmental initiatives, and to explore underdeveloped potential to improve business processes and management of the organization through the application of E-Government principles.

A key for success in the PMA is the ability to provide more complete information to managers about program costs, resources and performance. The PMI office leads MMS initiative to apply activity based costing/management (ABC/M) methods to its operations. Since implementing a Bureau-wide ABC/M system in October 2002, MMS has added the ability to cost program outputs to its system. While much has been learned from the initial year of gathering data, additional work is needed to make the data more reliable, accessible and more useful to program managers. In FY 2004, MMS will continue to refine its system and methods, working with the Department to ensure consistency and compatibility while avoiding duplication with Departmental ABC implementation efforts.

Use of Cost and Performance Information

Strategic planning and accountability for results is woven into the culture of MMS. PMI has overall responsibility for coordinating and guiding the Bureau in developing and implementing all of its strategic and annual implementation plans and ensuring their links to the Department's plans. PMI ensures MMS success in the planning process through monitoring and reporting performance, and initiating process improvements.

MMS has further refined its performance logic model to align with the new DOI strategic plan and is currently in the process of drafting a new strategic implementation document, which will layout a five-year framework for MMS's efforts and programs. MMS is also implementing an annual operational planning initiative to further integrate planning with budgeting effort.

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

- Increased integration of strategic and operational information in planning and budgeting activities.
- Verification, validation and reporting of performance information in a way that is useful and useable to managers and decision makers.
- Creating stronger linkages between performance and the budget.
- Creating more accountability for program performance.

Regulatory Direction

The PMI manages MMS regulatory program and serves as liaison to the Department's regulatory office. PMI initiates efforts to improve internal and external regulations and ensures the use of "Plain English" regulation writing when regulations are necessary.

In this capacity, it plays a major role in the Bureau's efforts to coordinate MMS policy and implement the requirements of:

- The Paperwork Reduction Act of 1995 and related information collection requirements;
- The Government Paperwork Elimination Act;
- Executive Orders (e.g., 12866) or legislation (e.g., The Regulatory Flexibility Act) directed towards the reduction and improvement of federal regulations;
- Small Business Regulatory Enforcement Fairness Act of 1996;
- Executive Orders or legislation promoting methods of alternate dispute resolution, a more effective administrative appeal process, and improved regulatory drafting procedures;
- The Negotiated Rulemaking Act (Neg-Reg Act) PL 101-648;
- The Unfunded Mandates Reform Act of 1995 directed towards reducing Federal mandates;
- Executive Orders (e.g., 12988) on civil justice reform directed towards not unduly burdening the judicial system;
- Executive Orders (e.g. 13211) directed towards reducing adverse effects on the nation's energy supply, distribution, or use.

Program Evaluation and Review of Internal Management Controls

MMS is improving its program evaluation process. PMI is developing an integrated evaluation process and web-based tracking module to ensure that results of all the numerous evaluations conducted of MMS programs and activities are gathered, analyzed, and provided to key executives for use in their decision making process. The evaluation process includes both internal and external reviews such as GAO and OIG audits, control reviews, performance assessments, ABC data reviews, administrative reviews, OMB's Program Assessment Rating Tool, and other special ad hoc reviews of MMS programs and initiatives.

The PMI manages MMS Management Control Review (MCR) Program designed to assess the Bureau's systems of management, administrative and financial controls in accordance with the standards and guidelines established by the Federal Managers' Financial Integrity Act and the Office of Management and Budget.

Administrative Operations

Justification of Program and Performance

	2004 Budget Enacted	Uncontrollable And Related Changes	Programmatic Changes	2005 Budget Request	Change From 2004
$(000)	16,639	362	180	17,181	+542
FTE	227	0	0	227	0

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

Administrative Direction and Coordination

This function provides for oversight of all administrative activities within MMS. This oversight ensures compliance with laws relating to administrative activities, provides for the review, interpretation, and implementation of Federal executive branch administrative policies and procedures, and develops appropriate guidance to ensure compliance with Department, Office of Management and Budget, General Services Administration, and other executive branch administrative policies and regulations.

Additionally, this function provides a proactive homeland security program to ensure nationwide protection of employees, visitors, resources and facilities, which includes educating employees and conducting physical security assessments to increase awareness and strengthen security measures. The Bureau’s goal is to be prepared and have appropriate emergency management plans in place for any unplanned event or unforeseen circumstance that might cause significant disruption of mission functions.

This function also includes responsibility for the Bureau’s management analysis functions (management studies and reviews, organizational review, delegations of authority and related activities, and special projects, such as administrative management reviews) and budget formulation and execution for Administration and Budget. In addition, this function maintains a liaison with Departmental offices in order to provide a coordinated and unified administrative program consistent with the mission and goals of the Department. Management services are also provided to the Bureau Aviation Safety Program and the Transportation Subsidy Program, which is reviewed and monitored for fiscal responsibility. Administrative Direction and Coordination, in keeping with the spirit of the President’s Management Agenda (PMA), contributes to all five PMA components: Strategic Management of Human Capital, Competitive Sourcing, Financial Performance, Expanding Electronic Government, and Linking Budget and Performance.

Finance Division

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

The Finance Division is responsible for the administrative accounting operations of the Bureau. Also, the Finance Division operates the administrative accounting system, audits and schedules bills for payments, collects debts, develops financial data, prepares financial reports, provides advice and assistance on financial matters, and maintains liaison with Departmental offices and other Government agencies.

It is both a Presidential Management Agenda item and a long term goal of MMS to ensure that timely and accurate financial data are readily available to assist MMS management in making sound and justified management decisions. In support of these priorities, MMS has moved aggressively during the past two years to respond to recommendations made by the Inspector General and to improve our financial performance. These efforts have resulted in MMS receiving an unqualified opinion on the FY 2002 and the FY 2003 Annual Financial Reports.

Budget Division

The Budget Division provides analysis and budget guidance, assures proper funding and staff allocations signed into law. The Budget Division develops and maintains all budgetary data to support MMS budget requests to the Department, the Office of Management and Budget (OMB), and Congress and provides analysis of financial and other resource utilization reports for use by Bureau and program managers. The Budget Branch is responsible for preparing the annual fiscal year budget estimates submitted to the Department and OMB, as well as annual Budget Justifications, the presentation and explanation of budget submissions to the Department, OMB, and the Congress.

MMS also supports the Department’s efforts to increase the integration of the budget and the Government Performance Results Act requirements. To that end, MMS implemented Activity Based Costing in October 2002 in accordance with the Department’s schedule. In addition, MMS Budget Division works with the Policy Management and Improvement Office and performance staff within the Offshore Minerals Management and Minerals Revenue Management programs to integrate budget and performance data and information into all aspects of budget formulation and execution.

Equal Employment and Development Opportunity

The Equal Employment and Development Opportunity Division (EEDOD) develops, directs, monitors, and operates MMS Equal Employment Opportunity (EEO) program in compliance with the Civil Rights Act of 1964, the Equal Employment Opportunity Act of 1972, Executive Order 11478, departmental directives and other related statutes and orders. Specifically, the responsibilities of MMS-EEDOD include:

- Maintenance and operation of the discrimination complaint system;

- Implementation of Equal Employment Opportunity and Affirmative Employment Plans;
- Implementation of programs for diversity higher education and related partnerships;
- Administration of the Employee Assistance Program;
- Administration of programs for dispute resolution alternatives;
- Development of training policy and coordination of employee training programs;
- Oversight of special initiative programs designed to involve more women, minorities and people with disabilities in the program areas and throughout all levels of management; and
- Coordination of developmental programs such as Student Employment, Upward Mobility and Management Development.

The EEDO division provides policy, coordination, and direction for MMS developmental programs, such as managing and monitoring the equity of employee development opportunities associated with formal developmental program and cross training assignments. Emphasis is placed on training managers and supervisors in employee development and human resources planning. To ensure that workforce activities are inclusive in that they promote the full utilization and exchange of skills and talents, the division is working to develop Special Emphasis activities, implement EEO complaints prevention initiatives, and track and analyze applicant flow data and employment trends.

The EEDOD ensures compliance with the Departmental Office for Equal Opportunity and EEO Commission directives, addresses Solicitor's requests regarding EEO issues, and coordinates with the Department and other agencies concerning employee development issues. In addition, the division chief serves as MMS Equal Employment Opportunity Officer.

Personnel Management

The Personnel Division administers MMS's human resource management program. The personnel management function:

- Develops and implements policies, procedures, guidelines, and standards relating to general personnel management, recruitment and employment, position management and classification; human resource planning; personnel program evaluation; labor management relations; conflict of financial interest and standards of conduct; employee relations and services; incentive awards; family friendly programs; the Federal Equal Opportunity Recruitment Program; and Senior Executive Service programs.
- Prepares appropriate reports, performs all operational personnel services for MMS Headquarters and client organizations, and provides assistance and guidance related to personnel matters for all MMS regional and field installations.
- Reviews, processes, and represents management in employee grievances, appeals, and adverse or performance based actions.
- Provides Bureau-wide payroll and personnel systems liaison services. Maintains liaison with the Office of Personnel Management, the Federal Labor Relations Authority, the Merit Systems Protection Board, and the Department on personnel management and related issues. Coordinates MMS matters involving personnel

investigations by maintaining liaison and coordination with the Department's Office of Inspector General concerning such investigations. Conducts and coordinates inquiries and determines appropriate actions related to whistle blower complaints.
- Consults with and refers actions related to allegations based on discrimination to Equal Employment and Development Opportunity Division, advising them of any issues which may impact on the administrative remedy process.
- Carries out reductions-in-force, reorganizations, and executive initiatives related to human resource issues for MMS Headquarters and client organizations.
- Seeks to ensure regulatory compliance to prevent real or apparent conflicts by providing guidance on standards of conduct and conflict of financial interest to employees Bureau-wide through proactive employee awareness training and information bulletins, advice on specific conflict issues, and the initiation of remedial orders when needed.
- Leads MMS Workforce Planning initiative. This includes serving on Departmental Workforce Planning committees, analyzing work related to the analysis of present workforce competencies (demographics, retirement projections, etc); identification of competencies needed in the future; a comparison of the present workforce to future needs to identify competency gaps and surpluses; the preparation of plans for building the workforce needed in the future.

In addition, MMS's Personnel Division provides operational personnel services to client organizations on a reimbursable arrangement. The Division currently provides personnel support to the following organizations:
- Office of the Secretary of the Department of the Interior
- Office of the Special Trustee for American Indians
- James Madison Memorial Scholarship Foundation
- Harry S. Truman Scholarship Foundation
- Accounting Operations Office, National Park Service
- Chemical Safety and Hazard Investigation Board
- Arctic Research Commission
- Financial Crimes Enforcement Network

Procurement and Support Services

The Procurement and Support Services Division (PASSD) is responsible for the execution and administration of MMS's acquisitions, space and facilities management, property management, safety and health management, transportation, and general office services functions.

The Division provides acquisition and financial assistance policy guidance, cost and price analysis, and advice to procurement and program personnel. It conducts acquisition management and other internal control reviews of procurement activities. The PASSD administers the purchase and fleet business lines of MMS charge card program.

The Procurement Operations Branch solicits, awards, and administers contracts, simplified acquisitions, financial assistance awards, and intra- and interagency agreements essential to the mission of MMS. The PASSD manages the Business and

Economic Development Program to maximize opportunities for small, disadvantaged, and women-owned businesses, as well as Historically Black Colleges and Universities as both prime contractors and subcontractors.

The Support Services Branch functions include facilities management (27 buildings in 26 cities), space management, mail and courier activities, Bureau-wide physical and document security, the Safety and Health Management Program, day-to-day voice and data communications, printing and publication activity, and property management and issuance of policy on these functions. The property management program maintains accountability records of all system-controlled property in the possession and control of custodial property officers and contractors within MMS; manages the Bureau vehicle fleet; and manages the Bureau museum property including an Arts and Artifacts program.

- *Space Utilization Studies and Space Layout and Reconfiguration.* In FY 2004, as staff realignments continue in MMS, the Division will continue to conduct MMS-wide space utilization studies and layouts. These studies allow MMS to proactively manage space, which has resulted in more efficient utilization and increased energy conservation.

- *Overall Acquisition Program.* Contract activity for the Offshore Technical Information Management System and the Technology Assessment and Research Program are an important part of the acquisition program within PASSD. In addition to buying information technology (IT) equipment and services that directly supports MMS mission, the PASSD has established and administered Department-wide contracts including Trust-net support and a software licensing agreement with Novell. Additional Department-wide IT requirements are anticipated in FY 2005. In FY 2004, the PASSD awarded the Financial and Business Management System (FBMS) contract to replace existing financial, acquisition, financial assistance, property, travel, and fleet management database systems. Due to the joint environmental studies being conducted in the Gulf of Mexico by MMS and Mexico, PASSD is now awarding contracts to Mexican educational institutions for their portion of the study. Under the Interior franchise fund pilot program authorization and the authority of the Government Management Reform Act of 1994, MMS is providing acquisition support to the Department of Defense, Executive Office of the President, Department of Homeland Security, Department of the Interior, Transportation Security Administration, and other federal civilian agencies.

- *Implementation of the Federal Acquisition Streamlining Act Requirements.* Under the provision of this Act: (1) MMS expanded its purchase card program allowing personnel to purchase the majority of their requirements of less than $2,500; (2) The PASSD will continue the use of oral proposals. Initiated in FY 1996, this practice has proven to be an efficient and effective acquisition method embraced by MMS personnel and the contractor community; (3) The Division will expand the use of innovative procurement methods like Statements of Objectives and vendor due diligence as alternatives to traditional statements of work. Such new techniques reduce procurement lead time and increase vendor understanding of the

Government's needs; (4) The Division will continue to acquire performance-based services to the greatest degree possible; and (5) The PASSD will continue to use past performance as an evaluation factor. These, as well as other best practices, are the tools that will enabling us to obtain the best value in our procurements.

- *E-Government Transformation Implementation:* This complex $80M project for MMS includes Business Process Re-engineering, design, procurement, and implementation of the transformation solution throughout the life cycle: acquisition, system design and implementation, system performance, and the changes needed to ensure the successful transition of MMS from its current state to a fully integrated electronic Government environment. Departmental Budget Office (POB) has a critical post-award contract administration role. The POB staff will continue the evaluating performance metrics every six months to ensure the contractor's compliance with the contract.

- *Electronic Invoicing:* A key component of PASSD's E-Government initiative is implementation of electronic invoicing to eliminate paper processing. This will significantly reduce processing time and increase the speed for vendor payment. Projected savings from this effort will mean a full return on investment within 18 months.

- *State/Federal Government Research Partnerships:* MMS has established a research partnership with several coastal States through their Coastal Marine Institute (CMI) system. This university-based research and study program allows MMS and the States to respond to shared scientific information requirements by utilizing the scientific expertise found within the State's Outer Continental Shelf region. MMS and the States equally share the funding burden for these programs. Each Federal research dollar must be matched by a State dollar. PASSD awards and administers the cooperative agreements that format the CMI program. Part of this effort is insuring that the dollar-for-dollar matching requirement is met. This involves extensive tracking of research dollars and insuring they are spent in accordance with the intentions of the CMI charter.

- *Financial and Business Management System (FBMS) Transition:* MMS will continue implementation of the FBMS in FY 2005. The process will begin in FY 2004 with transition from the ABACIS financial system. In FY 2005, the PASSD will migrate from the Interior Department Electronic Acquisition System – Procurement Desktop to FBMS. The FBMS will take advantage of e-Government initiatives. Key among these will be the ability to pull vendor data from the Central Contractor Registration database for award and payment, seamlessly reporting procurement data to the FPDS-NG, and fully implementing the Intra-Governmental Transaction portal. When fully operational, the FBMS will also replace the separate financial assistance, property, and fleet management database systems. MMS administers the FBMS contract for the Department through the GovWorks franchise program.

- *Competitive Sourcing Program:* PASSD is responsible for implementing the President's Management Agenda (PMA) competitive sourcing program for the Bureau, ensuring strategic application of the program. Some of the highly complex and sensitive efforts required for this Program include: (1) preparing MMS's annual FAIR Act inventory with program office input; (2) providing guidance and training on competitive sourcing issues; (3) maintaining a competitive sourcing intranet site; (4) preparing MMS's annual competitive sourcing plan with program office input; (5) developing competitive sourcing policy and procedures; (6) monitoring and evaluating Bureau-wide competition efforts; (7) tracking and reporting planned and completed competitive sourcing studies; and (8) preparing self-assessments for the PMA scorecard; (9) keeping management informed of competitive sourcing issues; and, (10) preparing competitive sourcing budget requests.

- *POB Intern Program.* POB requires highly motivated interns to perform various acquisition related functions that support our rapidly growing requirements. Local colleges and universities were contacted for candidates. They must be excellent students, preferably with a business related major, and have strong computer and work experience. As the interns become acclimated to the acquisition processes and procedures, they are assigned more complex duties and responsibilities. POB now has a waiting list for Intern positions. This taste of Federal employment is meant to inspire strong candidates to apply for permanent employment after graduation.

- *Property Management System (PMS-NT).* The Windows NT Server based Property Management System is the official Bureau property management system and contains data on all MMS system-controlled property.

- *Safety and Health Management Program.* The PASSD provides policy and guidance for the Bureau Safety and Health Program. The policy of MMS and PASSD is to provide safe and healthful work conditions, present information on injury- and work-related illness to its employees, protect MMS property from damage and provide for the safety of the public while using MMS facilities. PASSD ensures program compliance and integration of safe and healthful practices into the day-to-day activities conducted within MMS. PASSD conducts annual facility inspections to ensure that corrective action and abatement plans are established.

- *Continuity of Operations Program (COOP).* The PASSD leads MMS COOP planning, training, and testing efforts to assure that the capability exists for continuing essential MMS functions. MMS COOP objectives include: ensuring the continuous performance of MMS essential functions/operations during an emergency, protecting essential facilities, equipment, records, and other assets, reducing or mitigating disruptions to operations, reducing loss of life and minimizing damage and other losses, and achieving a timely and orderly recovery from an emergency and resuming full service to our customers.

Information Resources Management (IRM)

Security. The IRM Division will continue to enhance MMS IT security program in FY 2005. The Bureau IT Security Manager will continue to work closely with the IT Security Managers from the program areas to review and improve security plans, policies, procedures, standards, practices, and controls to reflect technological changes. The efforts will be coordinated with the Department's CIO Office to ensure that MMS IT security program is in compliance with the DOI IT Security Plan. Additionally, MMS will complete certifying and accrediting all major applications and general support systems to ensure that these systems comply with OMB Circular A-130, Appendix III and NIST guidance. MMS will be tracking IT security spending for reporting purposes. The IRM Division will continue to implement new technologies to improve security. The A-130 Compliance Branch has been established to develop and interpret policies and procedures that implement DOI and Federal IT security policies within MMS.

Capital Asset Planning. The IRM Division is engaged in an ongoing effort to establish, maintain, and support an IT investment analysis and decision-making environment to ensure that investments in IT are well planned, implemented, and at the same time cost effective. As part of the effort, we participate in the DOI IT Portfolio Management Coordination Group to develop and enhance capital planning and investment control guidance that adheres to both Office of Management and Budget (OMB) and General Accounting Office (GAO) guidance. The IT portfolio function seeks to improve overall management of information technology resources through effective strategic and operational planning that directly supports Bureau and Department goals and missions. The staff manages the Bureau capital asset planning program by coordinating, reviewing and submitting MMS program Business Cases, developing the Bureau IT Exhibit 53 (IT portfolio); and maintaining liaisons with the Department and other DOI Bureaus regarding information technology investments.

Departmental Initiatives. The IRM Division will play a lead role in contributing to important Departmental IT activities that are sponsored by the agency's CIO through the CIO Team and through a variety of working groups. These include participation in the development of the Department of the Interior Enterprise IT Architecture (IEA) and the departmental capital asset management process. The IRM Division will support the Department and OMB e-Gov initiatives.

Architecture. The office of the CIO in MMS will develop and maintain an overall Agency architecture based on discussions with and input from each of MMS Offices. This cost-efficient architecture will enhance its infrastructure as well as mission-specific systems where appropriate. Standards and architectural issues will be raised and discussed at scheduled IT manager meetings and at senior executive committee and/or staff meetings when appropriate.

The technical reference model components being used as the Bureau standards include Web browsers, word processors, desktop computers and operating systems, workstations and network hardware, telecommunications, and protocols. MMS IT Architecture will seamlessly integrate IT systems, data, and architectural components in a networking and communications environment.

The objective of the IT Architecture is to support Departmental and OMB initiatives while providing its customers with a comprehensive energy management program.

FTS2001 Data and Managed Services. In FY 2005, MMS will continue to outsource its network management and security requirements utilizing a GSA provided solution under the FTS 2001 contract. The security requirements provided under the GSA FTS 2001 contract include Managed Firewall services. MCI provides network managed router service, maintenance for routers, firewalls and other network management activities including network design, and performance management/monitoring. Additionally, in FY 2005, MMS will participate in a major Department of the Interior initiative, Enterprise Services Network (ESN), to consolidate and redesign networks within the Department. This multiyear project will provide the Department of the Interior and MMS a common network structure to allow us to achieve the following: common, stronger IT security posture; platform for common messaging system; common user authentication Department-wide; reduced network costs; more aggressive enterprise licensing and improved network performance.

Intranet Improvements - Part of the Knowledge Management Structure. MMS Knowledge Pipeline intranet technology plays a vital role in maximizing the distribution and sharing of MMS corporate knowledge across the Bureau. The Intranet enables MMS to comply with several legislative mandates, including: Section 508 of the Rehabilitation Act; Government Paperwork Elimination Act; Clinger-Cohen Act; Paperwork Reduction Act; and Executive Orders. The Intranet is an integral part of the Bureau-wide information sharing and architecture structure supported by Microsoft Active Directory infrastructure. With these tools, MMS will be well positioned to create a knowledge sharing community within a distributed work force, support collaborative work teams, and provide the right piece of information to make successful business decisions throughout the Bureau. These initiatives support the Administration and Budget long-range goal, to build an enterprise information knowledge management structure corporately managed for the benefit of MMS as a whole.

The support and maintenance of MMS Pipeline and its redesign effort not only involves long-term planning, but it also provides detailed guidelines using web technology to ensure that MMS Pipeline continues to provide employees with information as quickly and efficiently as possible.

The Intranet will continue to improve in design and functionality, providing more powerful and effective electronic search techniques, enabling retrieval of administrative and program-specific information, database collaboration, and create web-enabled MMS business processes.

Infrastructure Support. MMS will continue to support and maintain the Microsoft enterprise architecture taking advantage of new features and capabilities associated with software upgrades including web-based e-mail service. Other initiatives include MMS participation in the DOI Active Directory (AD) Project. Currently, MMS network users can access their local network data by logging into MMS network from any MMS location. As part of the AD Project, MMS will connect our current forest to the DOI.net forest. During the second phase of this project, MMS will shrink its current domain structure into a single domain within a DOI.net forest, thereby facilitating MMS network users the ability to access their local network data from any computer connected to the DOI.net forest.

Voice and Data Integrated Network Project. MMS will implement a Voice over Internet Protocol (VoIP) solution to replace our current voice and data communications equipment, which are outdated and no longer meet our business needs. This integrated solution will use a common IT architecture for both voice and data products. VoIP technology offers substantial benefits including efficient resource utilization, a homogeneous network offering both voice and data, potential for other multimedia transmission (e.g. video), and lower data bandwidth requirements than traditional telephony.

Freedom of Information Act (FOIA) Initiative. The IRM Division will continue to work closely with the Department to improve the FOIA program and provide enhancements to the DOI Electronic FOIA Tracking System. MMS is continuing to implement the Department's revised FOIA regulations. The IRM Division will provide management assistance and direction for the smooth operation of the FOIA and Privacy programs throughout MMS.

Records Management Initiatives. The IRM Division will continue to review MMS records management policies, manuals, and directives to come into compliance with the Government Paperwork Reduction Act (GPRA), Government Paperwork Elimination Act (GPEA), and National Archive and Records Administration (NARA) requirements. The IRM Division will investigate and evaluate records management technology to determine if new technologies and software can be utilized within MMS.

Field Administrative Service Centers

Direct administrative support is provided to various MMS program managers through two Administrative Service Centers (ASCs).

The Southern Administrative Service Center (SASC), located in New Orleans, Louisiana, provides direct administrative support, direction, and coordination to programs in the Gulf of Mexico OCS Region (GOMR), Headquarters' Information Technology Division, E-Gov Project Management Office and a resident Minerals Revenue Management (MRM) Compliance Office. Full support is also provided to 5 outlying District/Subdistrict GOMR offices.

The Western Administrative Service Center (WASC), located in Denver, Colorado, provides direct administrative support, direction, and coordination to the Minerals Revenue Management offices in Denver and its field entities, the Office of Policy and Management Improvement, the Offshore Minerals Management Mapping and Survey Staff in Denver and the Alaska and Pacific OCS Regions.

Justification of Program Change
Administrative Operations
Competitive Sourcing

	2005 Budget Request	Program Change (+/-)
$(000)	17,181	+180
FTE	0	0

Justification of FY 2005 Change

A total of $180,000 is proposed to support cost comparison studies of 60 commercial FTE. The revised PMA competitive sourcing scorecard for an approved “green” plan requires competing all eligible commercial functions that are appropriate for study by the end of FY 2008. The $180,000, will support the first phase of our competitive sourcing plan. Direct support of the program is proposed to ensure that we continue to support our core mission and our competitive sourcing goals. For additional information please see the last section of the overview titled “President’s Management Agenda”

General Support Services Subactivity

Justification of Program and Performance

	2004 Budget Estimate	Uncontrollable And Related Changes	Programmatic Changes	2005 Budget Request	Change From 2004
$(000)	21,690	927	1,249	23,866	+2,176
FTE	0	0	0	0	0

The General Support Services subactivity includes funding for fixed costs and related support services for the entire Bureau. Fixed costs include expenses such as rental of office space, workers' compensation, unemployment compensation, Federal Telecommunications System (FTS) Service/Commercial Communications, the Department's Working Capital Fund (WCF), annual building maintenance contracts, mail services, and necessary printing costs.

Two major program objectives are to provide safe and secure facilities that will contribute to the productivity and efficiency of the employees in achieving goals and objectives, and to provide appropriate services in support the operating programs.

Justification of Program Change

General Support Services

IT Security Certification and Accreditation

	2005 Budget Request	Program Change (+/-)
$(000)	23,866	-318
FTE	0	0

Relationship to Performance Goals

The General Support Services subactivity includes funding for fixed costs and related support services for the entire Bureau. Fixed costs include expenses such as rental of office space, workman's compensation, unemployment compensation, Federal Telecommunications System (FTS) Service/Commercial Communications, the Department's Working Capital Fund (WCF), annual building maintenance contracts, mail services, and necessary printing costs.

Justification of FY 2005 Program Change

IT security is a major priority for the Department of the Interior. A certification and assessment program is a critical investment to create and maintain a secure environment for systems and data and is required by the Computer Security Act of 1987, Clinger-Cohen Act of 1996, and other legislative and administrative mandates. The 2004 DOI budget included $13 million overall of which $645,000 was allocated to MMS for the first of a multi-year program to test, assess, and remediate systems in order to reach a goal for certification and accreditation of all high-risk systems by December 2005. Bureaus and Offices were allocated shares of this funding, based on available information on the number and complexity of such systems. The Department's Chief Information Office oversees expenditure of these funds. A more detailed justification for this initiative was included in the Working Capital section of the Departmental Management budget.

MMS was able to complete more Certification and Accreditation (C & As) studies than originally scheduled in prior years. As a result fewer C & As will be required releasing $0.318 million in funding.

Justification of Program Change

General Support Services

Fleet Reduction

	2005 Budget Request	Program Change (+/-)
$(000)	23,866	-14
FTE	0	0

Justification of FY 2005 Program Change

According to recent Office of Management and Budget statistics, among civilian agencies Interior has the third largest motor vehicle fleet. Vehicles are used by Interior employees and authorized volunteers to support multiple mission activities, many in remote areas. In some locations, government vehicles are provided to support service contractors. Over 4,000 vehicles are used seasonally (i.e., only in winter or summer), or for special purposes, such as law enforcement or fire fighting. Nearly 90 percent of the fleet vehicles are trucks, vans, buses and ambulances, and 10 percent are sedans and station wagons.

In 2004, the Department and the Bureaus began a collaborative effort to improve the management of vehicle fleets including examination of the infrastructure for fleet management within each Bureau, the identification of best practices that could be used Department-wide, and the development of action plans to improve fleet management and realize cost savings.

In anticipation of improved fleet management and the resultant savings, the 2005 budget proposes a reduction in funding. To achieve these savings, the Bureau will undertake fleet reductions and cost-savings by: (1) reducing the size of the fleet; (2) employ energy saving practices by fleet operators; (3) acquire more efficient vehicles; (4) acquire the minimum sized vehicle to accomplish the mission; (5) dispose of underutilized vehicles; (6) freeze the acquisition of vehicles from the General Services Administration (GSA) Excess Vehicle program; and (7) explore and develop the use of inter-Bureau motor pools.

Justification of Program Change
General Support Services
E-Rulemaking

	2005 Budget Request	Program Change (+/-)
$(000)	23,866	-10
FTE	0	0

Justification of FY 2005 Program Change

The E-Rulemaking initiative transforms the current rulemaking process in order to allow the public to more easily access and search all publicly available regulatory material and provide an easy and consistent way for the public to comment on proposed rules. The initial step of E-Rulemaking will be creation of Regulations.gov, a government-wide docket system to provide a single Internet access point to regulatory material.

This one-year decrease in base funding is to fully fund the *e-Rulemaking* initiative. MMS was able to obtain this funding through decreased space requirements in FY2005.

Justification of Program Change
General Support Services
Working Capital Fund Technical Change

	2005 Budget Request	Program Change (+/-)
$(000)	23,866	+43
FTE	0	0

Relationship to Performance Goals
The General Support Services subactivity includes funding for fixed costs and related support services for the entire Bureau. Fixed costs include expenses such as rental of office space, workman's compensation, unemployment compensation, Federal Telecommunications System (FTS) Service/Commercial Communications, the Department's Working Capital Fund (WCF), annual building maintenance contracts, mail services, and necessary printing costs.

Justification of FY 2005 Technical Change
A total of $43,000 is proposed to transfer to WCF/Central in order to centrally fund and perform activities that were previously funded directly by the Bureau through OS/RSAs.

Justification of Program Change
General Support Services
Audit Funding

	2005 Budget Request	Program Change (+/-)
$(000)	23,866	+776
FTE	0	0

Justification of FY 2005 Program Change
In compliance with the Chief Financial Officers Act of 1990, the Department's 's consolidated financial statements and individual bureau financial statements are audited annually. The Department has benefited significantly from these independent and objective evaluations. Beginning in 2002, the Department began to contract with a private sector audit firm for the annual financial audits with funding specifically appropriated for this purpose in the Office of the Inspector General.

Due in large part to the Department's outdated financial system and the resultant delays in reporting, audit costs were higher than the amount appropriated. Each year the Department used credit card rebate funding and other bureau resources to fund the additional audit costs.

The 2005 request for audit funding identifies the anticipated full cost of the annual audit. The amount requested includes funds transferred from the OIG and amounts comparable to what the bureaus have been supporting in their budgets, exclusive of the cost of the audit relative to unanticipated, unique, bureau-specific audit issues.

Justification of Program Change

General Support Services

ESN Funding

	2005 Budget Request	Program Change (+/-)
$(000)	23,866	+602
FTE	0	0

Justification of FY 2005 Program Change

The Enterprise Services Network (ESN) will provide an enterprise approach to its information technology infrastructure. Beginning with the development of a Department-wide intranet, Internet access and an operations center, the development of ESN will provide a secured, single network infrastructure that is centrally managed. The potential benefits gained by migrating to a single enterprise network include centralized, standardized and efficient network operations, enhanced accountability for network performance, a uniformly high level of security, the reduction of risks associated with the loss of knowledge capital due to high projected turnover rates for skilled staff, and improved technical support for network managers. ESN will be implemented in two phases. Phase 1 encompasses three objectives: 1) establishment of a Department-wide Intranet; 2) consolidation of all Internet connections across the Department; and 3) implementation of a Network Operations and Security Center to manage the network and provide customer support. Phase 2 will encompass the secure connection to the ESN of the Bureaus' approximately 150 Bureau hubs or sites that are located primarily in cities, as well as their approximately 1,500 remaining smaller sites.

Justification of Program Change

General Support Services

Quicksilver Funding

(dollars in thousands)

	2005 Budget Request	Program Change (+/-)
$(000)	23,866	+256
FTE	0	0

Justification of FY 2005 Program Change

The increase will support the Department of Interior's Quicksilver Initiative. The following E-Government projects make up the initiative:

E-Travel +$16:

This E-government project provides a government-wide web-based service to consolidate travel functions, provide improved services to government employees, and minimize costs. From travel planning and authorization through the employee reimbursement process, E-Travel combines administrative, financial, and information technology best practices to produce cost savings and improved employee productivity. E-Travel leverages proven industry practices with new technologies to provide a common, automated approach for managing government travel. Efficiencies are expected by eliminating paper-based processes, replacing fragmented systems, expanding travel-related services that are available to Federal employees, providing on-line transaction processing, and creating a self-service environment that is easy to use.

E-Authentication +$9:

Federal services are available on-line, but many require some form of identify verification before a transaction can take place. The E-Authentication project will provide a secure, easy-to-use and consistent method of proving identity to the government minimizing the burden on businesses, the public, and government.
The project will establish uniform processes for establishing electronic identity and allow citizens and businesses to use non-government issued credentials to conduct transactions with the government. E-Authentication will eliminate the potential development of electronic identify authentication systems by multiple agencies and allow businesses to use a single registration process.

E-Training +$30:

The E-Training project creates a training environment that is more efficient and provides improved services and learning management support to the Federal government. E-Training provides learning management system functionality and a simplified process to learn about training opportunities with one-stop access to e-products and services -- thus, advances the accomplishment of agency missions. The Gov Online Learning Center houses a repository of products and services and performance support tools that meet the needs of the workforce. The E-Training approach avoids the need for multiple Federal agencies to host and maintain duplicate systems.

E-Records Management +$1:
The management of electronic records is a statutory mandate and a necessity for accountability. Agencies have largely developed individual solutions to fit their records management needs and have not focused on long-term management issues and interagency sharing. The E-Records Management project helps agencies to better manage their electronic records, so that records information can be effectively used to support timely and effective decision making, enhance service delivery, and ensure accountability. It establishes consistent policies, models, requirements, and standards to guide agencies in the implementation of electronic records management systems.

Business Gateway +$44:
Businesses, particularly small businesses, must comply with Federal, State, and local laws and regulations by applying for a series of permits and licenses. This can be a difficult and costly process that impacts their productivity. The Business Gateway will make it easier to find, understand, and comply with applicable laws and regulations by improving access to information, providing on-line tools, and accessible and easy-to-use forms. This project will also improve the ability of Federal agencies to automate business processes and comply with the Government Paperwork Reduction Act.

Integrated Acquisition Environment +$145:
The Federal government spends about $200 billion per year on the acquisition of goods and services. This E-government project will facilitate the cost-effective acquisition of goods and services, while eliminating inefficiencies in the current acquisition process. The project integrates a number of inter-governmental data warehouse efforts such as agency systems that maintain information about supplier's capabilities, past performance, and services and makes them available throughout the government. The project will also streamline acquisition by providing a directory to facilitate ordering from interagency contracts and catalogs and will redesign the process for ordering, billing, and collection.

E-Rulemaking +$10:
The E-Rulemaking initiative transforms the current rulemaking process in order to allow the public to more easily access, search all publicly available regulatory material and provide an easy and consistent way for the public to comment on proposed rules. The initial step of E-Rulemaking will be creation of Regulations.gov, a government-wide docket system to provide a single Internet access point to regulatory material.

Interior Franchise Fund

Justification of Program and Performance

	2003 Actual	2004 Estimated	Change From 2003	2005 Estimated	Change From 2004
$(000,000)*	1,661	2,159	+498	2,807	+648
FTE	83	93	+10	113	+20
*Offsetting collections from line 6900 in the IFF P&F table.					

Program Overview

In 1994, the *Government Management Reform Act* (P.L. 103-356) authorized creation of six executive agency pilot franchise funds. In May 1996, the Department of the Interior became one of those agencies. The Interior Franchise Fund (IFF) can provide common administrative services to the Department of the Interior and other Federal agencies.

The objective of the Franchise Fund Pilot Program is to reduce the cost of government to the taxpayer by streamlining the acquisition of commonly required administrative products and services. Common administrative services are those functions all agencies require to perform their missions. The list of administrative services includes but is not limited to procurement, financial assistance, personnel, finance, property, and facilities management.

Congress initially authorized six pilot franchise funds until Fiscal Year 1999. While one pilot franchise fund became permanent, the remainder receives annual reauthorization. The National Defense Authorization Act for FY 2004 reauthorizes the IFF through December 31, 2004.

The IFF became a virtual organization under the executive direction of the Deputy Chief Financial Officer for the Department of the Interior in 1997. The National Business Center (NBC) managed day-to-day IFF operations. By the end of Fiscal Year 2002, MMS's GovWorks accounted for nearly 95 percent of the total IFF revenue. Following a report by the Inspector General, the Department decided to align the IFF under MMS and separate the NBC business lines. NBC consolidated its entire fee-for-service operations under a separate revolving fund. MMS assumed responsibility for IFF operations in FY 2003.

The IFF has special authorities not available to all revolving funds. Public Law 104-208 authorizes the IFF to:

- Bill agencies in advance for the cost of providing services, and
- Retain 4 percent of the total annual income for each fiscal year for capital equipment and improvement; and, retain this amount until expended.

The public law originally required advance payment for the full cost of services. Public Law 108-7 changed this requirement and permitted advance billing for services. The IFF continues to request advance payment for services.
In 1996 OMB and the CFO Council defined 12 standard operating principles for business-like operations for franchise fund pilots. In 2003, the General Accounting

Office (GAO) used these principles to evaluate the IFF. Their August 2003 report to Congress contained the following:

> "During our case studies at the Interior and Commerce franchise fund pilots, we found that both have (1) taken into account many of the 12 business operating principles, (2) designed their cost accounting processes to set fees to recover the full cost of operations, and (3) progressed toward implementing the five main cost accounting standards.[1] The IFF's major business line, GovWorks, provides acquisition services and has seen dramatic growth in revenue and workload since fiscal year 1997. GovWorks projects continuing growth through fiscal year 2007. The IFF has been subject to an audit of its financial statements at the franchise fund level through fiscal year 2002." (Source: GAO-03-1069 Franchise Fund Pilot Review, Page 5)

GovWorks Business Line

In 1997, MMS began offering acquisition services to the Federal Government under the IFF. MMS "branded" its acquisition services as GovWorks to distinguish its activities from other Federal acquisition providers. The demand for its services began modestly, but grew rapidly as agencies found GovWorks to be a reliable acquisition services source. In FY 2003, GovWorks awarded more than $1 billion.

GovWorks is a Federal acquisition center providing a variety of procurement, cooperative agreement, and grant agreement services to other Federal agencies on a fee-for-service basis. These services include:

- Advisory and Assistance Studies
- Information Technology, including Hardware, Software and Services
- Telecommunications
- Research and Development
- Engineering and Technical Studies
- Environmental Studies
- Consulting Studies
- Personnel
- Master and Enterprise Licensing Solutions
- Architecture and Engineering
- Business Process Re-engineering
- Facilities Management Systems
- Integrated Logistics Support
- Logistic Support Analysis
- Sustaining Engineering
- Fleet/Field Support Analysis
- Joint Military Program Support
- Naval ship maintenance and refurbishment
- Engineering Change Proposals
- E-Health
- Furniture

GovWorks Operations

[1] The Standards are set forth in SFFAS No. 4.

GovWorks operations are self-sustaining. Fees charged to clients pay all operational costs. GAO agreed that GovWorks could retain the funds transferred to it until they were expended as long as a bona fide determination was made during the fiscal year the funds were appropriated. The following tables summarize the IFF's program and financing, operations and balances, and balance sheet.

Interior Franchise Fund

Program and Financing

(dollars in millions)

		FY 2003	FY2004	FY2005
Treasury Account ID : 14-4529		**Actual**	**Estimate**	**Estimate**
Obligations by program activity				
0000	Interior Franchise Fund Activities	1,312	1,968	2,562
1000	Total new obligations	1,312	1,968	2,562
Budgetary resources available for obligation				
2140	Unobligated balance, start of year	378	721	903
2200	New budget authority (gross)	1,654	2,150	2,795
2390	Total budgetary resources available for obligation	2,032	2,871	3,698
2395	Total new obligations	-1,312	-1,968	-2,562
2440	Unobligated balance carried forward, end of year	721	903	1,336
New budget authority (gross), detail				
6900	Offsetting collections (cash)	1,661	2,159	2,807
6910	Change in uncollected customer payments from Federal sources (unexpired)	-7	-9	-12
6990	Spending authority from offsetting collections	1,654	2,150	2,795
Change in Obligated balances				
7240	Obligated balance, start of year	49	441	599
7310	Total new obligations	1,312	1,968	2,562
7320	Total outlays (gross)	-927	-1,819	-2,550
7400	Change in uncollected customer payments from Federal sources (unexpired)	7	9	12
7440	Obligated balance, end of year	441	599	623
Outlays (gross), detail				
8697	Outlays from new mandatory authority	927	1,720	2,236
8698	Outlays from mandatory balances		99	314
8700	Total outlays (gross)	927	1,819	2,550
Net budget authority and outlays				
8900	Budget authority	0	0	0
9000	Outlays	-735	-340	-257

Interior Franchise Fund Statement of Operations *(dollars in millions)*				
		FY 2003	**FY2004**	**FY2005**
Treasury Account ID : 14-4529		**Actual**	**Estimate**	**Estimate**
101	Revenue	1,138	1,479	1,923
102	Expenses	-1,121	-1,457	-1,894
105	Net income or loss (-)	17	22	29
199	Total Comprehensive income	17	22	29

Interior Franchise Fund Balance Sheet *(dollars in millions)*				
		FY 2003	**FY2004**	**FY2005**
Treasury Account ID : 14-4529		**Actual**	**Estimate**	**Estimate**
Federal Assets				
1101	Fund balances with Treasury	1,163	1,512	1,965
1106	Accounts Receivable: Due From Federal Agencies	22	29	38
1999	Total assets	1,185	1,541	2,003
Federal Liabilities				
2101	Accounts Payable	313	380	493
2105	Deferred Revenue: Due To Federal Agencies	872	1,134	1,474
2999	Total Liabilities	1,185	1,514	1,967
4999	Total Liabilities and Net Position	1,185	1,514	1,967

A written obligation of funds and a statement of bona fide need accompany all requests for GovWorks services. GovWorks has controls in place to track and monitor the receipt of funding documents and the transfer of funds. The business, procurement, and accounting systems that support GovWorks link to share transactional information. The Business Information System and MMS's financial system record all transactions. The customer agency receives a complete financial transaction summary through a password-protected, Web-based, reporting system.

Relationship of the IFF to MMS's Primary Mission

MMS and the Department benefit from GovWorks' operations through the development of a high-quality professional acquisition core staff with the knowledge and expertise to support MMS and Departmental acquisition needs. Recently, the Interior Acquisition Managers' Partnership and the Interior Procurement Executive chartered GovWorks to develop a long-term IT solution for the Department. This acquisition may provide a single IT solution for the Department, improve cost containment, and lower IT investment costs.

GovWorks would provide acquisition management and implementation services to all Interior Bureaus. GovWorks is also assisting the Department by developing the means to acquire E-Grant capabilities for Interior Bureaus. E-Grants are a part of the President's E-Government agenda.

GovWorks experience supported the successful acquisition of reengineering services, software, and contract operators for the new MMS Minerals Revenue Management system. This expertise is also being applied to the acquisition of an E-Government solution for the Bureau's Offshore Minerals Management program.

Accomplishments

GovWorks has been a performance-based service contracts (PBSC) leader within the Department. Over the last year, we have expanded use of statements of objectives (SOO) and other innovative procurement methods. The acquisition methods developed and tested by GovWorks' professionals have been shared during training sessions at the annual Interior Acquisition Conference and through outreach training to the Federal acquisition community.

The list of contracts that MMS GovWorks has awarded on behalf of DOI Bureaus shows our direct support of the Department's mission. Equally important is the professional resource that GovWorks is developing. GovWorks has an active professional career development program that will ensure the Department has a trained acquisition workforce capable of meeting the Department's mission now as well as in the future.

In FY 2004 Govworks took on the challenge of procuring the Financial and Business Management System (FBMS) for the Department of Interior. This system will replace stove-piped financial, acquisition, financial assistance, property, travel, and fleet management database systems. Using due diligence sessions and a statement of objectives rather than a formal statements of work, GovWorks significantly reduced acquisition lead time and was able to provide offerors with an in-depth picture of Interior's needs. Beginning in FY 2004, MMS will be one of the first bureaus to implement the new solution.

Planned Activities for FY 2004

- Increase the number of customer orders by 10 percent per year, which could have the effect of increasing revenues by 30 percent.
- Obtain unqualified audit opinions on IFF financial statements.
- Continue to maintain a competitive fee that will bring back past customers and attract new customers.
- Administer the FBMS contract and oversee implementation of the system in the Office of Surface Mining and MMS.

- Improve the business planning process for each IFF business line that includes marketing strategies, pricing analyses, performance measures, and retained earnings analyses.
- Continue to evaluate customer satisfaction and the quality of customer services by asking existing customers what and how the IFF can do better. Lessons learned will be incorporated into future tactical plans.
- Continue to explore new products, services, and activities aimed at leveraging cutting-edge technologies and maximizing future opportunities.
- Continue to provide top quality services to attract more federal client agencies.
- Continue developing expeditious solicitation and award procedures while complying with all Federal, Departmental, and MMS rules and regulations.
- Implement an electronic invoicing procedure that supports the President's Management Agenda and expedites invoice payment processing.
- Ensure connectivity between electronic invoicing and FBMS
- Begin implementation of the Intra-Government Transfer (IGT) portal for GovWorks customers ordering IT goods and services and construction work.
- Pursue permanent franchise authority

Planned Activities for FY 2005

- Increase the number of customer orders by 10 percent per year, which could have the effect of increasing revenues by 30 percent.
- Obtain unqualified audit opinions on IFF financial statements.
- Continue to maintain a competitive fee that will bring back past customers and attract new customers.
- Continue administration and oversight of FBMS implementation process as more DOI Bureaus come on-line.
- Continue to evaluate customer satisfaction and the quality of customer services by asking existing customers what and how the IFF can do better. Lessons learned will be incorporated into future tactical plans.
- Continue to explore new products, services, and activities aimed at leveraging cutting-edge technologies and maximizing future opportunities.
- Continue to provide top quality services to attract more federal client agencies.
- Continue developing expeditious solicitation and award procedures while complying with all Federal, Departmental, and MMS rules and regulations.
- Finish implementation of the IGT portal for GovWorks customers ordering any products or services.
- Pursue permanent franchise authority

Explanation of MMS Authorizing Statutes

Outer Continental Shelf (OCS) Lands

43 U.S.C. 1331, et seq.	The Outer Continental Shelf (OCS) Lands Act of 1953, as amended, extended the jurisdiction of the United States to the OCS and provided for granting of leases to develop offshore energy and minerals
43 U.S.C. 4321, 4331-4335, 4341-4347	The National Environmental Policy Act of 1969 required that Federal Agencies consider in their decisions the environmental effects of proposed activities and that Agencies prepare environmental impact statements for Federal actions having a significant effect on the environment.
16U.S.C. 1451, et seq.	The Coastal Zone Management Act of 1972, as amended, established goals for ensuring that Federal and industry activity in the coastal zone be consistent with coastal zone plans set by the States.
16 U.S.C. 1531-1543	The Endangered Species Act of 1973 established procedures to ensure interagency cooperation and consultations to protect endangered and threatened species.
42 U.S.C. 7401, et seq.	The Clean Air Act, as amended, was applied to all areas of the OCS except the central and western Gulf of Mexico. OCS activities in those nonexcepted areas will require pollutant emission permits administered by the EPA or the States.
16 U.S.C. 470-470W6	The National Historic Preservation Act established procedures to ensure protection of significant archaeological resources.
30 U.S.C. 21(a)	The Mining and Minerals Policy Act of 1970 and the Materials and Minerals Policy, Research and Development Act of 1970 set forth the continuing policy et seq. of the Federal Government to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves.
30 U.S.C. 1601	The Policy, Research and Development Act of 1970 set forth the continuing policy et seq. of the Federal Government to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves
. 33 U.S.C. 2701, et seq.	The Oil Pollution Act of 1990 established a fund for compensation of damages resulting from oil pollution and

	provided for interagency coordination and for the performance of oil spill prevention and response research. It also expanded coverage of Federal requirements for oil spill response planning to include State waters and the transportation of oil. The Act also addressed other related regulatory issues.
43 U.S.C. 1301	The Marine Protection, Research, and Sanctuaries Act of 1972 provided that the Secretary of Commerce must consult with the Secretary of the Interior prior to designating marine sanctuaries. MMS provides information and comments regarding the mineral resource potential in areas being considered for designation as marine sanctuaries.
16 U.S.C. 1361-1362, 1371-1384, 1401-1407	The Marine Mammal Protection Act of 1972 provides for the protection and welfare of marine mammals.
P.L. 104-58	The Deepwater Royalty Relief Act provides royalty rate relief for offshore drilling in deepwater of the Gulf of Mexico (GOM).

Mineral Revenue Management Program

25 U.S.C. 397, et seq.	The Indian Mineral Leasing Act of 1891, as amended, authorizes mineral leasing on land bought and paid for by American Indians.
25 U.S.C. 396, et seq.	The Indian Minerals Leasing Act of 1909 authorizes oil and gas leases on American Indian allotted lands.
25 U.S.C. 396-396(g), et seq.	The Indian Mineral Leasing Act of 1938 authorizes oil and gas lease on American Indian Tribal lands and provides uniformity with respect to leasing of Tribal lands for mining purposes.
30 U.S.C. 181, et seq.	The Mineral Leasing Act of 1920 (MLA) provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.
43 U.S.C. 1331, et seq.	The Outer Continental Shelf Lands Act of 1953 provides for granting of leases to develop offshore energy and minerals; provides for bonuses, rents, and royalties to be paid in connection with such leases; and calls for sharing certain revenues with coastal states.

30 U.S.C. 1001, et seq.	The Geothermal Stream Act of 1979 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.
30 U.S.C. 181, et seq.	The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
25 U.S.C. 2101, et seq.	The Indian Minerals Development Act of 1982 provides that any American Indian Tribe may enter into lease agreements for minerals resources within their boundaries with the approval of the Secretary. Allotted landowners may join Tribal mineral agreements.
30 U.S.C. 1701, et seq.	The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) provides for comprehensive fiscal and production accounting and auditing systems to provide the capability of accurately determining oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed and to collect for such amounts in a timely manner.
110 Stat. 1700	The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (P.L. 104-185) changes the royalty collection program by establishing a 7-year statute of limitations, limits the time for adjudicating appeals, requires the government to pay interest on royalty overpayments, changes definitions, and allows for delegation of certain functions.
PL 106-393	Mineral Revenue Payments Clarification Act of 2000, Title V of the Secure Rural Schools and Community Self-Determination Act of 2000

General Administration

31 U.S.C. 65	Budget and Accounting Procedures Act of 1950
31 U.S.C. 3901-3906	Prompt Payment Act of 1982
31 U.S.C. 3512	Federal Managers Financial Integrity Act of 1982
5 U.S.C. 552	Freedom of Information Act of 1966, as amended
31 U.S.C. 7501-7507	Single Audit Act of 1984
41 U.S.C. 35045	Walsh Healy Public Contracts Act of 1936
41 U.S.C. 351-357	Service Contract Act of 1965
41 U.S.C. 601-613	Contract Disputes Act of 1978
44 U.S.C. 35	Paperwork Reduction Act of 1980
44 U.S.C. 2101	Federal Records Act 1950
40 U.S.C.. 4868	Federal Acquisition Regulation of 1984
31 U.S.C. 3501	Privacy Act of 1974
31 U.S.C. 3501	Accounting and Collection
31 U.S.C. 3711, 3716-19	Claims
31 U.S.C. 1501-1557	Appropriation Accounting
5 U.S.C. 1104 et seq.	Delegation of Personnel Management Authority
31 U.S.C. 665-665(a)	Anti-Deficiency Act of 1905, as amended
41 U.S.C. 252	Competition in Contracting Act of 1984
18 U.S.C. 1001	False Claims Act of 1982
18 U.S.C. 287	False Statements Act of 1962
41 U.S.C. 501-509	Federal Grant and Cooperative Agreement Act of 1977

41 U.S.C. 253	Federal Property and Administrative Services Act of 1949
41 U.S.C. 401	Office of Federal Procurement Policy Act of 1974, as amended
15 U.S.C. 631	Small Business Act of 1953, as amended
15 U.S.C. 637	Small Business Act Amendments of 1978
10 U.S.C. 137	Small Business and Federal Competition Enhancement Act of 1984
15 U.S.C. 638	Small Business Innovation Research Program of 1983
10 U.S.C. 2306(f)	Truth in Negotiations Act of 1962 Authorization
Secretarial Order No. 3071	The order established the Minerals Management Service in January 1982, under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

Oil Spill Research

33 U.S.C. 2701, et seq.	Title VII of the Oil Pollution Act of 1990 authorizes the use of the Oil Spill Liability Trust fund, established by Section 9505 of the Internal Revenue Code of 1986, for oil spill research.
33 U.S.C. 2701, et seq.	Title I, Section 1016, of the Oil Pollution Act of 1990 requires a certification process which ensures that each responsible company, with respect to an offshore facility, has established, and maintains, evidence of financial responsibility in the amount of at least $150,000,000 to meet potential pollution liability.
43 U.S.C. 1331, et seq.	Section 21(b) of the Outer Continental Shelf Land Act, as amended, requires the use of the best available and safety technologies (BAST) and assurance that the use of up-to-date technology is incorporated into the regulatory process.
Executive Order 12777	E.O. 1277, signed October 18, 1991, assigned the responsibility to ensure oil spill financial responsibility for OCS Facilities to the Secretary of the Interior (Minerals Management Service).