OVERSIGHT HEARING ON THE PRESIDENT'S FISCAL YEAR 1999 BUDGET REQUEST FOR AGENCIES

OVERSIGHT HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES

OF THE

COMMITTEE ON RESOURCES
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

ON

THE PRESIDENT'S FISCAL YEAR 1999 BUDGET REQUEST FOR AGENCIES WITHIN THE DEPARTMENT OF THE INTERIOR: OFFICE OF SURFACE MINING, MINERALS MANAGEMENT SERVICE, AND THE ENERGY & MINERALS PROGRAMS OF THE BUREAU OF LAND MANAGEMENT

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THURSDAY, FEBRUARY 26, 1998

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES, COMMITTEE ON RESOURCES,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2 p.m., in room 1334, Longworth House Office Building, Hon. Barbara Cubin (Chairman of the Subcommittee) presiding.

Members present: Representatives Calvert, Romero-Barceló, Rahall, and Christian-Green.

STATEMENT OF HON. BARBARA CUBIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WYOMING

Mrs. CUBIN. [presiding] The Subcommittee on Mineral Resources will come to order.

The Subcommittee is meeting today to hear testimony on the administration's fiscal year 1999 budget request for three Interior Department agencies within our jurisdiction. These are the Minerals Management Service, the Bureau of Land Management's Energy & Minerals programs, and the Office of Surface Mining, Reclamation & Enforcement. Under rule 4(g) of the Committee rules, any oral opening statements are limited to the Chairman and the Ranking Minority Member. I mean like I'm worried that all these people that are here are going to take—[Laughter.]—a lot of time. This will allow us to hear from our witnesses sooner and help members to keep their schedules.

The bureaus before us today serve primarily in a regulatory role, overseeing environmentally sound exploration of and development of federally owned mineral rights and ensuring the revenues therefrom are collected and distributed properly. Unique among the Subcommittee's purview is the Office of Surface Mining, which administers the Surface Mining Control and Reclamation Act of 1997—excuse me, 1977—governing the manner in which all coal deposits are mined in this country, public or private, from the standpoint of surface impacts of strip mining or underground mining.

Today, I am pleased to have before us Ms. Kathy Karpan, of Rock Springs, Wyoming, who was confirmed by the Senate last September as the Director of OSM. This is the first opportunity that Ms. Karpan has had to testify before the Subcommittee, and, being a fellow cowgirl or cowboy from the "Cowboy State," I really welcome you. I'm glad you're here, and I really look forward to working with you. I think we'll have a long and workable and beneficial relationship. So, welcome.

Ms. KARPAN. Thank you.

Mrs. CUBIN. You want to tell a little bit more about you?

[Laughter.]

Ms. KARPAN. Well, it depends.

Mrs. CUBIN. It's nice.

[Laughter.]

Ms. Karpan is the daughter of a Wyoming coal miner, and so I think it's really appropriate that she should be in this job. I think that as she—will have some insight into coal mining that maybe other people wouldn't have, having lived in the circumstances that surround coal mining most all of her life.

Under her, guidance—oh, by the way, Ms. Karpan has received praise from all sides of all the issues in the 5 months that she has been here. I have heard compliments on her management skills and her skills just in general.

Under her guidance, OSM is making good faith efforts to involve the States, industry, and coal field residents alike in seeking solutions to issues that have spawned tons of litigation in the past. And that, in itself, is truly wonderful and quite remarkable. Thank you, Director Karpan, for these efforts, and I know that you'll keep up the good work.

Ms. KARPAN. Thank you, Madam Chair.

Mrs. CUBIN. The Minerals Management Service administers Federal leases for energy and mineral resources on the outer continental shelf of the United States, and collects mineral royalty payments for onshore Federal and Indian leases as well as offshore. It's an important job collecting $6 billion of mineral revenues each year, as well as managing booming development in the Gulf of Mexico, which generates a large fraction of those moneys for the treasury. Ms. Cynthia Quarterman—and I just called her Emily because there was a reporter on the Casper Star Tribune staff that was called Emily Quarterman, and so excuse me for just calling you Emily. I knew you were Cynthia.

Ms. Cynthia Quarterman, Director of MMS, will testify today as to her agency's budget needs.

The Bureau of Land Management Energy and Minerals programs also fall under our Subcommittee's oversight. The BLM, among other jobs, administers the laws governing the disposition of energy and mineral resources from our public domain lands and reserved Federal mineral estates, including the Mineral Leasing Act of 1920 and the Mining Law of 1872.

In my State and in much of the West, the BLM manages vast tracts of public land and the subsurface of split-estates. If you want to explore for and develop oil, gas, coal, trona, or uranium or other hard rock minerals, you simply have to deal with the BLM. It's an agency from which there is no escape. Mr. Tom Fry, Deputy Director——

[Laughter.]

Mrs. CUBIN. I know. That's a good one, isn't it?

Mr. Tom Fry, Deputy Director of BLM, will testify as to his program's needs for the coming fiscal year.

I welcome both Ms. Quarterman and Mr. Fry, neither of whom is a Wyoming native to my knowledge, but who, I trust, are prepared to work with this Subcommittee nonetheless.

Now the Chair will recognize Mr. Rahall for any statement that he might have.

Ms. RAHALL. Thank you, Madam Chair. I do ask unanimous consent that the Ranking Minority Member, Mr. Romero-Barceló's comments be made part of the record.

Mrs. CUBIN. Without objection.

[The statement of Mr. Romero-Barceló follows:]

STATEMENT OF HON. CARLOS ROMERO-BARCELÓ, A REPRESENTATIVE IN CONGRESS FROM THE TERRITORY OF PUERTO RICO

Madame Chair, I am pleased to join you in welcoming our three witnesses from the Department of the Interior to discuss the Administration's requests for fiscal year 1999 funding for the Bureau of Land Management's energy and minerals program, the Minerals Management Service, and the Office of Surface Mining.

President Clinton has proposed a balanced budget for 1999, 3 years earlier than agreed to in last year's Bipartisan Budget Agreement. Within the framework of a balanced budget, the Administration has protected the basic operating programs for the programs for which we have oversight duties. The OSM request is $277 million; the MMS request is approximately $222.5 million, and the BLM energy and minerals request is approximately $72 million, including the Alaska minerals account.

Underlying these requests are several key policy matters that this Subcommittee has a duty to consider.

The Outer Continental Shelf oil and gas leasing program raises a great deal of revenue—on average, about $4 billion each year—and I note that this program raised $6.2 billion last year, largely due to increased activity in the Gulf of Mexico. In fact, MMS is requesting a $7.5 million supplemental appropriation to accommodate this increased activity which I believe we should support.

It is worth noting that of the royalties collected, MMS distributed more than $617 million to 36 states during 1997, more than in any previous year. This amount is $89 million more than in 1996, and $144 million more than in 1995. The money represents the states' cumulative share of revenues collected for mineral production on Federal lands located within their borders and from Federal offshore oil and gas tracts adjacent to their shores.

The MMS request is about $13.9 million above the 1998 enacted level. This request is modest compared to the revenue return MMS will generate.

As part of its request, BLM proposes permanent extension of the $100 holding fee currently charged basis individuals who stake and hold Federal land under the 1872 Mining Law. These funds are used to offset the costs of running the mining law program. The authority for the fee is scheduled to expire in 1998. We should support the President's proposal to permanently extend the $100 holding fee and $25 recordation fee.

As part of its budget request, OSM is requesting an additional $2 million for its Clean Streams Initiative and $100,000 for its Western Lands Initiative as part of the President's Clean Water Initiative. These funds, raised through fees on coal mining, will be used along with an additional $168.6 million—with $143.3 million going directly to coalfield States—to clean up abandoned mine sites. Our colleague, Congressman Rahall believes additional funds should be made available for this purpose. I ask unanimous consent that his letter to Appropriations Subcommittee Chairman Regula be included in today's hearing record.

All in all, these budgets appear to be reasonable. I look forward to hearing the testimony of our witnesses.

Mr. RAHALL. Thank you.

While I recognize that all of the budgets that are under consideration during today's hearings are important, I would like to focus my comments on one particular aspect of today's hearings.

Like many Americans, I'm growing increasingly concerned with the failure of our Federal Government to keep the faith with taxpayers when it comes to the trust funds we've established on the books of the Treasury. And before I proceed, I'll be glad to yield to the Ranking Minority Member if he wishes to make his statement himself.

OK.

What I'm referring to, Madam Chair and my colleagues, is when people go to the gas pumps and they fill up their vehicles, when those dials continue to spin in front of us, we're paying taxes into the Highway Trust Fund. And we expect that money to be returned in the form of improved bridges and highways. Yet, today over $24 billion is being held hostage in the Highway Trust Fund.

And we have a very similar situation when the coal industry pays a fee on every ton of mined coal into the Abandoned Mine Reclamation Fund. Coalfield citizens expect that money to be returned to than in the form of environmental restoration work. Yet today, there's about $1.5 billion sitting idle here in Washington in that fund, and it's used by the OMB and congressional budgeteers to mask the true size our Federal deficit.

Meanwhile, throughout the coalfields of the United States, there's an unfunded inventory of over $2.4 billion worth of high-priority threats to the health, safety, and general welfare of our coalfield citizens. Annually, we receive about $266 million from reclamation fee collections. Yet, during the 1990's, appropriations for the AML State Grants program have averaged only about $140 million a year.

Both Republican and Democratic administrations have failed to keep faith with the promise that we made in 1977 when we enacted SMCRA, which established the AML program.

I believe it is incumbent upon us, as Members of Congress, to rectify this situation. In this regard, I am pleased to note that the Associated General Contractors of America have joined with such groups as the United Mine Workers and the Citizens Coal Council in support of my "Coal Field Jobs Environmental Justice and Trust" campaign. What we are seeking is a minimum $200 million State AML grant appropriation.

We're doing so because every $1 million spent under this program creates jobs, jobs, jobs—to the tune of 17 direct construction jobs, 14 off-site, and 28 ancillary jobs in areas where unemployment levels often exceed the national average. We're doing so because of the pressing need for environmental justice in our coalfields, to address the pressing threats to the health, safety, and welfare of the citizens caused by abandoned mine sites.

And we're doing so to restore trust—trust—to the Abandoned Mine Reclamation Fund so that we can better fulfill the promise that we made to our coalfield citizens with the enactment of SMCRA more than 20 years ago.

So, in conclusion, perhaps one day some administration will see the error of its ways. Perhaps some day, some administration will conclude that allowing millions of dollars worth of interest to accrue to unappropriated trust fund balances is not a physically responsible way of doing business. Rather, I hope some day, some administration will realize that spending those moneys for their intended purposes would much better meet the public good.

The administration, as reflected by its budget recommendations for AML, has failed to come to this realization. So, I conclude by saying: set these trust funds free.

Thank you, Madam Chair.

Mrs. CUBIN. Certainly. Mr. Barceló did you want to give your remarks orally?

Mr. ROMERO-BARCELÓ. Thank you. Thank you, Madam Chair.

And Madam Chair, I am pleased to join you in welcoming our three witnesses from the Department of the Interior to discuss the administration's request for the fiscal year 1999 funding for the Bureau of Land Management Energy and Mineral Program, and the Minerals Management Service, and the Office of Surface Mining.

President Clinton has proposed a balanced budget for 1999, and 3 years earlier than agreed in last year's bipartisan budget agreement. And within the framework of a balanced budget, the administration has protected the basic operating programs for the programs for which we have oversight duties. And the OSM request is $277 million; the MMS request is approximately $222.5 million; and the BLM Energy and Mineral request is approximately $72 million, including the Alaska minerals account.

Underlying these requests are several—policy—key policy matters that this Subcommittee has a duty to consider. The Outer Continental Shelf and Oil and Gas Leasing program raises a great deal of revenue, on average about $4 billion each year, and I note that this program raised $6.2 billion last year, largely due to the increased activity in the Gulf of Mexico. In fact, the MLS is requesting a $7.5 million supplemental appropriation to accommodate this increased activity, which I believe we should support. And it is worth noting that of the royalties collected, MLS has distributed more than $617 million to 36 states during 1997, more than in any previous year. The amount is $89 million more than in 1996 and $144 million more than in 1995. And the money represents the States' cumulative share of revenues collected for mineral production on Federal lands located within their borders and from Federal offshore oil and gas tracts adjacent to their shores.

The MMS request is about $13.9 million above the 1998 enacted level, and this request is modest compared to the revenue return MMS schools generate. And as part of this request, BLM proposes permanent extension of the $100 holding fee requested currently charged basis individuals who stake and hold Federal land under the 1872 mining law. And these funds are used to offset the costs of running the mining law program, and the authority for the fee is scheduled to expire in 1998.

We should support the President's proposals to permanently extend the $100 holding fee and the $25 recordation fee. And as part of its budget request, OSM is requesting an additional $2 million for its clean streams initiative and $100,000 for its western land initiative, as part of the President's clean water initiative.

These funds, raised through fees on coal mining, will be used along with an additional $168.6 million, with $143.3 million going directly to coal fields States to clean up abandoned mine sites. And our colleague, Congressman Rahall, believes additional funds should be made available for this purpose. And I ask unanimous consent that this letter to Appropriations Subcommittee Chairman Regula be included in today's hearing record. And I point out that these budgets appear to be reasonable, and I look forward to hearing the testimony of our witnesses.

Thank you, Madam Chair. I would like to submit for the record.

Mrs. CUBIN. Thank you, Mr. Barceló.

Now, I would ask, before you begin your testimony—that—ask the witnesses to stand and raise your right hand to be sworn. We do this routinely on this Subcommittee; it is absolutely nothing personal.

[Witnesses sworn.]

Mrs. CUBIN. Thank you.

Welcome to the hearing, Mrs. Green. Did you have an opening statement or would you like submit something for the record. Or whatever you'd like——

Ms. CHRISTIAN-GREEN. I do have a brief opening statement.

Mrs. CUBIN. Go right ahead.

Ms. CHRISTIAN-GREEN. Thank you, Madam Chairman, and good afternoon. Welcome to the panelists and my colleagues on the Subcommittee. I am pleased to be here at this the first meeting of the Subcommittee for 1998—and—to discuss the administration's fiscal year 1999 budget request.

While I am pleased to welcome all the witnesses who are here today, I am especially pleased to welcome back Ms. Quarterman, who I believe is making her third appearance before us. It's good to see you again.

Based on the statements that you have submitted to us, it appears that there are quite a lot of good things going on at the various agencies. I notice that the Mineral Management Services is requesting $14 million more than was appropriated last year, and the Office of Surface Mining is asking for a $3.9 million increase. These, I might add, are modest increases when compared to the level of revenue that all or your agencies generate for the Federal Government. In fact, I almost wished that, when I read that most of the money appropriated to us is passed to the States and tribes in the form of grants, if we had a few mines in my district in the Virgin Islands—[Laughter.]—and go home and look for some.

I am also pleased to see, though, that even as the President was able to submit a balanced budget to Congress this year, the funding levels for your various important programs were protected. And so, I look forward to hearing your testimony today and working with you to ensure that you are given the resources that you need to complete your various missions.

Thanks. Thank you, Madam Chair.

Mrs. CUBIN. Thank you.

Let me remind the witnesses that, under our Committee rules—I think in the letter it said we would give you 10 minutes for your testimony, and so we'll ask you to stick to that if you can. And so the Chair now recognizes Ms. Karpan.

STATEMENT OF KATHY KARPAN, DIRECTOR, OFFICE OF SURFACE MINING AND RECLAMATION AND ENFORCEMENT, U.S. DEPARTMENT OF INTERIOR

Ms. KARPAN. Thank you very much, Chairman Cubin.

I'll try not to even consume half that in the interest of attracting some questions. As Yogi Berra used to say, "this is deja vu all over again," since in a former life for both of us I, from time to time, worked with then State representative Cubin, when I was Secretary of State in Wyoming. And I enjoyed that working relationship, and I think some very good laws came out of it. And I have respected and admired you, and I'm delighted that we can be working together. And I thank you for the nice reception you've given me and the kind comments you've passed along, and in being generous in not passing along those that might not be kind.

Yes, I am the daughter of a coal miner. In fact, the—minority—Ranking Minority Member might be interested to know that my grandparents emigrated to this country from what was then the Austro-Hungarian Empire and came here to mine coal—both my grandfathers: one to Iowa and one to Wyoming. And my father moved from Iowa to Wyoming in 1938 to work in the old Dale Clark mine, which was a huge mine for the Union Pacific. And I, in fact, grew up in a neighborhood that was called No. 4, for No. 4 mine of the Union Pacific. And it was a neighborhood that was filled with immigrants and filled with hard work and high hopes. And when people turned 40, the women all started wearing clothes that were black. And when their hair got gray, the men and women alike, we all thought spoke a different language because, in our neighborhood, none of the older people spoke English. So, I grew up in a community where coal meant so much, and I've appreciated ever since then the tremendous contribution that industry makes to our national security and to our economy.

But I also grew up in a community that has struggled with the subsidence problem for 20 years. And it was my good fortune for then-Congressman Teno Roncaglio, one of your distinguished predecessors, Madam Chairman, and worked 6 years in this building, including a few years while he was struggling with the language in SMCRA. I wasn't here at the time it was passed, but I recall the circumstances that led to its enactment. And, as irony would have it, it was 26 years ago today that the Buffalo Creek disaster destroyed the lives of 125 people and helped provide the impetus for the enactment of the law.

By coincidence, too, I just missed being sworn in on the 20th anniversary of SMCRA. I was sworn in on August 1, and so I bring the zeal of someone who's new to the job, and even a little bit of sentimentality.

I that time, I have traveled to every one of our regions—visited a lot of field offices. I've been to the coal fields, met with citizen groups. And while I can appreciate some of the difficulties our agency went through in the last few years, I think I can report to the Subcommittee confidently that this is a stronger and better agency today. We are on a very stable course now. As a member observed, we are only seeking under a $4 million increase, so we are staying at a fairly constant level. And we're working to improve every area of our work, noting in particular, Madam Chair, the relationship with the States. I think I bring to this position, as a former elected State official, a particular sensitivity to the importance of our working hand in hand with the regulatory authorities who have primacy under the statute.

So, I thank you for this opportunity. I believe our budget is pretty straightforward, but I know that we have many activities we engage in that might interest you, so I would welcome your questions and comments. And if I can't answer them, we'll be sure to provide a written answer. I would ask that the letter that I submitted be included as part of the record.

And with that, I would thank the Chair.

[The prepared statement of Ms. Karpan may be found at end of hearing.]

Mrs. CUBIN. Thank you for your testimony. The Chair now recognizes Ms. Quarterman.

STATEMENT OF CYNTHIA QUARTERMAN, DIRECTOR, MINERALS MANAGEMENT SERVICE, U.S. DEPARTMENT OF THE INTERIOR

Ms. QUARTERMAN. Madam Chairwoman and members of the Subcommittee, I appreciate the opportunity to come to speak with you today and discuss the Minerals Management Service fiscal year 1999 budget request. I'll limit my opening remarks to an overview of our budget request. However, my written testimony provides substantially more detail on our activities and the reasons we are asking for this request.

As you have no doubt heard me say before, MMS is an agency that's constantly changing and evolving, due, in part, to many external forces, but also due to our desire to do our job better. I believe that we have made significant strides, and my testimony before this Subcommittee over the years has highlighted our progress on many fronts. However, there are still substantial challenges that we must meet if we are to continue to successfully accomplish our mission.

Our budget requests for fiscal year 1999 reflects that fact. For example, in our Offshore Minerals Management program we are addressing a range of issues associated with the huge resurgence in oil and gas interest in the Gulf of Mexico, particularly the deep water gulf, including critical technological, safety, and environmental issues. We are continuing to focus our efforts on appropriately managing oil and gas activities offshore California and Alaska. We are also attempting to address the dramatic increase in State interest in using OCS sand and gravel resources and requests from other nations to assist them on mineral leasing regulation and revenue collection. And we're looking at ways to streamline the offshore program.

Within the Royalty Management program, we are reengineering our current processes and systems to develop the most cost effective operations, to ensure that revenues are paid on time and accurately. We are revising our evaluation regulations to respond flexibly to market conditions while ensuring a fair return on the public's resources. And we are looking to alternatives to taking royalties and value and are planning to conduct pilots to determine the best way to take oil in-kind.

With those remarks as an introduction, I will now highlight our fiscal year 1999 request.

Overall, in 1999, MMS is asking for $222.5 million to carry out its responsibilities. That amount is $13.9 million more than our current fiscal year 1998 enacted level. It is predicated on receiving a supplemental increase in fiscal year 1998 of $6.7 million, and reflects significant investments in both the offshore and royalty programs. It is important to note that our request for appropriated dollars is actually decreasing. Our fiscal year 1996 request is about $15.1 million less than our fiscal year 1998 enacted level, and that is due to programmatic reductions of almost $4 million and an expansion of our authority to retain a portion of OCS rental receipts, from $65 million to $94 million. In short, our proposed fiscal year 1999 increase is more than offset by raising the cap on these collections.

The investments that we are proposing in fiscal year 1999 will be directed to two primary areas. One is supporting workload increases in the Gulf of Mexico, and the other to reengineering the Royalty Management program.

I will summarize our planned investments to this point, but I would like to submit for the record two white papers that we have developed which detail the rationale for these proposed increases.

With respect to the offshore program, the administration recently sent a fiscal year 1998 supplemental budget request to Congress. In it, we are asking for an additional $6.7 million to carry out our significantly increased responsibilities in the deep water Gulf of Mexico. This is the first time that we have come to the Committee with a proposed supplemental budget request to handle our ongoing workload. Surging activities in the Gulf have surpassed even our most bullish predictions at the time we formulated our fiscal year 1998 budget request, and now they threaten our ability to perform our regulatory responsibilities. Without the staff and resources to support and oversee increased activity, the benefits of more domestically produced energy resources, royalty revenues, and employment opportunities—may be—may not be realized.

I just want to illustrate for you some of the things that have happened in the past year in the Gulf of Mexico.

In 1996 and 1997, we had four record Gulf of Mexico sales in a row. Bonuses totaled $2.4 billion. That's three times more than we received in the previous 4 years. In less than 3 years, existing leases have increased from 5,000 to over 7,600. Almost half of those are in greater than a thousand feet of water. This past year, for the first time, the majority of tracts that we leased were in more than 2,400 feet of water. Last year, we received a record 11 deep water discoveries—were announced. And this year, we expect a record nine projects in deep water to go online. Last year, there were four deep water world records set in the Gulf of Mexico.

In 1997, the Gulf Regional office received 849 plans to process. That's a 95 percent increase from the past 4 years. I could go on and on.

This increased production is estimated to bring in an additional $700 million on royalties to the treasury. These statistics underscore why our workload has increased so quickly and dramatically and why we critically need the additional moneys. If we cannot continue to perform our responsibilities in a timely manner, then at the very least the Federal Government will not receive the significant revenues that have been generated from OCS activity in a timely manner; and industry will incur expensive downtime. It's also very critical that we ensure that industry maintains an excellent safety and environmental record. A serious accident in the Gulf of Mexico would undermine the public's confidence in the entire program and jeopardize all of these benefits.

I firmly believe that the $6.7 million we are requesting in supplemental funding will be an excellent investment in the nation's energy and economic future.

Now as the to Royalty Management program: MMS's top priority in the new millennium is to reengineer its royalty management program. We are requesting $5 million to begin this effort. The first question, you may ask, is, "in particularly in these tight budget times, why is this initiative necessary." The answer is straightforward.

First, the current software required to support the myriad Royalty Management program functions is based on programs that are over 15 years old, and had exceeded their—life acceptance—life cycle standard. These systems, if not upgraded, present a major risk for MMS and its customers.

Second, implementing the Royalty Simplification and Fairness Act has been particularly difficult for us. State delegation provisions of the Act will not be able to effectively be accommodated with our current royalty systems.

Finally, there are numerous other factors that are influential in pursuing this initiative, including changing energy markets, meeting customer demands, the recommendations of our Royalty Policy Committee, best practices that we've observed in State programs, inspector general reports calling for greater operational efficiency, and Federal downsizing, to name only a few.

Given all of these things, we concluded that the status quo which, as you know, includes significant improvements on the margin was not acceptable strategy for the future. Our reengineering effort will rethink our current operations by focusing on royalty management from a process rather than a functional perspective. And it's goal is to provide better service at less cost.

In developing our new core business processes, we have been guided by two goals. The first is to ensure compliance with all relevant laws for all leases in the shortest time possible, but no longer than 3 years from the due date. That's less than half the current time. And providing revenue recipients with access to their money in 24 hours rather than 30 days, as is the current standard. These are lofty goals, but ones that we think that we can achieve.

While the reengineering effort will require an up front cost, we expect that the moneys expended will be a good investment, with a return in no more than 2 years. At the end of the process, we will have a program that is highly integrated, process centered, focused on outcomes, less costly, and viewed by our customers and others as the best in the business.

Madam Chairwoman, that concludes my opening remarks.

[The prepared statement of Ms. Quarterman may be found at end of hearing.]

Mrs. CUBIN. Thank you very much.
Mr. Fry is recognized.

STATEMENT OF TOM FRY, DIRECTOR, BUREAU OF LAND MANAGEMENT, U.S. DEPARTMENT OF THE INTERIOR

Mr. FRY. Thank you, Madam Chairman.

It's a pleasure to be here to participate with this distinguished panel before this Subcommittee.

Madam Chairman, let me say that I have been to Wyoming, and I've never had to escape from Wyoming, nor from Puerto Rico or the Virgin Islands or California.

[Laughter.]

Mr. FRY. So, so far, my history is pretty good.

It is a pleasure to be here with you today and talk to you about some of the programs—the MM, excuse me—the Bureau of Land Management is involved in.

The President's fiscal budget for fiscal year 1999 has a request for approximately $1.2 billion for the BLM. This level of funding includes moneys for operation of the bureau, payment in lieu of taxes, firefighting activities, and the central hazardous materials management for the Department of the Interior.

Of that total budget, approximately $71 million is for energy and mineral activity, and $33 million is intended as a one-time appropriation for mining law administration. As this Committee is undoubtedly aware, the public lands produce about 33 percent of the nation's coal, 10 percent of its natural gas, and 5 percent of its oil. At the end of 1997, more than 46,000 leases existed on Federal lands covering about 37,000,000 acres. And about 20,000 of those leases were in producing status, with more than 63,000 producing wells on public land. This figure is up nearly 30 percent since 1985, while natural gas production has increased over 60 percent in the last 10 years. We expect in 1998 for royalties from the Federal lands to exceed $785 million.

There are couple of initiatives that I would just like to point out to you that are very important to our new director who was confirmed this year with director Karpan. Pat Shea has said that he has a couple of things that he was to make sure happen. One of those things is the implementation of our Automated Land Management Record System, which has a great deal of interest in the oil and gas and mineral community, because it would allow us to link land descriptions, geographic coordinates, land and mineral ownership and resource data into a single data base. And he is committed to having the first phase of that up and running in this year. First, we've gotten started turning on the system in New Mexico, and we are adding some other States shortly.

Another initiative of his is the renewed emphasis on production verification, which we may have an opportunity to talk about a little later.

Four other initiatives that I would like to briefly bring the—Committee up to date on—the Subcommittee up to date on.

One is the REGO II efforts, or Reorganization of Government efforts, which has been an ongoing project between the bureau and the IOGCC. The States, through the IOGCC, have indicated that they do not have an interest in delegation authority, which would be allowed by the Federal Oil and Gas—Management—Royalty Management Act. However, we have been able to enter into a number of MOUs with a number of States, and are willing to continue to work with the IOGCC and other States to share responsibilities.

Another area that we have been involved in is stripper well rate reduction. Earlier this month, the BLM announced that it would extend its royalty rate reduction for Federal stripper wells which produce an average less than 15 barrels a day on oil properties. While working closely with industry, we did similar look at marginal gas wells and found that that would not be revenue neutral. However, given the recent, dramatic downturn in oil prices, continuing this royalty rate reduction for oil will keep many stripper oil wells producing that might otherwise be shut in. What this means is that under certain conditions, the royalty rate can be reduced substantially from the normal 12.5 percent.

Concerning mining law administration—this year's budget contains a one-time appropriation to support a legislative proposal to permanently authorize collecting of mining claims, maintenance and location fees. Since 1993, the BLM has collected a mining claim maintenance fee of $100 and a claim location fee of $25 to offset the costs of the mining law program. The authority to collect these fees expires in September 1998. This budget proposal would permanently extend the collection of the mining claim fees and the location fees.

Lastly, let me mention the 3809 regulations, or the Surface Management Regulations. In 1997, the Secretary directed that the BLM renew its regulatory efforts that they had begun in 1991 to revise the 3809 regulations. The task force held a number of well-attended meetings throughout the West and in Washington, DC, and received over 1,800 written comments. The task force will continue to consider changes to this rule, and will continue to consult with States as a part of that initiative. For example, representatives of this task force will meet with State and State Governors, representatives next week, March 3, in Denver, Colorado, to discuss proposed changes to these rules. I am sure there will be many other things that the Subcommittee would like to talk about, but I will like to submit my written remarks for the record.

[The prepared statement of Mr. Fry may be found at end of hearing.]

Mrs. CUBIN. Thank you, Mr. Fry.

I will start the questioning. We'll have 5 minutes. OK. Then if the members want further questioning, we'll go a second round.

I'll start my questioning with Mr. Fry. You reported that the—IOG—or that the States and IOGCC didn't want State delegation, that that's their position. Now, the way I—as I understand it, in fact, as I know, they actually want legislation to be introduced which we're looking at. I think it isn't perfect, and so that's sort of contradictory. So, would it be accurate for me to say that they don't want delegation under the terms that the BLM has presented to them?

Mr. FRY. I think there's two things we're talking about here, Madam Chairman. We have delegation, which they've indicated they don't want, which would mean that the primary responsibility would still be with the Federal Government, and then we would delegate the responsibility to carry out those functions to the States. What some of the States seem to be interested in is not a delegation but a transfer of all of that authority and responsibility to the States and have the Federal Government out of the picture altogether. So that is the distinction that I'm trying to make here, where, under REGO II, the discussion was centered around a delegation. And we've come the conclusion that at least, from a blanket standpoint, the IOGCC has indicated to me that they did not want to have a delegation; that they were interested in a transfer function. And I think that is what the bills that have floated around indicate.

Mrs. CUBIN. Thank you. In March, 1995, President Gore proposed that oil and gas inspection and enforcement on Federal lands be transferred to the States. Since then, I know the BLM has had countless meetings with many people. This Subcommittee has held hearings on the proposal, and I myself, or I find myself in the unusual position of being on the same side as the Vice President, working hard, wanting to see that accomplished. Is BLM committed to transferring certain functions to the States?

Mr. FRY. Let me assure you that I'm on the same side as the Vice President, too.

[Laughter.]

Mrs. CUBIN. Always a wise place to be in your position.

Mr. FRY. The difficulty—and I have not been a part of those discussions until recently. But my understanding the difficulty has been this whole question of delegation that we spoke about a moment ago. The I and E function that we're talking about certainly could be delegated, and the BLM is more than willing to work on delegation of the I and E function. But there's been a reluctance, from my understanding, on behalf of the IOGCC and the States to take delegation of the I and E function. They would rather take over the entire program, which would take legislation.

Mrs. CUBIN. Well, last February, the States and BLM met in Phoenix to compare their oil and gas regulatory programs. And at that meeting, it was concluded that both the Federal and the State Governments share the same goals, although may wish to accomplish those objectives in different ways. Given those shared objectives, there was discussion, including by this Subcommittee, that the BLM and the States should get together to, at a very minimum, establish uniform standards. Has the BLM initiated any discussions with the States? Or are you interested in undertaking that project?

Mr. FRY. Absolutely. I'm not sure whether specific discussions that you're talking about occurred or did not occur. I've had discussions about the whole question of uniform standards. My concern, I think, is the same one that the Chairman expresses. What I don't like is the situation where you have two pickup trucks show at an oil well. One has BLM on the side, and one has the State of Wyoming on the side; and both are doing the same inspection. And that is not good government, and that's not what I want to see happen. We have seen work in a number of situations where we've allowed the people locally to work together, rather than on some sort of national cram down program. For people who have worked locally together we have divided those responsibilities, but we don't have two pickup trucks showing up because we do have the same shared interest in protecting not only the land, but the resources under the land. So, that is certainly, as you suggest, something that we would like to see and want to continue to work on.

I'm afraid that this issue is one that has—gotten—become politicized, and we haven't allowed the people on the ground to work it out. We have a number of arrangements in States where it has worked out. We have success stories in California; we have success stories in Colorado. We have MOUs working in other States, and I'm hopeful that we can allow our local managers and local States to work together to try to resolve these issues locally on things that they can decide make sense for them locally, rather than us try to decide that in Washington.

Mrs. CUBIN. You know I completely agree with you. As a general rule in all the work that I've done, I find on the ground the land managers and the decisionmakers who are there dealing with the resource at the point do a good job. They're committed to that. But wouldn't you agree with me that there really is a long way to go; that while there are some successes, we really good improve on this duplication but not quite a lot.

Mrs. FRY. We absolutely can improve.

Mrs. CUBIN. Thank you.

Ms. Green, would you like to question the panel?

Ms. CHRISTIAN-GREEN. No questions. Thanks.

Mrs. CUBIN. Mr. Calvert.

Mr. CALVERT. Thank you, Madam Chairman.

Ms. Quarterman, I was interested in your testimony. You know, it just seems like yesterday we were here talking about deep water, and I remember some of our colleagues, primarily on the other side, were saying that we were—this was a terrible thing to do when we were putting through the deep water legislation to promote drilling in the Gulf and that we were going to lose all this revenue. Can you explain to us, again, what is happening in the Gulf?

Ms. QUARTERMAN. It's booming.

[Laughter.]

Mr. CALVERT. Have we lost any revenue because of the Deep Water Royalty Fairness legislation we put together?

Ms. QUARTERMAN. Not that I'm aware of. As you recall, the President signed it, the administration supported the bill, and things are going very, very well.

Mr. CALVERT. And again, how much additional money has come in this year partly because of that legislation?

Ms. QUARTERMAN. Well, in the past four sales—and those are all sales since the Deep Water Royalty Relief Act as passed—there was about—$2.7 billion—$2.4 billion as compared to the last four sales before, where there was only $0.7 billion coming in.

Mr. CALVERT. That's quite a difference, isn't it? So you would say that that legislation was a successful piece of legislative art, wouldn't you?

Ms. QUARTERMAN I would have to say it's a success.

Mr. CALVERT. I think it is. But let's move on to how we're doing on transferring some of the obligations over the States as far as collecting royalties. How is that moving along?

Ms. QUARTERMAN. Well, I think that's going along well, as well. If you'll recall in the Royalty Simplification and Fairness Act, the Committee put a 1-year timeframe around coming out with a final rule, which is somewhat unheard of these days in terms of actually having that happen. It was signed in August 1996, which means that we had to have a final rule in August 1997. We got it passed one day early. The final rule passed. We have not, so far, had a State come forward and ask for delegation, but we are ready, willing, and able to comply if they were to ask.

Mr. CALVERT. I ran into a colleague of mine from one of the larger oil-producing states here in the lower 48, and he mentioned to me, and I'm going to follow through on this, that his State has asked and that they have been going through some difficult periods in trying to get this transition together. You never heard any problems with Oklahoma?

Ms. QUARTERMAN. None whatsoever. I have not heard from Oklahoma at all.

Mr. CALVERT. OK. I'll follow through on that.

Ms. QUARTERMAN. So will I.

Mr. CALVERT. OK.

Thank you.

To the best of our knowledge, the State of Oklahoma has not contacted the Minerals Management Service (MMS) about assuming royalty functions that can be delegated pursuant to the "Royalty Simplification and Fairness Act." In 1996 and 1997, when MMS was developing the regulations to implement the delegation provision, the agency held outreach sessions with interested states, and Oklahoma was represented at those meetings. Mr. Mike Smith, Secretary of Energy for the State of Oklahoma attended a meeting which discussed the framework for the regulation in December 1996; he also attended a meeting in April 1997 to discuss the proposed regulation. He indicated that his plan was to return to the state and determine what interest, if any, it had in delegated activities. However, he has never contacted us, nor has MMS heard from other officials in the state government of Oklahoma.

Mrs. CUBIN. Well, I think I'll just start a second round.

Mr. CALVERT. Go ahead.

Mrs. CUBIN. For director Karpan. My Subcommittee colleague from West Virginia, Mr. Rahall, and I sparred last Congress over my legislative effort to amend SMCRA with respect to Federal enforcement in primacy States. But with respect to the AML side of your agency, I think that we are and always have been pretty agreeable in principle at least that insufficient moneys are being appropriated back out of the trust fund for State reclamation grants. Your testimony noted that the acreage and national inventory of abandoned sites and has an estimated cost for cleanup.

My question is, how committed is OSM and the Department to making a concerted effort in the fiscal year 2000 budget to convince OMB and the President to back this program more aggressively?

Mr. FRY. Well, I think that I can represent to the Committee that our agency considers the AML program one of the most successful reclamation programs in the history of the world, and we are well aware of the outstanding need. In fact, in some respects, as soon as we reclaim an area, we seem to find other problem areas. So it's a growing problem in some respects.

The requests that we have made, of course, have been made by my predecessors, but I would say they've had to be made within the context of competing considerations in a rather discouraging at times fiscal picture. And I think that any interpretation of what our requests have meant must take that into account.

I can say to you that I know that there is strong support around the country for more spending. Congressman Rahall isn't here to hear me say this, but I know that he has shown leadership in organizing the groups he's mentioned, and I hear everywhere across the country of the need for it. The States have indicated that they can spend the money wisely, that they have their priority 1 and 2 projects in mind. We think they can put that money to good use.

I can't make a commitment in advance of how well I can do, Madam Chairman, but I can tell you, speaking personally, that to the extent that I can as a Director help our agency make the case for AML funding, given all these competing considerations, I will make the case. And I say that as someone who grew up in Rock Springs, Wyoming, who has benefited from $70 million worth of investment to take care of those subsidence problems. So I'll do the best I can.

Mrs. CUBIN. I'm sure that you will, and I realize the constraints of your job, but it is difficult. As last year, I am most likely this year going to push for additional AML funds, but it is difficult, when the President's request is lower, to really get the Appropriations Committee to take us very seriously on this, and certainly the AML trust fund isn't the only trust fund that is in the situation that we have here: social security, highway. It's up to us to work that out, and I certainly hope that we can. I know we can; I hope we will.

You mentioned, Ms. Karpan, the Clean Streams Initiative as an example of leveraging AML moneys—this was in your written testimony—for watershed improvements. And I see the budget requests statutory authority to fund both clean streams and western mineland partnership from only the cumulative interest earned on the AML fund, which I support. We in the West are always a little wary when the Department of Interior comes to the western Governors and says, ''We're from the Federal Government. We've come to help.''

[Laughter.]

Mrs. CUBIN. But I trust the $100,000 you seek for the beginning of the latter initiative is for joint study purposes with the WGA; is that correct?

Ms. KARPAN. Yes, Madam Chair. In fact, really this is not so much at our own instance as a response to two different initiatives. One is from the western Governors and NMA. We're aware of their discussions about reclamation needs, and then we have our own Federal Government team with western Governors talking about the Federal land initiative. As part of that, there's been the identification of some private in-holdings in Federal lands that might require reclamation.

What I would like to say—and I probably as keenly as anyone at this table understand the view in the West about the Federal Government's role. So I'd hasten to make a couple of points. The first is, our interest is in reclamation, and not regulation—reclamation, not regulation; that we see this $100,000 as serving several functions. One, it's an expression of support and encouragement to the western Governors to deal with the problem. We feel that we have some benefits of experience that we might be able to share with them. We have technical assistance, our TIPS program; for example, that wonderful software we could make available to them for free.

What we basically see is this being money to supplement a project that would either be ongoing or is contemplated so that someone else is driving that decision. Like clean streams, we're just helping make it happen.

Mrs. CUBIN. Thank you.

Mr. Calvert, did you have any followup questions?

Mr. CALVERT. I have no further questions.

Mrs. CUBIN. Then it's my turn again.

[Laughter.]

Mrs. CUBIN. These questions are for Ms. Quarterman. And you are aware of my strong feelings in finding ways to efficiently collect royalties that are owed. Again, I want to make it clear that I think we should collect every cent that is legitimately owed, and that the producers should pay every cent that is legitimately owed to the Federal treasury and obviously the States, too.

I promise that we are going to have the opportunity to discuss legislative language for royalty in-kind, but since you brought that up—and we're not going to get into it in detail today at all, but there were a couple of things that I wanted to touch on, based on the budget request.

Your request for $5 million to increase—or the $5 million increase for the royalty management program's computer system, it seems to me to beg the question of what sort of modernization needs will be appropriate next year or just a few years down the road, since we—well, even say, for example, the proposed crude oil valuation rule were to become final rule later this year. Wouldn't you need to modify that system to track the different benchmarks, and so on? I mean, won't there have to be a lot of changes in that, which will be expensive?

Ms. QUARTERMAN. The re-engineering that we're performing in the royalty management program is more than just a computer system. We have, in terms of hardware, up-to-date hardware for our computer system. What we're speaking about now is the software program and the processes upon which the software relies. We have over the past year begun to, and have met, all of the processes within the royalty management program in terms of how things work and/or don't work, and have begun to completely reform that.

One of the considerations that we have is the ability not only to take royalty in-value, but to take it in-kind. We have to have a system that is able to adapt to any sort of valuation system going forward. All of those things are part of our equation in the new system and process that we will put in place. It is not merely something that can't be changed.

Mrs. CUBIN. Does the fiscal year 1999 request factor the royalty in-value regulation changes that might occur without knowing how the comments might affect the proposal?

Ms. QUARTERMAN. Yes. Again, we're talking about really the process of the way we collect royalties, not so much the value. The re-engineering will be able to——

Mrs. CUBIN. Would you tell me what you mean by process——

Ms. QUARTERMAN. OK.

Mrs. CUBIN. [continuing] because I'm sure you're being clear. I'm just not catching it exactly.

Ms. QUARTERMAN. Over the past 15 years, the royalty management program has been really created and recreated due to changes in the marketplace, customer demands. We started out with a software system about 16 years ago that was put into place that is really a functional-based system. It's almost like an assembly line, if you can imagine one transaction coming in on lease and one person working with it, then handing it off to the next person, and a series of people along the lines; maybe five or six different parts of the organization deal with the same transaction.

The re-engineer process that we're looking at now will be one that is completely process-centered. So you would look at a piece of land, a particular lease, and follow that transaction; the same group of people would follow the transaction from beginning to end, so that you won't have continual contacts along the way. That requires us to change the way our software runs. Right now we have a large mainframe that's operated by contractors that requires 24-hour people on duty. In order to change one little thing, it takes a week to do in terms of changing the software. Because it's so cumbersome, we have probably 100 different, what we call, workarounds or PC software programs that feed back into the main program. It's, frankly, given the amount of money that we collect, not as good as it should be. That's why we see a need for reform. Even if we would go into a royalty in-kind program, we would still have a number of things remaining on the table that would have to be collected—all Indian tribes, all solid minerals, any remaining oil and gas that were collected in value.

Mrs. CUBIN. That clarifies it very well. Thank you.

I know my time's up, but I'm sure that Mr. Calvert doesn't mind if I just take a couple more minutes.

MMS currently receives considerable royalties in-kind as part of a special setaside program for eligible small refiners. In 1996, some 38 percent of total oil royalties were paid in kind. It seems that MMS already has considerable experience with collecting royalties in-kind. So I wonder, while I appreciate the offer of the royalty in-kind pilot program for Wyoming, I wonder why our additional pilot programs need it, considering the extent of experience that you already have in that?

Ms. QUARTERMAN. The royalty in-kind program that is currently operating is entirely different from the kind of royalty in-kind program that we are considering. The small refiner royalty in-kind program, as we call it, is meant to assist those small, independent refiners who cannot receive oil from another place. The Federal Government in legislation has determined that it's appropriate to—it's a governmental benefit to help those folks have oil available to them at reasonable prices. That is entirely different from the royalty in-kind pilots that we are considering, in which case the Federal Government would try to market the oil or gas itself to receive the same amount in value.

Mrs. CUBIN. Could I interrupt for just one second? How is it different, No. 1, and then, No. 2, while the Federal Government certainly could be the marketer, I think under all the proposals that I've seen the government would or the Secretary would be able to identify or hire other professional marketers. So would you respond to that?

Ms. QUARTERMAN. When I say "market it," I was speaking more broadly in terms of not only the government perhaps itself marketing, but hiring someone to market on their behalf.

Mrs. CUBIN. OK, could you just, then, tell me, as specifically as you can, how the royalty in-kind program that you have, that we have with the small refiners, is so different or is different from what is being proposed? Because, as I said, 38 percent in, I think, 1996, 38 percent of the royalties paid were from royalty in-kind. So what are the specific differences?

Ms. QUARTERMAN. Well, perhaps if I give you a comparison of our 1995 pilot, we took 8 percent of the Federal Government's share of gas in-kind offshore. In that pilot, we hired a marketer or a series of marketers, in that we accepted gas in-kind, and then we put it up for bid for marketers to purchase it. They, at that point, gave us plus or minus an index price for the gas. In the proposed pilots that we have planned for the next few years, in the gas marketing example, we would propose to hire a marketer who would work on our own behalf, and perhaps instead of just selling at the lease, could take the gas and market it upstream to a power company or something like that. In the royalty in-king oil program, as I said, the oil producers accept the oil and use it in their own refinery.

Mrs. CUBIN. And I do understand the program. I really don't understand—I really can't see that there's all that much difference, but, yes, we'll do that another day.

Ms. QUARTERMAN. OK.

[Laughter.]

Mrs. CUBIN. I do have other questions, but I'm not going to hold everyone here to do that. So I would ask, if we submit our questions in writing to you, if you would respond to them in a reasonable amount of time; we would appreciate that very much.

[The information referred to may be found at end of hearing.]

Mrs. CUBIN. And I would like to thank the witnesses for being here. It truly is beneficial and helps with understanding.

Please feel free any time to contact Committee staff, me, my staff, whatever.

Thank you very much for being here today.

[Whereupon, at 3:03 p.m., the Subcommittee adjourned subject to the call of the Chair.]

[Additional material submitted for the record follows.]

STATEMENT OF TOM FRY, DEPUTY DIRECTOR, BUREAU OF LAND MANAGEMENT

Madam Chairman, members the Subcommittee, I appreciate the opportunity to appear before you today to provide an overview of the Bureau of Land Management's (BLM's) budget priorities for its minerals programs. Our projects and initiatives reflect our commitment to a collaborative approach to managing our public lands.

Budget Overview

The President's fiscal year 1999 budget proposes $1,233,659,000 for the BLM. This level of funding includes moneys for operation of the Bureau, Payments in Lieu of Taxes (PILT), and firefighting activities and central hazardous materials management for the entire Department. Of the $660,310,000 requested for management of lands and resources, $71,646,000 is for energy and minerals activities and $33,272,000 is intended as a one-time appropriation for mining law administration. Of the amount requested for energy and minerals, $53,470,000 is for oil and gas management, $7,151,000 is for coal management, $8,943,000 is for management of other minerals such as geothermal, potassium, phosphate, and sodium, sand, gravel, and building stone, and $2,082,000 is for Alaska minerals.

Energy and mineral resources generate the highest commercial economic production values of uses of the public lands. Of the total $1.2 billion in revenues generated on BLM lands in 1997, energy and mineral development on public lands accounted for nearly $1 billion through royalties, rents, bonuses, sales and fees.

The public lands produce 33 percent of the Nation's coal, 10 percent of its natural gas, and 5 percent of its oil. At the end of 1997, more than 46,000 leases existed on Federal lands covering about 37 million acres. About 20,000 of those leases were in producing status with more than 63,000 producing wells on public lands. This figure is up nearly 30 percent since 1985, while natural gas production has increased by 60 percent over the past 10 years. The BLM is also responsible for operational management oversight of about 3,750 producing leases on Indian lands, supervision of drilling on non-producing leases, and advising BIA, Indian tribes, and allottees on leasing matters.

The onshore oil and gas program is one of the major mineral leasing programs in the Department of the Interior. It generates receipts from filing fees, bonuses, rents, and royalty payments. In 1998, we expect such royalties to exceed $785,000,000. All receipts, except for filing fees, are shared with the State in which the leasing occurs. These oil and gas revenues play an important role in the economies of many western States and communities.

Our leasing program will continue to be focused in those areas where the prospect for discovery is highest. A significant aspect of the BLM's strategic plan is to provide opportunities for commercial production from public lands, especially energy and minerals, in an environmentally sound and responsible manner. The BLM will continue to focus on programs and activities that best serve the public interest while maintaining a balanced approach to the management of the public lands. These areas include:

Renewed Emphasis on Production Verification

Production verification is one of the BLM's top goals. As a part of this effort, we will rely on our existing records to improve our verification of production for fluid and solid minerals. This will not be an intrusive initiative, but an internal housekeeping matter and will increase the return of revenues to the Treasury through additional emphasis on record and field inspections. As with our coal verification program, we will work to improve our other minerals programs to better serve industry and meet our responsibility to the taxpayer.

Automated Land and Mineral Resources System (ALMRS)

Completing Release 1 of our ALMRS deployment remains one of the highest priorities for the BLM. ALMRS will link legal land descriptions, geographic coordinates, land and mineral ownership, and resource data in a single data base to provide a complete picture of current use of the public lands and availability for future use. We anticipate a direct benefit to our lessees and permittees because it will provide mineral and realty operators with immediate access to information that affects their businesses.

Status of REGO II I&E

As I am sure you are aware, the Federal Oil and Gas Royalty Management Act (FOGRMA) provides that states may submit proposals at any time to assume responsibility for Federal inspection and enforcement (I & E) activities. We will continue to work with States that may have an interest in taking on these functions in the future. The REGO II initiative helped the BLM to identify ways we could work with the States more closely to achieve greater efficiency and realize cost savings. For example, we have established MOUs under the Federal Land Policy and Management Act with states such as California and Colorado to perform various oil and gas functions. Further, the BLM continues to hold discussions with the Interstate Oil and Gas Compact Commission to determine the feasibility of any further transfer efforts.

Ecoroyalty Relief

Under the Green River Basin Advisory Committee's (GRBAC's) ecoroyalty relief proposal, the nominal 12.5 percent royalty would be reduced by 1-2 percent in return for extra efforts by operators to improve the environment. Department of the Interior Solicitor John Leshy has testified before this Subcommittee that the Secretary of the Interior has no authority under current law to grant ecoroyalty relief under the circumstances proposed by the GRBAC. However, the BLM is pursuing other options to provide incentives for operators to ensure their production activities are as environmentally responsible as possible. We will continue our work with industry and other interested parties to explore alternatives which will benefit operators as well as the Federal Government.

Stripper Well Royalty Rate Reduction

Earlier this month, the BLM announced that it would extend its royalty rate reduction for Federal "stripper" (wells which produce an average of less than 15 barrels of oil per day) oil properties.

The royalty rate reduction has proven itself since 1992, when the agency put the rule into effect. Given the recent dramatic downturn in oil prices, continuing this royalty rate reduction will keep many stripper oil wells producing that might otherwise be shut in. The rule establishes the conditions under which an operator or owner of Federal stripper oil property can obtain a reduction from the normal royalty rate of 12.5 percent. The regulations provide an incentive for operators to maintain or restart production of marginal or uneconomic wells. The goal is to increase recoverable reserves. After conducting a review of the rule's impact the Department and the BLM have concluded that the lower royalty rate for stripper properties is working as intended.

Mining Law Administration

This year's budget includes a one-time appropriation to support a legislative proposal to permanently authorize collection of mining claim maintenance and location fees. Since 1993, the BLM has collected a mining claim maintenance fee of $100 and a claim location fee of $25 to offset the cost of the mining law program. Authority to collect these fees expires in September, 1998. The budget proposal would permanently extend the collection of the mining claim maintenance and location fees and will periodically adjust these fees for inflation. In 1999, collection of the mining claim maintenance fee is set at $116 and the location fee at $29. The fees would then be available to the BLM in 2000 to manage the mining law program. As previously mentioned, this requires a one-time appropriation of $33,272,000 to manage the program in 1999.

3809 Regulations

In January 1997, the Secretary directed the BLM to renew a regulatory effort begun in 1991 to revise the Surface Management regulations (43 CFR 3809) for 1872 Mining Law activities on public lands. The task force held a number of well-attended scoping meetings throughout the West and in Washington, DC. In addition, BLM received over 1,800 written comments. The BLM has consulted with the state governments on this matter and, in accordance with the 1998 Interior Appropriations Act, the proposed rules will be published after November 15, 1998. The 3809 Task Force is continuing to consider changes to the rule and will continue to consult with the States as part of that initiative. For example, representatives of the Task Force will meet with State and Governors' representatives on March 3, 1998, in Denver, Colorado to discuss proposed changes to the rules.

We will continue to work with members of the Subcommittee, the public, and industry to improve the BLM's minerals programs. This concludes my statement and I am pleased to respond to any questions you may have.

Testimony of
Kathy Karpan
Director
Office of Surface Mining Reclamation & Enforcement
U.S. Department of the Interior
before the
Subcommittee on Energy and Mineral Resources
Committee on Resources
U.S. House of Representatives
Washington, D.C.
February 26, 1998

Madam Chairman and Distinguished Members of the Subcommittee:

It is a privilege to appear before the Subcommittee on Energy and Mineral Resources today to provide you with specifics of the Fiscal Year 1999 budget request for the Interior Department's Office of Surface Mining Reclamation and Enforcement (OSM).

Before addressing the budget in detail, I'd like to tell you about how OSM is working to become a model agency with: *better* Abandoned Mine Land reclamation; *better* customer service; and *better* program operations.

BETTER ABANDONED MINE LAND RECLAMATION

Congress created the Abandoned Mine Reclamation Fund to restore lands and waters that were adversely affected by past mining practices and that were left unreclaimed or inadequately reclaimed before August 3, 1977, the date of enactment of the Surface Mining Control and Reclamation Act (SMCRA). The fund is composed of fees collected from active coal mine operators at the rates of 35 cents per ton of coal from surface mines and 15 cents per ton of coal mined underground.

Extent of the Problem

The primary emphasis of the AML program is on correcting the most serious problems, those related to public health, safety, property, and general welfare. To the greatest extent possible, OSM also focuses on the important goal of restoring the environment where land, water, and other natural resources have been adversely impacted by abandoned coal mines. While OSM has been successful in eliminating many of the AML problems that existed before 1977, much remains to be done. The national inventory shows 144,560 acres of the Priority I and Priority II problems remain to be addressed. The money needed to address just those problems is estimated at $2.6 billion. In addition, while not completely inventoried, we know that there is a potential need of billions of dollars for lower priority environmental problems needing to be done.

Addressing the Problem

The AML reclamation program is one of the most successful environmental improvement programs in history. The state, tribal and federal programs have reclaimed over 145,000 acres of disturbed land and waters. OSM carries out the AML program in the spirit of state-federal-tribal cooperation. Funded through grants from the AML Fund, the primacy states and Indian tribes have the lead role in on-the-ground reclamation. OSM supports state and tribal programs by providing technical support and grants management and by conducting cooperative enhancement and performance reviews of the programs. On tribal lands that do not have approved reclamation programs, and in coal states without approved plans (Tennessee and Washington), OSM operates both the regular AML reclamation program and the AML emergency program. OSM also conducts the emergency program in states with approved reclamation plans that have opted not to administer their own emergency programs (Kentucky and Pennsylvania).

In keeping with the goal of providing better service, better value for the dollar, and better organization, and to remove any barriers impeding good government, OSM is seeking innovative ways to advance AML reclamation.

Better Value for the Dollar

- Better AML means providing the public better value for each reclamation dollar. OSM has launched an Enhanced AML Reclamation Initiative aimed at stretching AML funds by reclaiming more sites. Many of these sites are so-called lower priority problem areas that otherwise would likely remain beyond the reach of conventional AML reclamation because they are not classified as threats to public health and safety. Yet they are serious environmental blights and sources of acid mine drainage (AMD) pollution. The Enhanced Reclamation initiative is designed to reach more of those areas by allowing the incidental recovery of coal that takes place during the reclamation process to offset the costs of reclamation. Under appropriate conditions, and within strict guidelines and regulations that are being developed, Priority Three sites whose reclamation includes incidental coal recovery could, in effect, pay for their own reclamation, or for a significant portion of the cost. To accommodate such environmental restoration, OSM is considering a rule change to ease the 50 percent financial participation standard currently in effect for defining coal recovery incidental to government-financed construction projects. Under suitable conditions, and with environmental safeguards in place, a much lower percentage of public funds would be needed to accomplish AML reclamation where significant incidental coal recovery could be realized.

- Partnerships with other agencies and organizations can also lead to better AML reclamation. The success of the Clean Streams Initiative, to date, is due to the combined efforts of partner organizations — public as well as private, state, and local as well as federal — that have joined together as a way of magnifying their effectiveness by working jointly. OSM provides seed money through the Clean Streams Initiative to foster such partnerships with industry, local watershed organizations, and government agencies at all levels to clean up waters polluted by AMD. In Fiscal Year 1997, $4.4 million in Clean Streams dollars leveraged an additional $4.8 million from other governmental and non-governmental organizations -- a better than one-to-one leveraging ratio. Through the Western Mine Restoration Partnership, OSM is working with the Western Governors Association to expand the Clean Streams concept to waters affected by pollution from hard-rock mining.

BETTER CUSTOMER SERVICE

My second goal is better service to all people. OSM works with the coalfield citizens, state officials, coal companies, universities and research organizations, and the general public at large. The customer service standards that OSM put forward in 1995, and later revised and expanded in 1996, were an extremely positive first step in that direction. Better customer service in 1999 and beyond means continuing and extending that concept in every aspect of each program and activity that OSM conducts.

Better customer service also means lifting skills both within OSM and within state regulatory and reclamation organizations. We will not rush to regulate when other measures can accomplish similar objectives in a more cooperative way. We will strive to make science-based decisions derived from complete, accurate data and resulting from objective scientific analysis. And, very importantly, better customer service also means treating all of the people we serve with respect, effectiveness and courtesy — the way we would want to be dealt with if our roles were reversed.

Barriers Removed.

- OSM has changed its oversight policies. For the regulatory program, a team of OSM and state employees devised a new results-oriented oversight strategy that emphasizes cooperative problem-solving, tailoring evaluations to state-specific conditions, and the development of performance agreements between each state and its OSM field office. The AML oversight policy has changed from one concentrating on "bean counting" to a process that works cooperatively with states and Indian tribes to bring about program improvement.

- A Citizen Response Team is being developed to more effectively address issues and concerns raised during meetings with coalfield citizens. This effort will ensure that OSM's responses to citizens' concerns and issues are timely, thorough, and appropriate. If the issues and concerns raised are not under OSM's jurisdiction, OSM will make every effort to identify the responsible agency.

- In most eastern states, active coal mining operations commonly encounter areas that were previously mined and still contain recoverable coal. If remined, the operator benefits from the increased production of marketable coal, and the public benefits by receiving reclamation of the old sites. However, the limited amount of coal typically found at such sites and the potential for taking on long-term liability for acid mine drainage problems serve as disincentives to remine these areas. OSM is working with our state partners, EPA, citizens and the coal industry to find ways to encourage more remining. In addition to looking into ways to remove impediments to remining under existing requirements on a permit-by-permit basis where it would lead to beneficial reclamation, we are exploring potential regulatory changes that would increase the incentives to remine.

- The Small Operator Assistance Program (SOAP) provides federal financial assistance to small coal companies to help them meet the technical requirements of their permits. By helping these operators, SOAP plays a vital role in the success of mining and reclamation in this country. While appropriations for SOAP have remained level for several years, statutory changes in the 90's have increased the number of eligible operators and the types of technical services that can be funded. This has increased the demand for SOAP funds. To avoid a situation where small operators may have to shut down their operations because of lack of SOAP assistance, we will work with our state partners to establish a reasonable, stable and predictable level of funding for SOAP.

- The re-engineered AML grants process, implemented in 1993, not only reduced paperwork on the part of States, Tribes, and OSM, but provided maximum flexibility to States and Tribes in managing their programs. For example, there is more flexibility in the initial selection of which projects to fund and in amending projects when necessary due to changing construction or other factors.

- OSM's financial management of grants to the states and tribes has improved. Grant balances are now available on-line so grant recipients can verify the availability of their funds. We have also fully automated the grant draw-down and disbursement process so that grantees can consistently receive their funds within 24 hours of their request, while at the same time ensuring strong fund control. Annual audits of the related financial statements by the Interior Department's Office of Inspector General have resulted in unqualified ("clean") opinions on OSM statements for seven consecutive years.

- OSM has worked with industry to clarify the regulations covering reclamation fee issues to ensure a level playing field in reporting tonnage subject to the fees. SMCRA requires OSM to ensure full compliance with the reclamation fee provisions, and the fiscal year 1997 compliance rate reached 99 percent. The Inspector General also reported that our fee compliance program operated efficiently and effectively.

- OSM's technical training program, a successful example of state/tribal and federal cooperation, offers training specifically designed to increase knowledge, skills, and abilities of inspection, enforcement, abandoned mine lands, technical and program staff on new techniques, practices, and technology for the prediction and control of environmental mining effects.

- OSM coordinates with other Federal agencies on national or critical issues. For example, in January of this year, OSM hosted a Federal Coal Symposium to improve communication and coordination among Federal agencies with coal-related missions and to inform coal industry and citizen representatives. In addition, OSM and the U.S Fish and Wildlife Service completed a biological opinion/conference report on section 7 (Endangered Species Act) consultation concerning the continuation and approval of surface coal mining and reclamation operations under state and federal programs.

- OSM has improved the Abandoned Mine Land Inventory System to make it easier for states and tribes to input and extract data and to manage their AML programs better.

- Through technical assistance and technology transfer, OSM is developing innovative ways to provide technology transfer/assistance to the states and tribes. The Acid Drainage Technology Initiative (ADTI), which seeks to identify the best scientific methods to bring about solutions to AMD problems, is one such effort. ADTI is aimed at identifying and harnessing appropriate technology for preventing acid mine drainage in the first place, is also a partnership initiative, combining the skills and resources of government, industry, and academia. ADTI relies heavily on the concept of technology transfer, spreading knowledge of the most successful techniques for avoiding and preventing the formation of acidic contaminants so that coal can be mined without causing future acid mine drainage. Another such effort is the Technical Information Processing System, which provides scientific and engineering software to assist in reclamation project design and permitting hydrologic and environmental assessments.

  OSM also is working, along with others from the federal, state, academic, and private sectors, to identify areas needing better scientific and technical information. For example, OSM is leading an effort to compile information on the state of the science of disposal of coal combustion by-products. In addition, OSM is sponsoring a forum this spring on the reclamation of prime farmland. We have been examining the impacts of valley fills and mountaintop removal operations and are beginning to work with the EPA and other federal and state agencies to identify what steps may be necessary to ensure that all appropriate information is available to provide answers to some very real and pressing policy questions. OSM plans to continue as a leader in technical and scientific knowledge related to mining and reclamation. We will work with the industry, environmental groups, academia, and the states to ensure that the best science is available to all of us involved in the coal mining and reclamation arena.

- OSM continues to assist states to resolve issues relating to the Energy Policy Act. As an example, OSM just recently completed an effort with the states to develop solutions to a number of issues arising from implementing the Federal regulations which address the impacts of subsidence. As a result, OSM and the states have a better understanding of the nature and scope of state alternatives that OSM can approve.

BETTER ORGANIZATION

OSM has changed its way of doing business with other federal agencies. OSM fosters partnerships with other agencies so that each brings to the table a unique skill or contribution that, when added to the contributions of the others, enhances reclamation. Contributions include funding, technical expertise, grassroots knowledge of particular problems, and public support. Among such agencies are the USDA Natural Resources Conservation Service, the Environmental Protection Agency, the Interior Department's Bureau of Land Management and the Fish and Wildlife Service, and the Army Corps of Engineers.

Better operations, above all, means being careful with the public's dollar, not only to prevent waste and misuse but also to extract maximum value from each dollar. And that's where the budget comes in.

THE BUDGET

For Fiscal Year 1999, OSM is requesting $276,956,000 and 664 full-time equivalent positions, an increase of $3.9 million over the level enacted for FY 1998. In addition, OSM is requesting $70 million in permanent authority to provide health benefits to retired coal miners, and their dependents, who worked for companies that have gone bankrupt or no longer exist. This transfer is required by the Energy Policy Act of 1992.

OSM's FY 1999 request includes $93.5 million for the Regulation and Technology appropriation, an increase of $1.3 million over the FY 1998 level. The request also includes $183.4 million for the Abandoned Mine Reclamation fund appropriation, a $2.6 million increase over the FY 1998 level.

This request will enable OSM to provide financial support for 24 state regulatory programs, and for the AML programs implemented by 23 states and three Indian tribes. It will also enable OSM to continue to directly administer federal regulatory and reclamation programs in states that do not operate their own programs and on federal and Indian lands.

Most of the money appropriated to OSM is passed on to the states and tribes in the form of regulation and reclamation grants. Grants, along with emergency and high priority AML projects, account for over three-fourths of OSM's budget. The other 25% provides funding for OSM's internal operations including technical training and other forms of technical assistance to the states and tribes.

OSM's request supports the President's environmental priority of addressing the Nation's water quality problems. Water pollution continues to be one of the Nation's major environmental quality concerns. OSM is participating in the national effort to improve water quality by rectifying problems caused by acid mine drainage from abandoned coal mines.

The FY 1999 request strengthens the President's commitment to clean water by providing a $2 million increase for OSM's AMD remediation and prevention activities. Of this $2 million increase, OSM will devote $1.9 million for the Clean Streams Initiative and $100,000 to the Western Mine Land Partnership Initiative. Of these funds, $900,000 will provide additional "seed" money to states and $650,000 will be provided for cooperative agreements with local organizations to combine with other available funding sources to develop AMD remediation projects. This increase will enable OSM to support over a half-dozen new projects. Combined with base funding, OSM will be able to address 27 new projects in FY 1999.

OSM will use the remaining $350,000 for technology transfer programs to identify the "best science" methods of predicting and remediating AMD occurrences and to coordinate efforts that maximize leveraging of our partners. The funds will provide OSM program expertise for outreach and regional coordination of efforts for planning, design, and construction of AMD remedial projects.

Other FY 1999 Changes

OSM proposes to transfer permanently $480,000 from the Bureau of Indian Affairs to OSM. OSM currently receives these funds from BIA through a reimbursable agreement, and then awards grants to the Indian tribes to assist them in achieving primacy and self-determination in operating, regulating, and reclaiming their coal mine lands. For administrative ease, we request that the Congress directly appropriate the funds to OSM.

This budget also provides funds for uncontrollable cost increases. We will make $244,000 in streamlining reductions by cutting travel and training, ADP hardware and software purchases, and by filling vacancies more slowly. Additionally, OSM will reduce the Federal Lands program by $100,000 as Kentucky assumes regulatory responsibility for Federal Lands within that State. Kentucky has advised us it can accommodate this within existing resources.

This budget also contains certain technical adjustments to reflect more properly how resources are expended. These adjustments are based on a FY 1997 expenditure tracking study which determined that OSM devoted more resources to technology transfer and development activities than anticipated.

Government Performance and Results Act

During last year's hearing on the FY 1998 budget request, this Subcommittee emphasized the importance of the Government Performance and Results Act (GPRA) and the need for agencies to consult fully with the Subcommittee when they prepared their strategic plans. OSM recognizes the importance that both the Administration and the Congress have placed on implementing GPRA. OSM appreciates the need and benefits of such consultation and has met with Subcommittee staff to keep the Subcommittee fully informed as we develop our plan.

OSM's FY 1999 budget request fully addresses GPRA requirements. OSM established strategic goals and associated performance measures to justify its resource requirements. OSM first identified its major functions, or Business Lines. OSM then developed a Strategic Plan to carry out its mission, vision, and goals and implemented a new budget structure in FY 1998 that allows OSM to relate resource requests to strategic goals in a more understandable way. OSM developed a business-line based accounting system to determine the cost of each program activity better, provide a mechanism for linking costs to performance outputs, and enhance OSM's management decisionmaking process.

OSM's Business Lines are:

- Environmental Restoration.
- Environmental Protection.
- Technology Development and Transfer.
- Financial Management.
- Executive Direction and Administration.

Because OSM's new budget structure links directly to its strategic goals and measures, OSM has fully integrated its FY 1999 Annual Plan into its Budget Justifications to Congress. OSM looks forward to continuing to consult with the Subcommittee as we refine our Strategic and Annual Plans.

Proposed Appropriation Language

OSM is also proposing certain appropriation language changes in its FY 1999 budget proposal. These changes will allow OSM to:

- Accept donations to be immediately available without further appropriation for the Clean Streams and Western Mine Land Partnership Initiatives.

- Fund the Cleans Stream and Western Mine Land Partnership Initiatives from the cumulative interest earned on the Abandoned Mine Land Fund.

- Charge users full cost for products provided by the Mine Map Repository, and retain those fees to offset program costs.

- Use the AML Fund to pay the travel and per diem costs of State and Tribal personnel attending OSM-sponsored training programs on AML-related topics.

OSM believes these changes will help conserve and maintain the integrity of the resources contained in the AML fund, provide cost recovery for services provided to specific individuals, and make training more readily available to State and Tribal personnel.

In closing, I thank the Subcommittee for providing this opportunity to present OSM's FY 1999 budget request and to summarize our efforts to make OSM a model agency. This is a sound, fiscally responsible budget proposal that contains the resources necessary for OSM and the States and Indian tribes to implement SMCRA requirements effectively. I look forward to responding to any questions that you may have.

STATEMENT OF

CYNTHIA QUARTERMAN, DIRECTOR

MINERALS MANAGEMENT SERVICE
DEPARTMENT OF THE INTERIOR

Before the

SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
COMMITTEE ON RESOURCES
HOUSE OF REPRESENTATIVES

FEBRUARY 26, 1998

Madam Chairman and Members of the Subcommittee, the Minerals Management Service (MMS) appreciates the opportunity to testify today on its Fiscal Year (FY) 1999 budget request. This request reflects our best assessment of monies needed to carry out critical MMS programs during the upcoming year.

MMS is requesting $222.5 million, which is approximately $14 million more than appropriated to date for FY 1998. The $14 million increase includes: continuation of a proposed $6.7 million FY 98 supplemental for additional manpower and scientific information needed to maintain vigilant oversight of the Outer Continental Shelf (OCS) and provide timely service to industry; and an additional $7.2 million for FY 99 to meet legislative and workload increases (including reengineering initiatives).

In formulating its request, MMS looked closely at its ongoing operations and recently increased responsibilities. The MMS budget request for FY 1999 reflects the need for additional funding balanced against savings gained from past and ongoing efforts to streamline operations and find more efficient ways of doing business.

BACKGROUND

Prior to discussing MMS's budget request in some detail, it is important to put that request into perspective by providing a brief overview of the agency and its programs as well as the benefits derived from those programs.

MMS has two clear missions:

- management of the Nation's OCS mineral resources in an environmentally sound and safe manner; and
- timely collection, verification, and distribution of mineral revenues from Federal and Indian lands.

The OCS mission is carried out by the Offshore Minerals Management (OMM) Program and the revenue collection and distribution mission by the Royalty Management Program (RMP). The Directorates of Policy and Management Improvement and Administration and Budget provide policy and administrative support for the MMS mission.

MMS programs clearly benefit the Nation and protect the public's interests. They contribute significantly to the Nation's energy supply and provide economic benefits and an enhanced lifestyle for the people of the nation:

- From an energy standpoint, MMS currently manages more than 27 million acres of Offshore Federal lands which account for approximately 27 percent of domestic natural gas production and 18 percent of U.S. oil production. To date, the OCS has produced over 120 trillion cubic feet of natural gas and over 11 billion barrels of oil. The OCS is estimated to contain more than 50 percent of our Nation's remaining undiscovered natural oil and gas resources.
- From an economic standpoint, MMS collected and distributed over $6.2 billion to the Federal Treasury, States, Tribes, and Indian allottees in fiscal year 1997, the largest sum it has ever collected in a fiscal year, and $92 billion since 1982. This makes MMS the manager of one of the Federal Government's greatest sources of non-tax receipts.
- In FY 1997, U. S. citizens benefited from MMS disbursements of over $600 million in revenues to 36 states. This sum is the largest it has ever returned to states, which will be used for schools, roads, and other public works or placed in general funds and used as needed. Additionally, over $1 billion in OCS revenues are deposited each year into the Land and Water Conservation and National Historic Preservation Funds to acquire, restore, and create parks, rivers, wildlife preserves, wilderness areas, and recreation facilities, and to restore and preserve national historic sites for future generations. Since 1982, MMS has distributed $2.2 billion to 29 Indian tribes and 20,000 individual mineral owners (allottees).

MMS's programs and priorities are driven by its commitment to operating in the collective best interests of its many customers, including U.S. taxpayers, States, Indian Tribes and allottees, and the energy industry. Vitally important to this commitment is obtaining fair market value for resources removed from lands under our jurisdiction. Significant investments are proposed for both the Offshore Program and the Royalty Management Program to ensure that MMS remains capable of fulfilling its core regulatory responsibilities and continues to provide the high levels of service its constituencies have come to expect. These investments, which are proposed both in the context of a 1998 supplemental request and the 1999 President's Budget, are modest compared to the revenue return they will generate. Furthermore, these investments will be fully covered with increased offsetting receipts, thereby allowing MMS to reduce its direct appropriations significantly.

CHALLENGES AND ACCOMPLISHMENTS

Although MMS is a relatively young agency it continually changes to respond to the changing business and governmental climate. Many of the changes in MMS organizations and functions are internally initiated, designed to improve program efficiency and effectiveness. Other changes are in response to an array of external forces including industry, States, local governments, Tribes, Indian allottees, and environmental and public interest organization's needs and desires. Arguably, the most dramatic changes are being made in response to external driving forces challenging MMS everyday to keep pace. These challenges come from many sources:

- ✓ Evolving Offshore Technology
- ✓ Changing Energy Markets
- ✓ Emerging Global Markets
- ✓ Compelling Safety and Environmental Challenges
- ✓ Transforming Legislation
- ✓ Increasingly Sophisticated Constituencies
- ✓ Advancing Information Technology
- ✓ Challenging Governmental Initiatives

Evolving Offshore Technology. The OCS industry is employing new technologies and moving farther offshore into deeper waters. As industry makes this important transition, MMS faces the challenge of keeping pace with the new technology and adapting its regulatory regime to satisfy its Congressional mandate and serve as an effective steward of the public resources.

Deepwater operations differ from those conducted in shallow water in that they tend to be:

- Significantly more remote.
- Subject to different environmental conditions.
- Technically more sophisticated.
- Productive at much higher flow rates.
- Typically subject to different economic determinants.

Changing Energy Markets. Over the past several years, energy markets have undergone a significant transformation. Many factors have contributed to this change:

- Deregulation of natural gas production and open access to transportation facilities have created a new gas-marketing environment.
- Invalidity of posted prices historically used to value crude oil production.
- A shift in energy markets from regulatory-based to almost completely market-driven.

Emerging Global Markets. Today's offshore natural gas and oil industry is global in scope. A growing number of nations are opening up their offshore areas to private investment. Many of the companies who operate in the U.S. OCS also operate overseas, thereby spreading their investment dollars between local and international opportunities. The U.S. companies who wish to work abroad want to make sure that when foreign governments implement their rules, a level playing field is established. The concern is that other nations do not exercise undue influence effectively limiting U.S. access to these offshore resources.

Interdependent nations, those with emerging or developed natural gas and oil programs, have a growing interest in establishing international standards for offshore natural gas and oil operations. The expanding scope and effects of international and regionally developed environmental and operational standards on the activities of the domestic industry require increased monitoring.

Compelling Safety and Environmental Challenges. The move into deep water and overall heightened industry activity have increased both the level and complexity of monitoring OCS operations. The number of operators has grown over the past several years from approximately 100 to over 130. Some of these operators are not as experienced and require more oversight. This is coupled with the fact that the offshore industry downsized significantly before the recent increase in deep water activity, which reduced the skilled labor pool. The presence of workers without much offshore experience is placing an added burden on the inspection and compliance program.

Little is known about the deep ocean habitat and the effects of natural gas and oil development upon that habitat. Addressing these information needs is essential to decisionmaking for environmentally sound development.

Transforming Legislation. Over the last few years Congress has passed new legislation and amended existing statutes to reflect constituent's concerns, changes in the oil and gas industry, and changes in the way government should work. The following include some of the more significant legislative actions.

Royalty Simplification & Fairness Act (RSFA): Enacted August 13, 1996, RSFA is the first major legislation affecting royalty management since the Federal Oil and Gas

Royalty Management Act of 1982. It challenged MMS to make substantial changes and introduced a host of new requirements including:

- Payment of interest on all Federal royalty overpayments.
- Specific royalty reporting standards for Federal leases and pooling agreements.
- New reporting options for marginal properties.
- New payment liability standards and statute of limitations for Federal leases.

***OCS Deep Water Royalty Relief Act (DWRRA)*:** Deepwater royalty relief was initiated to encourage development in the frontier deepwater areas of the Gulf of Mexico. In November 1995, the DWRRA became public law. MMS implemented interim rules less than six months after enactment, and published final regulations in January. Operators, on certain leases, are now able to submit proposals for royalty relief which then must be carefully reviewed by MMS within 180 days.

Oil Pollution Act (OPA) Amendments: Changes in OPA now allow for the amount necessary to meet an offshore facility's oil-spill financial responsibility requirement to be based on the facility's location and the amount of oil that could be released in an oil spill. It also requires MMS to oversee oil spill contingency planning and financial responsibility requirements in State, as well as, Federal waters. MMS will publish a final rule implementing these changes this spring.

Sand and Gravel: An October 1994 amendment to section 8 (k) of the Outer Continental Shelf Lands Act (OCSLA) expanded the Secretary of the Interior's authority for conveying rights to Federal OCS sand, gravel and shell resources. Public work projects, such as restoration of beaches, have created new demands for MMS under this legislation.

Increasingly Sophisticated Constituencies. The MMS has a very active and committed constituency spanning the cultural and economic breadth of this country. A sampling of MMS's daily activities have it involved with:

- Tribes and Indian allottees who receive the mineral revenues generated from the leasing and production of leaseable minerals from Indian lands;
- States that receive a share of mineral revenues from onshore and 8(g) offshore activities;
- Industry as it strives to identify, lease, explore, produce, pay and account for significant natural gas and oil resources from the OCS;

- Coastal states, environmental and citizen groups seeking assurance that all due caution has been exercised in the development of the OCS; and
- Other government officials that oversee the collection and distribution of royalties to the U.S. Treasury, and other matters.

Advancing Information Technology. Twenty-five years ago, hand-held calculators that added, subtracted, multiplied, and divided cost $200. Ten years ago, personal computers were rare in the workplace, and two way radios with relay stations were state-of-the-art. Five years ago, cellular phones were in their infancy, and e-mail was just becoming universally available. Today, the OCS program uses 3-D seismic imagery to "see" fields and to estimate their size, production rates, and the best drilling methods for maximum resource recovery. RMP collects and distributes billions of dollars per year electronically. MMS has expanded access to information of interest to constituents by making it available on its Internet Homepage. Tomorrow . . . .

Challenging Government Initiatives. The National Performance Review (NPR) is a long-term White House initiative to make government work better, but at less cost. Working better means delivering better service to the American public; costing less means accomplishing this goal with fewer staff, tightly controlled budgets, and more efficient operations. To achieve these NPR goals, the President and Vice President challenged the Federal Government to reinvent itself; that is, to improve public confidence in Government operations and to succeed in a balanced budget world. Real reinvention is required -- nibbling around the edges to improve processes and services will not accomplish the goal.

Although daunting, MMS is committed to this initiative and as it meets each challenge it is leaving a string of successes and accomplishments in its wake. To date, we are the recipient of two Vice Presidential Hammer Awards. Our first award recognized our efforts to introduce Plain English into government paperwork, particularly regulations -- an idea since embraced by much of government.

This past year MMS was honored for implementing a series of over 20 innovative achievements during the past two years that improve customer service or streamline operations. A sample of some of the innovations announced during FY 97 are:

- **50 Years of Gulf of Mexico Paleontological and Production Data is available on CD-ROMS.**
- **MMS Issues New Well Naming and Numbering Standards.**
- **MMS Implements New Audit Tracking System.**
- **MMS Offers New, Free Electronic Production Reporting Software.**
- **MMS Improves Customer Service (RMP consolidates information from 4 separate work areas so that customers can resolve several issues with one call).**

Also, during this past fiscal year, MMS published its strategic Plan for 1997-2002. It was developed with input from those who work in the agency and those who work with the agency. The result is a strategic plan with goals and objectives that are clear, measurable, and relevant to MMS's fundamental mission. The plan also establishes performance measures that are an effective means of gauging our success in meeting our goals. It will keep MMS focused on its mission and objectives.

Now I would like to discuss each of the Programs in more detail.

OFFSHORE MINERALS MANAGEMENT PROGRAM

The Offshore Minerals Management (OMM) Program, headquartered in the Metropolitan Washington, D.C. area, with regional offices in Alaska, California, and Louisiana, oversees all OCS minerals activities, from initial lease offerings through exploration, development, production and lease abandonment. More than 27 million acres on the OCS are under active lease.

This program is experiencing a phenomenal rise in activity:

- The Gulf of Mexico (GOM) OCS is currently one of the most exciting exploration and development areas not just the Nation, but in the world, experiencing record levels of exploration and development activities.

- The Beaufort Sea area offshore Alaska is also receiving renewed interest and experiencing increased activity which will likely lead to the first federal offshore production.

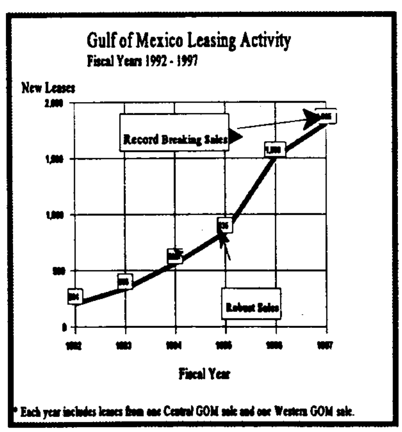
- Off the coast of California industry plans to decommission three of the deepest and largest conventional platforms ever to be removed from the world's oceans. At the same time, there is ongoing production and an effort is underway to determine the best way to pursue development of the remaining existing leases--leases that may hold resources as great as one billion barrels of oil.

- With the enactment of sand and gravel legislation, MMS has received numerous requests to use OCS sand for beach and wetlands restoration projects. This winter's coastal storms will likely generate more activity.

Gulf of Mexico. Advances in technology, along with legislative incentives and world class oil fields, are producing participation in oil and gas lease sales in the GOM that keep exceeding all expectations. During the past two fiscal years four record-breaking sales occurred in the GOM. These four record sales produced over $2.4 billion in bonuses as compared with $0.7 billion from the previous four sales. The last record sale, the Western GOM Sale 168, held in August 1997, was 33 percent larger than the Western Gulf sale held a year earlier. Historically, the Western Gulf sales are smaller than the Central Gulf sales. However, this last Western Gulf sale set a record for the largest number of tracts bid on in ultradeep water (800+ meters). Accompanying this has been a record pace in drilling wells and installing new pipelines. Workload will continue to increase as MMS addresses industry's requests to explore and develop these leases.

Alaska. MMS is reviewing the development and production plan for the Northstar project off the coast of Alaska. This project promises the first oil from the Federal OCS off Alaska. Production is expected to commence in 1999 or 2000. Additional development should follow as the completion of pipeline infrastructure makes development of more projects financially viable. Another plan for development of the Liberty prospect is also currently under review. Technical and environmental challenges of working in the Arctic stress the need for careful oversight to ensure safe operations.

California OCS. Industry plans to remove some California OCS platforms shortly after the year 2000, which include the deepest and largest structures ever removed from the world's oceans. The MMS and the California State Lands Commission have worked closely to develop a plan for the environmentally safe removal of offshore platforms. This is an issue that has captured the attention of the international community because of interest in international platform removal guidelines and the technological complexity of the undertaking. California Offshore Oil and Gas Energy Resources (COOGER) Study: The COOGER study is an unprecedented cooperative research effort, planned and managed through a consortium of State and local government agencies, the oil and gas industry, environmental groups and MMS. The COOGER study addresses long-standing questions regarding the ability of local communities and public agencies to deal with the cumulative onshore issues associated with offshore development. As partners, key stakeholders can develop a broader understanding of the possible future oil and gas development and the associated onshore constraints which may limit how and when offshore development occurs. We anticipate the study to be completed in mid 1998.



Sand & Gravel. Demand for OCS sand is rising due to continued State concerns over coastal erosion and the environmental concerns involved in using nearshore sands. There is also a growing need for offshore sources of construction aggregate material. Amendments to sections 8(k) and 20(a) of the OCSLA in 1994 provide for negotiated agreements in lieu of competitive bidding for obtaining OCS sand, gravel, or shell resources for certain public works projects. The MMS and coastal States use a cooperative approach toward mineral resources development questions. States and the MMS engage in jointly funded cooperative studies to identify the need for, and availability of, OCS sand resources for beach nourishment purposes. When warranted and when funds are available, environmental studies are developed and conducted within the identified sites. Both types of studies provide the information base needed for negotiated agreements. No separate funding has ever been provided for these new undertakings.

While the Nation is reaping significant economic and energy benefits from increased OCS activities, MMS is facing many new challenges as a lessor and regulator.

Safety

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

Our commitment to safety in FY 99 includes updating regulations to reflect current best practices, increased training and stepped-up inspections. MMS oversees drilling and production facilities on the OCS using both scheduled and unannounced inspections. To maximize resources, MMS uses different strategies and techniques, which includes random sample and high-risk profile inspections, and cooperative inspections with other organizations. MMS will impose civil and criminal penalties whenever warranted and may go as far as to disbar operators from OCS activities if poor performance is sustained.

Environmental Projects

The commitment to environmental stewardship becomes more challenging each year with the increase in activities at all phases -- leasing, exploration, production, and decommissioning. MMS's environmental processes integrate requirements of the National Environmental Policy Act (NEPA) into planning for OCS oil and gas lease sales, with the commitment to environmental protection continuing throughout the life of each lease. This past year, MMS held a Deep water Workshop and formed a Deep water Subcommittee of its OCS Scientific Committee to help define environmental studies needs for deep water. Information provided by the studies will be used to prepare environmental impact statements and environmental assessments, to develop lease stipulations, and to evaluate plans for exploration, development and oil spill response.

- **Planned Studies for FY 1999**

GOM Region - Rapid technological advances and recently passed legislation have resulted in a rush to develop both deep water and subsalt oil and gas resources. To meet the information needs created by this new development, the MMS is joining with other Federal, State, and academic institutions in an attempt to provide the information needed in the most cost-effective manner.

Of special concern are the positive and negative effects of onshore facilities and infrastructure needed to support deep water activities, may have on Gulf coast socioeconomic conditions. A good example of this is the study, "A Socioeconomic Analysis of Port Expansion at Port Fourchon," awarded to document the growth of OCS support activities in the Port Fourchon, Louisiana, area. This study will also develop a model of the economy of the area that will allow the projection of future economic effects of OCS activities. Other studies on these potential impacts and on the potential impacts to water quality, air quality, and wetlands are planned. Our studies are contributing to basic scientific knowledge, as illustrated by the discovery of a new species by MMS-funded scientists -- ice worms that live on gas hydrates in the deep water Gulf.

Pacific Region - In the Pacific Region, monitoring of the coastal marine environment and onshore socioeconomic impacts will be conducted through partnerships with the State and local governments, and through the Coastal Marine Institutes at the University of California at Santa Barbara. An additional partnership in the Pacific Region with Scripps Institute of Oceanography and the State of California will allow MMS to collect needed information on physical oceanographic processes in the Santa Maria Basin-Santa Barbara Channel area at a substantially reduced cost.

Alaska Region - Studies in the Alaska Region will be designed to provide information for management decisions associated with the Beaufort Sea and Cook Inlet plans for lease sales, exploration, and development. Physical oceanographic data will be collected, and much-needed research on the fates and effects of oil in the arctic marine environment will be conducted through the CMI at the University of Alaska at Fairbanks. With increased industry interest in the Beaufort Sea, studies of bowhead whales and other subsistence species will be conducted to protect those important mammals.

Sand and Gravel - The rapidly expanding interest for using sand and gravel resources from the OCS will require environmental studies as coastal States continue to enter into cooperative agreements with the MMS for use of these resources. In addition, there is also interest by commercial firms and local jurisdictions in the use of sand and gravel for construction projects.

International Activities

MMS, as one of the most technologically advanced regulators in the world, continues to expand its collaborative projects with other technologically advanced regulatory countries to promote safe and environmentally sound oil and gas operations, worldwide. There is a growing interdependence among nations with developed oil and gas programs, as well as a need for emerging nations to develop regulatory regimes that facilitate, or at a minimum, do not discourage, investment from foreign companies. Because of its regulatory expertise and its record of environmentally sound and safe operations, MMS is increasingly being called upon to assist and participate in international forums and projects that further our Nation's foreign policy goals. MMS's international efforts focus upon:

- Technical and information exchanges with advanced and emerging nations (e.g., Canada, the United Kingdom, Norway, Russia, and China);

- Providing technical advice to the State Department on a broad spectrum of international activities (e.g., Arctic Council, Convention on the Law of the Sea, London Convention 1972, International Convention for the Prevention of Pollution from Ships, Gore-Chernomyrdin Commission, and negotiations with Mexico regarding the boundary in the "Western Gap"of the Gulf of Mexico) that can affect domestic offshore oil and gas regulatory responsibilities; and

- Participating in regional/international meetings and forums that address the need to integrate sound science into the regulatory process (e.g., a workshop on platform decommissioning and artificial reefs planned with Indonesia, Malaysia and Thailand; a workshop on oil-spill response scheduled by India; a meeting of the Western Hemisphere Oil and Gas Environmental Forum).

ROYALTY MANAGEMENT PROGRAM

While headquartered in Washington, DC, RMP has its primary operations in Lakewood, Colorado, with field offices in Texas and Oklahoma and resident auditors throughout the United States. With sophisticated computerized accounting systems, RMP processes more than 200,000 transactions each month from over 26,000 producing Federal and Indian leases. RMP coordinates its royalty management efforts with MMS's Offshore Minerals Management Program, the Bureau of Indian Affairs, the Bureau of Land Management, the Office of the Special Trustee, the U.S. Forest Service, the Army Corps of Engineers, and the U.S. military. RMP also works closely with State governments, Indian tribes and allottees, and industry to improve overall royalty management.

The Federal Government is the largest mineral royalty owner in the United States. MMS is responsible for ensuring that, on average, over $4 billion in annual revenues from Federal and Indian mineral leases is collected, accounted for, verified, and disbursed to appropriate recipients in a timely manner. In FY 1997, annual revenues exceeded $6 billion. In addition to a broad range of financial services, MMS also pursues a comprehensive compliance strategy that includes an automated verification program to validate the accuracy and timeliness of revenues paid, and an audit program staffed by MMS, State and Tribal auditors. Since the establishment of RMP in 1982, these compliance efforts have resulted in the collection of $2 billion in revenues that would not otherwise have been captured.

The business environment in which MMS administers royalty payments is similar in many respects to private and State land minerals owners. However, in scale of activity, and variety and complexity of lease terms, it is significantly more challenging.

Royalty Management Program Reengineering

An outward focus on dynamic market conditions is needed in today's RMP processes, priorities, and systems. MMS plans to shift to a market-focused business environment by reengineering the royalty management program. Royalty management reengineering is a top priority for MMS for the new millenium. Our objective in FY 1999 is to begin to implement new core business processes and support systems. Although this is largely an internal effort, MMS expects the outcome to have substantial impact on our stakeholders and have involved them in this effort. We expect major improvements and savings by focusing on royalty management from a process rather than a functional perspective. Current royalty management operations are rigidly organized around and focused on functions and tasks and measure performance by outputs, akin to an assembly line manufacturing model. Our reengineering effort focuses on redesigning processes that can yield benefits much greater than attempts to improve the operations within a functional area. Through royalty reengineering, MMS expects to see dramatic improvements in both efficiency and royalty compliance.

Two goals have been established to "stretch" MMS to achieve results that are impossible under current operating processes. These stretch goals are:

- To ensure that royalty recipients will have access to their revenues within 24 hours of the time MMS receives it. Today, it generally takes 30 days to make revenues available; and

- To ensure royalty compliance within three years. This would cut in less than half the time statutorily allowed.

The RMP reengineering team has already completed a thorough review or "map" of MMS's current business processes. This map confirmed what many already knew, the current processes are complicated. MMS plans to vastly simplify those processes. A draft report summarizing this map has been issued presenting proposed alternative processes and their effects. MMS plans to begin prototyping some of these alternatives early this year.

Valuation of Oil and Natural Gas

Complimentary to reengineering, much of this year has been spent wrestling with the need for new MMS valuation regulations that more accurately reflect market conditions, and provide greater certainty and simplicity to royalty payors, the Federal Government, and other Federal mineral revenue recipients. MMS is currently revising valuation regulations for Federal and Indian oil, gas, and other commodities. These new regulations will help ensure that the public receives fair value for its mineral resources. They are intended to simplify royalty payments, make valuations methods reflective of modern market conditions, offer the industry more flexibility, reduce administrative costs, and maintain revenue neutrality.

Implementation of the Federal Oil and Gas Royalty Simplification and Fairness Act (RSFA)

Congress has passed new legislation and amended existing statutes that are bringing considerable change to the interaction of government with the oil and gas industry. The Royalty Simplification and Fairness Act (RSFA), enacted in 1996, challenged MMS to make substantial operational changes and introduce new process requirements, which make reengineering necessary. MMS has made significant progress in implementing RSFA. Over 20 outreach workshops with State and industry representatives have been held focusing on specific implementation areas. To date we have:

- Published an interim final rule regarding lessee/designee payment responsibility.

- Published a final rule expanding the list of delegable royalty management functions to States.

- Begun paying interest to companies who overpay royalties and accepting interest reporting from companies.

- Completed a host of software changes necessitated by RSFA, including reporting taxpayer identification numbers and 1099 reporting.

MMS has several RSFA regulations in progress and we anticipate that at least three RSFA regulations will be published later in 1998:

- ***Marginal Properties Accounting and Auditing Relief.*** This proposed rule would allow reporters to seek accounting, reporting, and auditing relief for their marginal properties in accordance with RSFA requirements.

- ***Interest/OCS Sec.10 Repeal.*** This interim final rule would allow MMS to pay interest on Federal royalty overpayments and make interest charges and payments more equitable between payor and recipient. It also addresses the repeal of OCS section 10.

- ***Self-Bonding.*** This interim final rule would allow payors to self-bond underpayment amounts under appeal with MMS.

Royalty-in-Kind (RIK)

Another important compliment to reengineering, RMP is continuing to pilot programs to take federal Royalty-in-Kind (RIK). MMS has long been an endorser and developer of novel approaches to royalty management, such as exercising its right to take the federal government's royalty share in kind. In fact, MMS conducted an RIK gas pilot in 1995 and performed a 1997 RIK Feasibility Study. Although the results of the 1995 pilot were mixed (revenues were lost), our interest in pursuing RIK continues. The 1997 Study concluded that, if implemented correctly, RIK in some areas could be workable, revenue positive, and administratively more efficient for all parties.

MMS has established a task force to implement three new RIK pilot programs for natural gas production in the Gulf of Mexico, oil production in Wyoming, and 8(g) natural gas production offshore Texas. We expect to have two pilots ready to begin during this calendar year continuing through 1999. These pilots will allow us to test RIK programs without placing over $4 billion in royalty collections at significant risk. For although we are enthusiastic about the prospects of these programs to provide for administrative relief, given our past results, we are cautious to develop a program that is workable for the Federal government without jeopardizing revenues.

Continuous Improvements

Although dramatic changes are expected from the royalty reengineering project, MMS continually works to improve its royalty management processes through simplifying and streamlining and by taking advantage of advances in information technology. For example:

- Studies and experience show that errors in reporting decrease with electronic reporting. MMS provides free electronic royalty and production reporting software to reporters to reduce data entry costs and increase reporting efficiencies. In FY 1997, electronic reporting increased to 78 percent for royalty lines and 54 percent for production lines. The royalty error rate for electronically reported lines has reduced dramatically to 1.4 percent from 7.4 percent for paper reports.

- In FY 1997, 92 percent of collections ($5.6 billion) was received electronically.

- RMP has made information available to its constituents in a timely fashion by posting it to the MMS home page.

- The RMP network has been upgraded to provide state-of-the art telecommunications capabilities to all MMS users nationwide. These enhancements include access to the State and Tribal Royalty Audit Committee Network (STRACNET) which provides States and Tribes direct access to RMP automated systems, the MMS local metropolitan network, and the MMS-wide area network.

Appeals

In the past, it has taken many years to decide some appeals at the MMS level, followed by many years at the Interior Board of Land Appeals (IBLA). Over the last two years, MMS has made substantial strides in eliminating the backlog of administrative appeals, deciding or resolving more than twice the number of new cases received. We now routinely meet the self-imposed 16-month timeframe for MMS decisions on appeals. This will allow us to meet the 33-month timeframe set out in RSFA for Federal natural gas and oil royalty appeals to be decided by the Department (both MMS and IBLA).

MMS formed teams to reform the appeals process, in keeping with RSFA requirements and Royalty Policy Committee recommendations. The new process will be faster and ensure that States and Indian mineral owners have ample opportunity to participate in the appeals process when the issues affect their revenues. We anticipate a proposed rule will be published later this year.

Involved Constituents

The MMS believes it can best reinvent its activities and serve the needs of its customers by working closely with constituents. They participate in decision making through multi constituent teams of MMS, State, Indian, and industry representatives. Constituents welcome the opportunity to review and recommend improvements to the royalty accounting process through various work groups, negotiated rulemaking committees, workshops, and focus groups.

The MMS established a "205 Delegation Team" composed of State representatives and MMS staff. This team worked to develop a proposed regulation authorizing the delegation of Federal royalty management functions to State governments. Meetings were held with industry in four locations prior to publication of the final rule.

The Royalty Policy Committee includes representatives from States, tribes, Indian allottees, industry, Federal agencies and the public. The RPC has provided recommendations to MMS on a variety of royalty management issues, many of which have been incorporated into the RMP reengineering initiative. Other notable recommendations implemented include:

- Extending the due date by 10 days for production reports submitted electronically.
- Eliminating the need to report drilling wells on the production reports since they are already reported on different forms.
- Eliminating unnecessary status codes from the production report.
- Reducing submission of the Gas Analysis Report - only required if requested by MMS.
- Eliminating unnecessary data fields on the Payor Information Form.
- Establishing a study group for Federal royalty oil taken in kind.

Franchising

The Government Management and Reform Act of 1994 (GMRA) encourages franchising agreements with other organizations. MMS's procurement office has provided their services and expertise to the General Service Administration in the form of procurements valued at $60 million. This track record has generated interest from a broad range of other agencies for similar services.

A cooperative agreement between the Office of the Secretary and MMS has been mutually beneficial. The Office of the Secretary is now provided exceptional personnel service in a timely manner and MMS has received the benefits of professionals within the field of personnel management who have been allowed to stretch to their professional limits.

With those remarks as background, I would now like to discuss our FY 1999 budget request.

OVERVIEW OF FY 1999 BUDGET REQUEST

FY 1999 Proposed Operating Appropriations/Offsetting Collections
dollars in thousands

Royalty and Offshore Minerals Management	$122,402
Offsetting Collections	$94,000
Oil Spill Research	$6,118
Total	**$222,520**

The largest portion of the MMS operating budget is obtained from the Royalty and Offshore Minerals Management Appropriation (ROMM). Funding from ROMM has been declining since FY 1993. Congress granted MMS the authority to retain a portion of the OCS rental receipts as offsetting collections.. For FY 1999 the authority, now used MMS wide, will rise to $94,000,000.

In addition to appropriations for operations, the MMS receives appropriations for distribution of the States share of onshore mineral receipts. Those permanent appropriations are:

FY 1999 Proposed Permanent Appropriations
(dollars in thousands)

Mineral Leasing Associated Payments *(MLAP)*	606,581
National Forest Fund Payments to States *(Forest Fund)*	3,311
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	756
Total	**$610,648**

1998 Supplemental Request

The 1998 MMS request and Congressional action provided a $6.3 million increase in the Offshore Program in response to the surging leasing activity that had occurred in the Gulf of Mexico up to the time of the 1998 budget formulation. As it turns out, actual leasing activity greatly exceeded bullish expectations. The three lease sales conducted since development of the 1998 request were not simply robust, but instead were all record-breakers. This phenomenal leasing has outstripped MMS's ability to effectively perform its regulatory responsibilities to ensure continued safe and environmentally sound development of the OCS.

To not jeopardize continued development of the Nation's OCS resources, with the potential loss of billions in OCS revenues, the Administration has proposed a 1998 supplemental appropriation of $6.7 million that will provide MMS with the additional manpower and scientific information needed to maintain its vigilant oversight of the OCS and provide timely service to industry. MMS delays in bid evaluations, permit reviews, and other required actions are beginning to cause expensive "down-time" for industry and ultimately may delay the receipt of government revenues from the OCS.

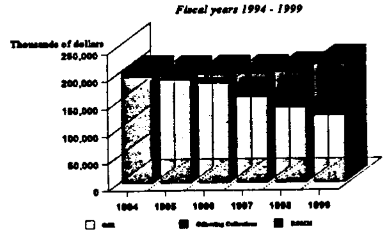
The supplemental request includes approximately $1.7 million in Regulatory Operations to support an expanded inspection and enforcement workforce. The prolific growth in the number of inspectable units in the Gulf of Mexico, and the geographical dispersion of these units over a much greater area, has simply spread the existing inspector force too thin, thus threatening its effectiveness. The additional funding will enable an increased level of field review of plans and applications. The proposed increase will strengthen the regulatory program to better ensure and maintain MMS's commitment to the safe and environmentally sound development of the OCS.

The supplemental request includes $4.8 million in the Leasing and Environmental Program, most of which will support environmental studies focusing on deep water regions of the Gulf of Mexico. Very little is currently known about the deep water topography and habitat in this region. Addressing these information needs is essential to MMS decision-making for environmentally sound development. The rapid pace of deep water leasing has accelerated the need for these studies. Industry has already invested heavily in deep water regions, both in technology development and in bonus bids on deep water leases. This investment, or the environment, could be put at risk if MMS lacks the information it needs to perform such functions as evaluating exploration and development plans, developing appropriate lease stipulations, and evaluating oil spill response plans.

The 1998 supplemental request also proposes $0.2 million in Resource Evaluation (RE). The RE workload related to lease sales and deep water royalty relief has resulted in an increasing backlog of necessary work related to the ongoing exploration and development of existing leases, such as reserves inventory, field determinations, and regional mapping and assessment. Additional personnel are needed to clear up the backlog and enable the Gulf Region to keep up with the downstream RE workload resulting from the record sales.

FY 1999 Budget Request

Minerals Management Service
Funding Sources
Fiscal years 1994 - 1999

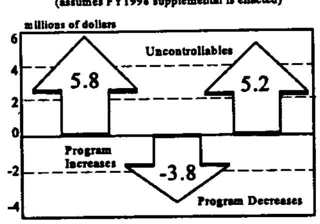


The MMS budget request is approximately $222.5 million, an increase of roughly $13.9 million above the 1998 enacted level of $208.6 million. The $13.9 million increase includes the $6.7 million supplemental discussed above plus a further $7.2 million increase for 1999 to meet legislative and workload increases. The proposed increases are more than covered by raising the cap on offsetting receipts from $65.0 million to $94.0 million. In turn, the request for direct appropriations is only $128.5 million, a decrease of $15.1 million below the 1998 level of $143.6 million. At the 1999 request level, offsetting collections would cover over 40 percent of MMS's operating budget. In addition to the current budget, three permanent appropriations totaling $610.6 million provide States their statutory shares of mineral leasing revenues generated on Federal lands.

The net increase of $7.2 million over the 1998 adjusted level will enable MMS to fully fund its $5.2 million in uncontrollable cost increases. The remaining $2.1 million net increase, coupled with programmatic reductions of $3.8 million, will enable MMS to fund the full-year costs of the proposed 1998 supplemental (an additional $0.8 million), and provide $5 million to initiate a major reengineering effort for the Royalty Management Program (RMP).

The $5 million proposed in 1999 for RMP reengineering will be used to design and begin development of new automated systems to implement redesigned business processes. The RMP faces the dilemma of responding to new legislative requirements, most notably the Royalty Simplification and Fairness Act (RSFA) with aging systems that already exceed accepted life cycle standards. Without this investment, a major risk of system failure and operational instability exists. Furthermore, the RSFA authorized delegation of royalty management functions to States cannot be accommodated with the current RMP systems configuration. RMP modernization is also essential for MMS to continue fulfilling its basic goal of ensuring the timely collection, accounting, verification, and disbursement of mineral revenues and to allow the taking of royalties in kind smoothly. The final result will be a less costly more streamlined program.

Minerals Management Service
Components of Proposed FY 1999 Increase
Total Proposed Increased of $7.2 Million
(assumes FY1998 supplemental is enacted)



The $3.8 million in proposed program

reductions include $1.2 million for the Marine Minerals Technology Centers program. Continuation of this program cannot be covered given the pressing needs in MMS's core mission areas, as discussed above. The request also reflects a general reduction of -$2.4 million to the RMP program that is made possible by improved efficiencies and streamlining. Finally, a savings of -$0.2 is possible in the Offshore Program due to the reduced costs associated with MMS's offshore air quality monitoring activities.

Madam Chairman, this concludes my testimony. However, I will be pleased to answer any questions you or Members may have regarding any aspect of MMS's FY 1998 supplemental or FY 1999 budget request.

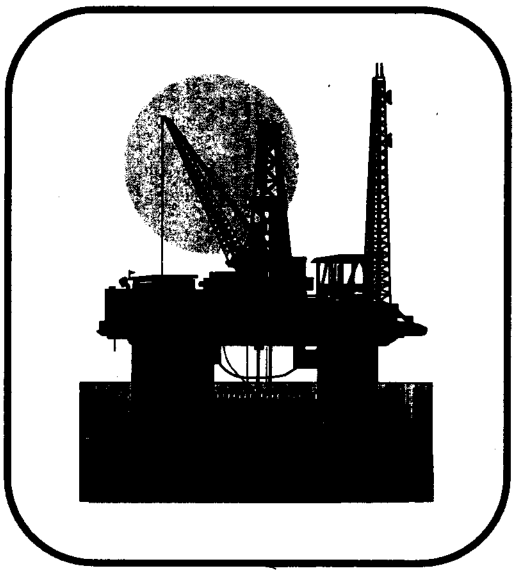
Cos' nd Revenue Based Allocation Table for Net Revenue Sharing - F' 397 Costs for FY 1998 Deduction

State	Cost Based RMP	BLM	USFS	Total	Cost State Share	Revenue State Share	Lower Revenue/Cost	STATE SHARE OF NRS
Alabama	$74,131	$219,750	$127,53	$421,414	$210,707	$61,013	$61,013	20,271
Alaska	58,474	1,653,875	16,182	1,728,531	864,265	608,167	608,167	551,177
Arizona	11,317	397,850	201,996	611,163	305,582	4,900	4,900	2,450
Arkansas	174,955	944,150	276,502	1,395,607	697,804	105,503	105,503	48,278
California	3,819,359	4,741,900	389,355	8,950,614	4,475,307	2,194,000	2,194,000	1,097,632
Colorado	2,985,420	7,119,450	301,705	10,406,575	5,203,288	3,952,741	3,952,741	1,976,413
Florida	17,573	9,775	16,619	43,967	21,983	573	573	290
Georgia	980	0	(19)	961	480	11	11	3
Idaho	166,329	676,000	183,677	1,026,006	513,003	233,805	233,805	116,870
Illinois	28,949	25,950	80,554	135,453	67,726	7,521	7,521	5,521
Indiana	0	0	5	5	3	0	0	0
Kar sas	331,597	838,750	0	1,170,347	585,173	139,792	139,792	69,927
Kentucky	67,915	492,000	91,590	651,505	325,752	12,757	12,757	4,371
Louisiana	243,342	447,500	399,892	1,090,734	545,367	86,009	86,009	38,358
Maryland	1,066	0	0	1,066	533	0	0	0
Michigan	125,627	305,350	202,523	633,500	316,750	75,452	75,452	35,775
Minnesota	14,420	0	6,780	21,200	10,600	1,334	1,334	334
Mississippi	195,790	421,800	335,580	953,170	476,585	97,120	97,120	25,787
Missouri	113,820	492,000	149,774	755,594	377,797	131,052	131,052	32,943
Montana	1,696,179	6,579,500	1,126,040	9,401,719	4,700,859	2,167,003	2,167,003	1,083,502
Nebraska	31,629	56,900	30,102	118,631	59,316	1,681	1,681	841
Nevada	335,898	1,867,400	32,462	2,235,760	1,117,880	608,035	608,035	304,011
New Hampshire	0	0	18,553	18,553	9,277	0	0	0
New Mexico	10,209,735	15,494,000	76,152	25,779,887	12,889,943	19,461,149	12,889,943	6,441,296
New York	2,126	20,000	0	22,126	11,063	0	0	0
N. Carolina	4,236	0	54,029	58,265	29,132	12	12	3
N. Dakota	1,059,030	1,650,000	781,222	3,490,252	1,745,126	404,477	404,477	202,462
Ohio	118,251	719,600	275,256	1,113,107	556,553	16,800	16,800	11,347
Oklahoma	1,283,283	1,768,025	0	3,051,308	1,525,654	224,965	224,965	115,619
Oregon	93,992	1,250,750	207,970	1,552,712	776,356	4,539	4,539	2,270
Pennsylvania	44,746	337,000	6,858	388,604	194,302	2,322	2,322	1,725
S. Carolina	3,407	0	49,610	53,017	26,508	0	0	0
S. Dakota	88,478	214,275	55,850	358,603	179,301	60,647	60,647	30,324
Tennessee	4,717	15,000	22	19,739	9,870	3	3	2
Texas	198,266	276,725	365,204	840,195	420,098	67,416	67,416	27,042
Utah	2,156,710	6,362,300	920,844	9,439,854	4,719,927	3,644,941	3,644,941	1,824,161
Virginia	45,350	81,000	9,808	136,158	68,079	9,297	9,297	8,104
Washington	33,402	55,900	91,899	181,201	90,601	84,736	84,736	42,416
W. Virginia	111,313	888,000	67,632	1,066,945	533,472	34,043	34,043	18,286
Wisconsin	30,482	0	66,354	96,836	48,418	46	46	12
Wyoming	8,255,290	20,079,400	418,307	28,752,997	14,376,499	24,582,880	14,376,499	7,179,225
Total	$34,237,583	$76,501,875	$7,434,422	$118,173,880	$59,086,939	$59,086,742	$42,309,155	21,323,447

Produced by MMS

OCS Report
MMS 98-0013

Gulf of Mexico Outer Continental Shelf Daily Oil and Gas Production Rate Projections From 1998 Through 2002



January 1998

U.S. Department of the Interior
Minerals Management Service
Gulf of Mexico OCS Region

OCS Report
MMS 98-0013

Gulf of Mexico Outer Continental Shelf Daily Oil and Gas Production Rate Projections From 1998 Through 2002

J. Michael Melancon
David S. Roby

U.S. Department of the Interior
Minerals Management Service
Gulf of Mexico OCS Regional Office

New Orleans
February 1998

Contents

Table of Abbreviations

BCFPD	Billion cubic feet per day
BOPD	Barrels of oil per day
DOCD	Development Operations Coordination Document
DWRR	Deepwater Royalty Relief
GOM	Gulf of Mexico
MBOPD	Thousand barrels of oil per day
MMCFPD	Million cubic feet per day
MMS	Minerals Management Service
OCS	Outer Continental Shelf
POE	Plan of Exploration

Introduction

This paper provides daily oil and gas production rate projections for the Gulf of Mexico (GOM) Outer Continental Shelf (OCS) for the years 1998 through 2002. These projections represent daily oil and gas production estimates at calendar yearend.

In this report, daily oil production rates include both oil and condensate production, and daily gas production rates include both associated and nonassociated gas production. Deepwater is defined as a water depth greater than or equal to 1,000 feet.

This report differs from last year's report in that all figures and text use December average daily production rates for past years as opposed to calendar year averages. Since future production projections are based on calendar yearend rates (December), it was determined that consistency in using yearend historical data would provide a more valid statistical comparison.

Further, since the publication of this report will occur in the first quarter of each calendar year, a decision was made to change the start of the 5-year projection cycle to the current year.

In addition to providing daily oil and gas production rate projections, we have included one figure and one table pertaining to leasing history and one table concerning exploration and development plan approvals. These are provided as supportive background information for our projections as well as information indicative of current interest and activity in the GOM deepwater environment.

Daily Production Rate Projections

The production rate projections presented in this report include high- and low-range estimates of future daily oil (oil and condensate) and gas (associated and nonassociated) production for the GOM during the years 1998-2002.

Change in Methodology from 1996 Report

The method used to predict shallow-water production rates for this report has changed from that used last year. The method used in preparing last year's report was dependent upon proved and unproved reserve estimates by field and involved performing a decline analysis on each producing shallow-water field, calculating a decline constant, and estimating a future decline rate. Production start dates for the discovered proved and unproved nonproducing fields in the shallow-water GOM were projected, and historical decline rates applied. Workload constraints within Minerals Management Service (MMS) have prevented reserve updates for all fields classified as proved and unproved through December 1997. Therefore, the basis for projecting production from currently producing fields had to be changed from the method employed last year. This year's method was based on performing a decline analysis of the total production rate from the shallow-water GOM.

The following assumptions are integral to the validity of this year's methodology:

1. The same factors that have influenced the cumulative shallow-water production rates over the past 20 years will similarly affect the production rates over the next 5 years. These factors include but are not limited to:

- Rate of reserves replacement.
- Availability of pipelines and processing facilities to handle production.
- Ability of operators to obtain necessary equipment and personnel to develop new reserves.
- The effect that new technology has on finding and developing reserves.

2. Once again, this year the high-case scenarios for both oil and gas assume that new technology (such as 3-D seismic data and horizontal wells) will offset currently producing field decline rates and GOM production will remain constant at the December 1996 daily rates of 1,047 thousand barrels of oil per day (MBOPD) and 14.1 billion cubic feet per day billion cubic feet per day (BCFPD) through the year 2002. This appears to be a reasonable assumption considering that shallow-water oil and gas production rates have remained fairly constant over the last 20 years.

3. For the low case, if the cumulative shallow-water oil production rate should begin to decline, it will decline at the same rate as observed during the period from 1986 through 1989 (the last period of declining oil rates) (8.2% per year), and

even though the cumulative shallow-water gas production rate has not shown a period of sustained decline (over the last 20 years), it will begin to decline at the same time and at the same rate (8.2% per year) as the cumulative shallow-water oil production rate.

Low-case Production Rate Projections

The average daily low-case, shallow-water oil and gas production rates for December 1998 to 2002 were calculated using the actual average daily production rates for oil and gas in December 1996 and the decline rate determined above. The total projected average daily low-case production rates for December 1998 to 2002 were calculated by adding these declining shallow-water production rates to the estimated daily production rates for deepwater projects obtained from a survey of operators.

High-case Production Rate Projections

The average daily high-case production rates for December 1998 to 2002 were calculated by adding the shallow-water production rate, which is assumed to be constant at December 1996 levels, to the estimated daily production rates for deepwater projects obtained from a survey of operators.

Table 1 presents a listing of the 52 deepwater fields on production or projected to commence production through the year 2002, including the date of first production, water depth, and daily oil and gas production capacities in those cases where this information may be released to the public.

We point out the significant daily production capacity estimates for a few of the Table 1 fields like Mars (100,000 barrels of oil per day [BOPD], 100 million cubic feet per day [MMCFPD]), Ursa (150,000 BOPD, 400 MMCFPD), Petronius (60,000 BOPD, 100 MMCFPD), Ram Powell (60,000 BOPD, 200 MMCFPD), Mensa (300 MMCFPD), Auger (90,000 BOPD, 240 MMCFPD), Tahoe/Tahoe II (17,000 BOPD, 300 MMCFPD), Genesis (55,000 BOPD, 72 MMCFPD), Troika (80,000 BOPD, 140 MMCFPD), and Allegheny (25,000 BOPD, 35 MMCFPD) as examples of the major impact deepwater fields now have and will continue to have on future daily GOM production rates.

Table 2 and Figures 1 and 2 provide the high- and low-range daily oil and gas rate projections in tabular and graphical forms, respectively.

Undiscovered fields in any water depth coming on production by the year 2002 will further increase these daily production totals.

Table 1. — Deepwater Fields on Production or Expected to Commence Production by Yearend 2002

Operator(s)	Field Name	Block	Water Depth	Year of First Production	Production Capacity Oil (B/D)	Production Capacity Gas (MCF/D)
Amerada Hess	Baldpate	GB 260	1,641 ft	1998	48,000	152,000
Amoco Production	King's Peak	DC 133	6,530 ft	2001	Unreleasable	Unreleasable
Amoco Production	King	MC 084	5,149 ft	Unreleasable	Unreleasable	Unreleasable
Amoco Production	Marlin	VK 915	3,236 ft	1999	40,000	250,000
BP Exploration	Neptune (AT)	AT 575	6,220 ft	Unreleasable	Unreleasable	Unreleasable
BP Exploration	Troika	GC 244	2,721 ft	1997	80,000	140,000
BP Exploration	AmberJack	MC 109	1,029 ft	1991	12,700	12,700
BP Exploration	Pompano/Pompano II	VK 990	1,290 ft	1994	52,000	61,000
British-Borneo	Morpeth/Klamath	EW 921	1,673 ft	Unreleasable	Unreleasable	Unreleasable
British-Borneo	Allegheny	GC 254	3,186 ft	1999	25,000	35,000
Chevron	Genesis	GC 205	2,599 ft	1999	55,000	72,000
Conoco	Jolliet	GC 184	1,720 ft	1989	15,000	65,000
Elf	Virgo	VK 823	1,132 ft	Unreleasable	Unreleasable	Unreleasable
Enserch	Cooper	GB 387	2,136 ft	1995	10,000	16,000
Exxon	Hoover	AC 25/26	4,795 ft	2000	Unreleasable	Unreleasable
Exxon	Diana	EB 945	4,634 ft	2000	Unreleasable	Unreleasable
Exxon	Lena	MC 281	1,018 ft	1984	27,000	61,000
Exxon	Zinc	MC 354	1,478 ft	1993	500	120,000
Exxon & Enserch & Walter	Alabaster	MC 397	1,059 ft	1992	7,000	155,000
Marathon	Arnold	EW 963	1,749 ft	Unreleasable	Unreleasable	Unreleasable
Marathon	Oyster	EW 917	1,185 ft	Unreleasable	Unreleasable	Unreleasable
Oryx	Diamond	MC 445	2,095 ft	1993	200	36,000
Oryx	Neptune/Thor	VK 825	1,861 ft	1997	25,000	40,000
Reading & Bates	East Boomvang	EB 688	3,767 ft	Unreleasable	Unreleasable	Unreleasable
Shell	Auger	GB 426	2,864 ft	1994	90,000	240,000
Shell	Serrano	GB 516	3,153 ft	Unreleasable	Unreleasable	Unreleasable
Shell	Macaroni	GB 602	3,600 ft	Unreleasable	Unreleasable	Unreleasable
Shell	Bullwinkle	GC 065	1,329 ft	1989	57,000	101,000
Shell	Rocky	GC 110	1,621 ft	1996	5,500	7,000
Shell	Popeye	GC 116	2,088 ft	1996	8,000	145,000
Shell	Brutus	GC 158	2,877 ft	Unreleasable	Unreleasable	Unreleasable
Shell	King Kong	GC 473	3,800 ft	Unreleasable	Unreleasable	Unreleasable
Shell	Cognac	MC 194	1,023 ft	1979	83,000	129,000
Shell	Mensa	MC 731	5,327 ft	1997	0	300,000
Shell	Mars	MC 807	2,958 ft	1996	100,000	100,000
Shell	Ursa	MC 810	3,928 ft	1999	150,000	400,000
Shell	Europa	MC 935	3,889 ft	Unreleasable	Unreleasable	Unreleasable
Shell	Tahoe/Tahoe II	VK 783	1,395 ft	1994	17,000	300,000
Shell	Ram Powell	VK 956	3,214 ft	1997	60,000	200,000
Tatham	Seattle Slew	EW 914	1,019 ft	1993	3,000	13,000
Tatham	Sunday Silence	EW 958	1,450 ft	1999	Unreleasable	Unreleasable
Texaco	Fuji	GC 506	4,275 ft	2002	Unreleasable	Unreleasable
Texaco	Gemini	MC 292	3,763 ft	1999	Unreleasable	Unreleasable
Texaco	Petronius	VK 786	1,753 ft	1999	60,000	100,000
Vastar	King	MC 764	3,300 ft	Unreleasable	Unreleasable	Unreleasable
Walter Oil & Gas	UNNAMED	EW 1006	1,882 ft	Unreleasable	Unreleasable	Unreleasable
Walter Oil & Gas	UNNAMED	GB 179	1,100 ft	Unreleasable	Unreleasable	Unreleasable
Walter Oil & Gas	UNNAMED	MC 443	2,095 ft	Unreleasable	Unreleasable	Unreleasable
Walter Oil & Gas	UNNAMED	MC 533	1,000 ft	Unreleasable	Unreleasable	Unreleasable
Walter Oil & Gas	UNNAMED	MC 837	3,900 ft	Unreleasable	Unreleasable	Unreleasable
Walter Oil & Gas	UNNAMED	VK 862	1,043 ft	1995	3,000	4,500
Unreleasable	Unreleasable	Green Canyon	1,500 ft	Unreleasable	Unreleasable	Unreleasable

Table 2. — Daily Oil and Gas Production Rate Projections - GOM

	1998	1999	2000	2001	2002
Low Oil MBOPD* (Decline Used)	1,226	1,493	1,592	1,606	1,666
High Oil MBOPD* (No Decline Used)	1,347	1,667	1,816	1,874	1,976
Low Gas BCFPD** (Decline Used)	13.27	13.43	13.39	12.83	12.43
High Gas BCFPD** (No Decline Used)	15.26	16.30	17.07	17.25	17.54

*Oil in MBOPD includes condensate.
**Gas in BCFPD includes associated or casinghead gas.

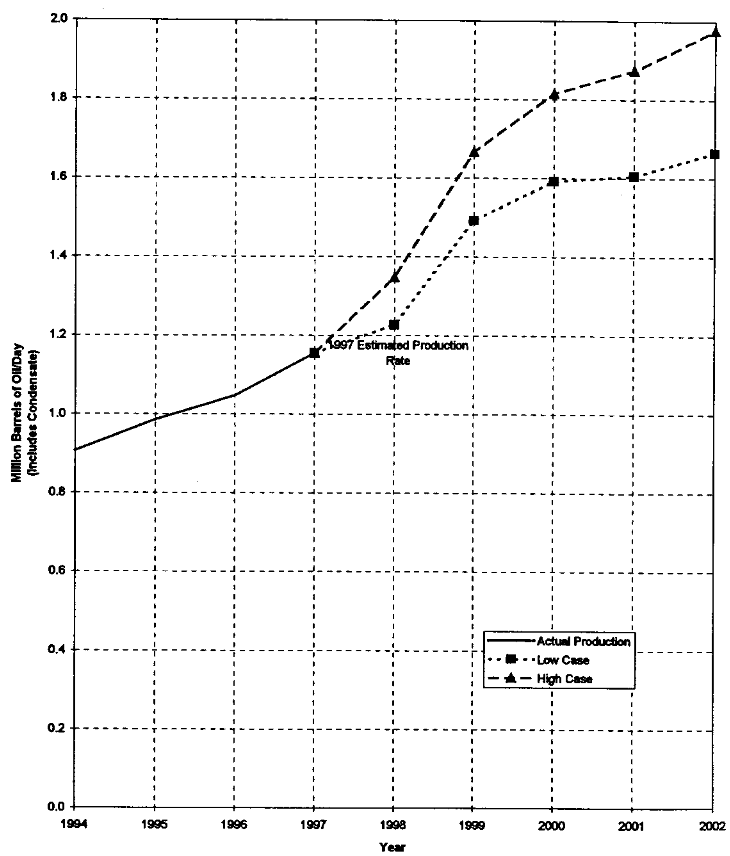


Figure 1. — Oil Production Rate Projections, Gulf of Mexico Region

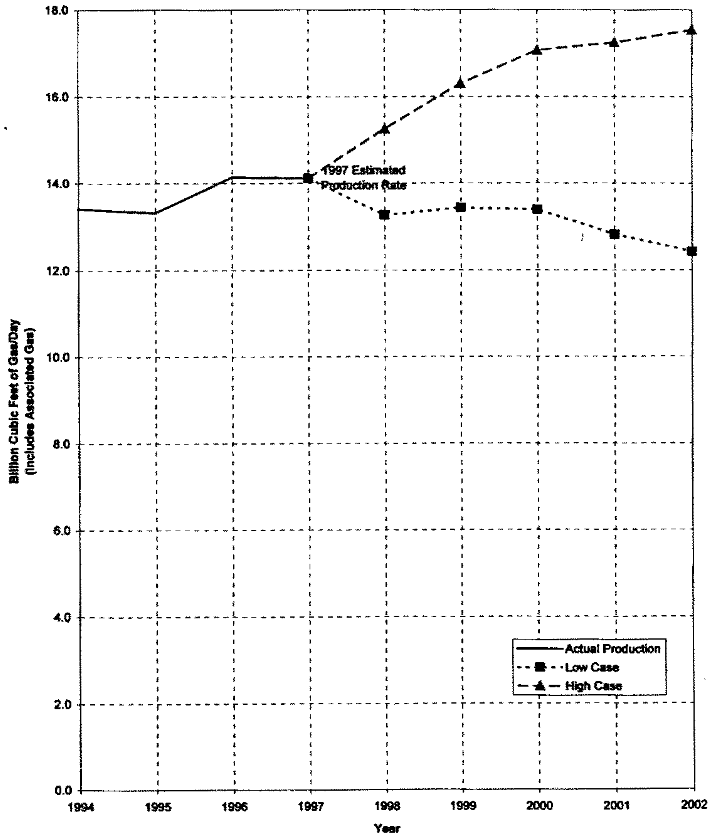


Figure 2. — Gas Production Rate Projections, Gulf of Mexico Region

Analysis

Last year's report, MMS 97-0006 (January 1997), projected yearend 2000 daily production rates of between 1,660 MBOPD and 1,932 MBOPD for oil and between 12.02 BCFPD and 17.20 BCFPD for gas. Ranging projections in this manner was necessary to account for the uncertainties in future production projections for currently producing fields. In essence, our projections for new fields commencing production in 1998, 1999, etc., are single-point estimates, while our future production projections for the hundreds of currently producing fields are ranged because decline analysis alone may not accurately represent the effects of recompletions, new wells, workovers, etc., in offsetting field decline rates.

The projected December 1996 daily production rates in last year's report were 1,097 MBOPD for oil and 13.82 BCFPD for gas. Actual December 1996 production averages were 1,047 MBOPD for oil and 14.14 BCFPD for gas. Therefore, the actual December 1996 daily oil production rate was 50,000 BOPD less than our low-case projection, while the actual December 1996 daily gas production rate was 320 MMCFPD higher than our low-case projection.

When this report was being formulated, June 1997 was the latest complete available month of production. Therefore, we cannot compare December 1997 actual production to the December 1997 projections in last year's report, which were between 1,230 and 1,300 MBOPD for oil and between 13.32 and 15.80 BCFPD for gas. However, the actual daily production rates for the latest month, June 1997, are 1,115 MBOPD for oil and 13.98 BCFPD for gas. Additionally, Ram Powell began producing in September 1997 and Troika in November 1997. The operators of these properties provided preliminary production numbers for December 1997 of 15 MBOPD and 93 MMCFPD for Ram Powell and 25 MBOPD and 38 MMCFPD for Troika. When these rates are added to the June 1997 actual production data, an approximation of December 1997 actual rates could be 1,155 MBOPD and 14.11 BCFPD if production from June is comparable to December otherwise. A comparison of last year's reported low-case production projection for December 1997 and the above-calculated December 1997 approximation results in a daily production rate for oil that is 75 MBOPD less than the low-case projection and 791 MMCFPD greater than the low-case projection.

We found the December 1996 and 1997 projected daily oil rates to be higher than the actual December 1996 and approximated December 1997 daily oil rates. Accordingly, we decided to credit only one-half of the facility capacity in the first year of production and ramp up to the full capacity in the second year in this year's report. We believe this procedure will more accurately reflect actual deepwater production scenarios.

Figures 3 and 4 provide a graphical presentation comparing the daily oil and gas production projections from last year's report and this report.

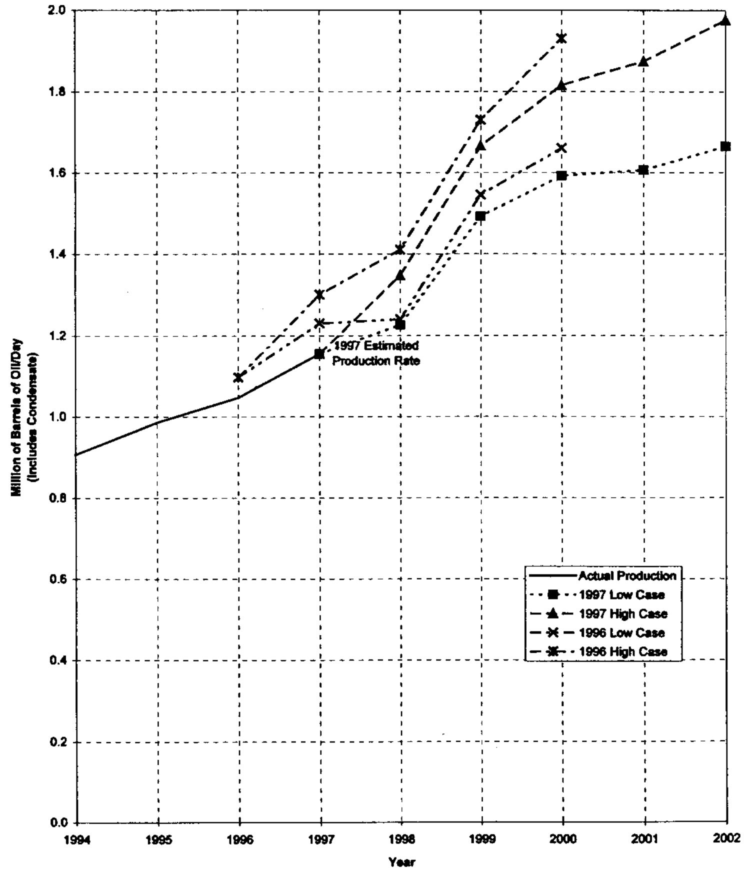


Figure 3. — Comparison of 1997 and 1996 Oil Production Rate Projections, Gulf of Mexico Region

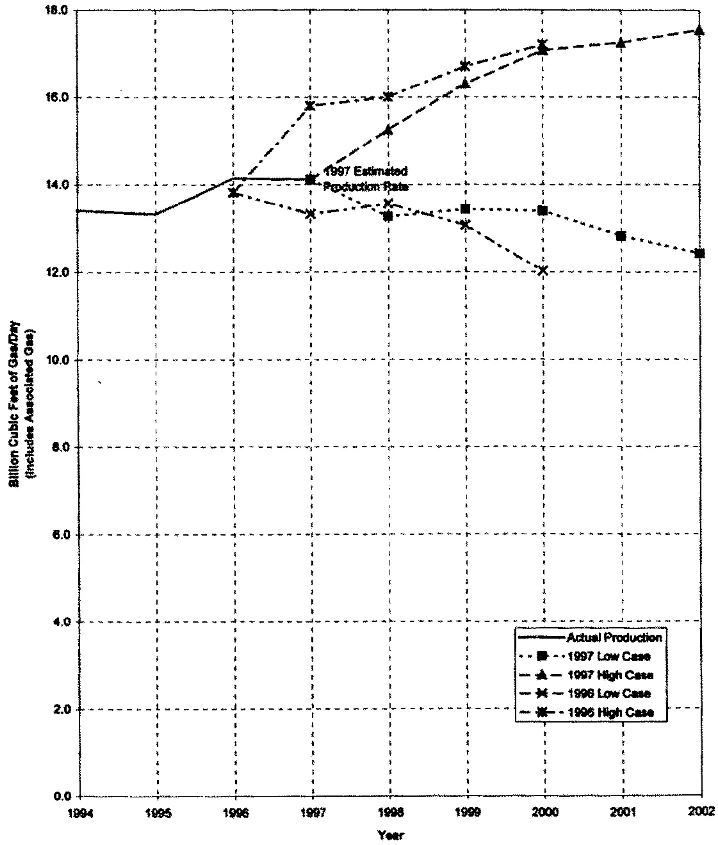


Figure 4. — Comparison of 1997 and 1996 Gas Production Rate Projections, Gulf of Mexico Region

Leasing and Development Plan Activity

The total number of tracts receiving bids in the Gulf of Mexico OCS over the last 10 years demonstrates a dramatic increase since 1995. This increase is evident in Figure 5, which indicates that 863 tracts were bid upon in 1995, 1,541 in 1996, and 1,836 in 1997. Total tracts bid upon during these three years total 4,240 as opposed to 4,639 bid upon during the previous seven years.

The large increase in bidding activity beginning in 1996 is partly attributable to the passage of Public Law 104-58, Title III, the OCS Deepwater Royalty Relief (DWRR) Act, signed on November 25, 1995. It is apparent from Table 3 that, although there was increased bidding activity in all water depth categories in 1996 and 1997, the largest increase by far was in water depths > 800 meters.

It should be pointed out that, in addition to the positive effects of the OCS Deepwater Royalty Relief Act upon industry bidding strategies, several other factors such as high oil and gas production rates from deepwater reservoirs, the evolvement of economic deepwater development technology, favorable oil and gas prices, and the reduced risk of deepwater exploratory and development drilling, among other factors, have also had a significant impact.

Development plan approvals increased substantially from 1993 through the end of 1997, as illustrated in Table 4. In calendar year 1996, exploratory plan approvals (415) increased 28 percent and development plan approvals (345) increased 36 percent over calendar year 1995 totals. Calendar year 1997 exploratory plan approvals (439) and development plan approvals (370) represent increases of 35 percent and 46 percent over calendar year 1995 totals and increases of 6 percent and 7 percent over calendar year 1996 totals, respectively.

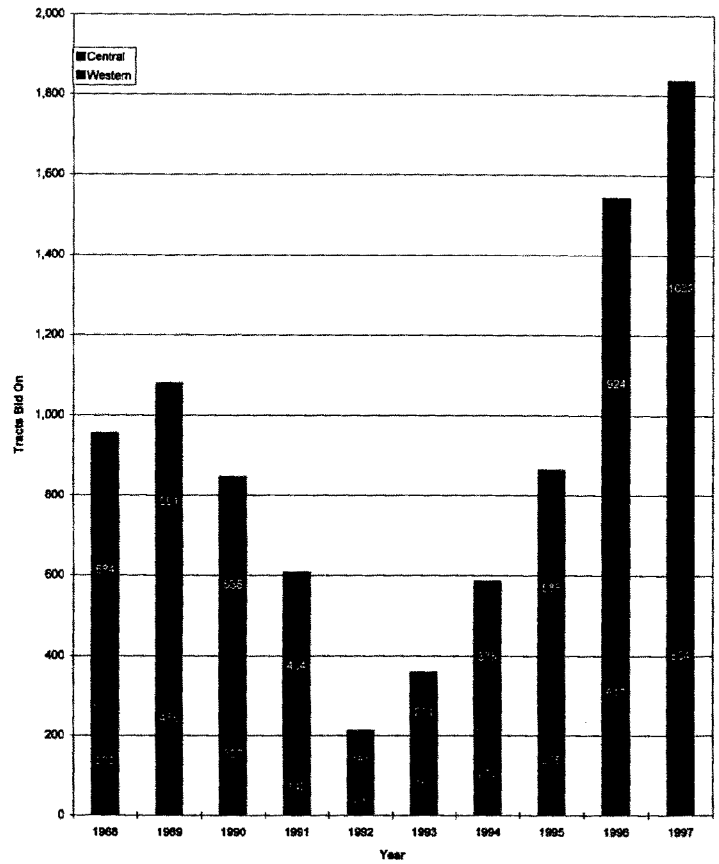


Figure 5. — 10-Year Bidding Trend in the Gulf of Mexico

Table 3. — Gulf of Mexico OCS Bids 1994-1997; Before and After Royalty Relief (Sales 157, 161, 166, and 168 Include Royalty Relief)

Water Depth	1994 Sales 147 & 150	1995 Sales 152 & 155	1996 Sales 157 & 161	1997 Sales 166 & 168
<200M	490	516	637	542
200-400M	18	50	69	52
400-800M	28	83	113	104
>800M	49	214	722	1,138
	585	863	1,541	1,836

Table 4. — Plans of Exploration (POE) and Development Operations Coordination Documents (DOCD) by Calendar Year

Calendar Year	POE's Approved	DOCD's Approved
1990	485	223
1991	365	179
1992	250	128
1993	318	187
1994	345	282
1995	325	253
1996	415	345
1997	439	370

Conclusions

The Gulf of Mexico OCS should increase its 1995 daily oil production from 945 MBOPD to a range between 1,592 MBOPD and 1,816 MBOPD by yearend 2000 and between 1,666 MBOPD and 1,976 MBOPD by yearend 2002. The 1995 daily gas production rate of 13.09 BCFPD should change to a range from 13.39 BCFPD to 17.07 BCFPD by yearend 2000 and between 12.43 BCFPD and 17.54 BCFPD by yearend 2002. Given that gas reservoirs are less expensive to develop and that it is currently economical to subsea-complete some isolated gas wells with tiebacks, our gas production rate projections may prove conservative. Stated another way, this report may not account for several future gas development projects, the sum of which may be significant. By the yearend 2000, production from deepwater fields (> 1,000 feet) will account for 64 percent of the daily oil production and 30 percent of the daily gas production in the low case and 56 percent of the daily oil production and 23percent of the daily gas production in the high case.

Contributing Personnel

This report includes contributions from the following GOM Office of Production and Development personnel:

T. Scott Williams
Stephen T. Walsh
Loc Van Than
P. Leschak
Stephen T. Dessauer
Muhammad A. Khan
Gilbert K. Shank
Emile H. Simoneaux

Notice

Please contact the Regional Supervisor, Production and Development, Gulf of Mexico OCS Region, Minerals Management Service, 1201 Elmwood Park Boulevard, New Orleans, Louisiana 70123, to communicate any questions you have or ideas for consideration in our next report. The telephone number is (504) 736-2675.

The Department of the Interior Mission

As the Nation's principal conservation agency, the Department of the Interior has responsibility for most of our nationally owned public lands and natural resources. This includes fostering sound use of our land and water resources; protecting our fish, wildlife, and biological diversity; preserving the environmental and cultural values of our national parks and historical places; and providing for the enjoyment of life through outdoor recreation. The Department assesses our energy and mineral resources and works to ensure that their development is in the best interests of all our people by encouraging stewardship and citizen participation in their care. The Department also has a major responsibility for American Indian reservation communities and for people who live in island territories under U.S. administration.

The Minerals Management Service Mission

As a bureau of the Department of the Interior, the Minerals Management Service's (MMS) primary responsibilities are to manage the mineral resources located on the Nation's Outer Continental Shelf (OCS), collect revenue from the Federal OCS and onshore Federal and Indian lands, and distribute those revenues.

Moreover, in working to meet its responsibilities, the Offshore Minerals Management Program administers the OCS competitive leasing program and oversees the safe and environmentally sound exploration and production of our Nation's offshore natural gas, oil and other mineral resources. The MMS Royalty Management Program meets its responsibilities by ensuring the efficient, timely and accurate collection and disbursement of revenue from mineral leasing and production due to Indian tribes and allottees, States and the U.S. Treasury.

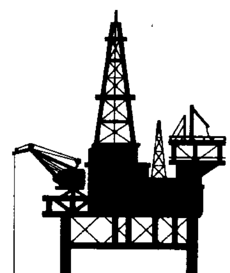
The MMS strives to fulfill its responsibilities through the general guiding principles of: (1) being responsive to the public's concerns and interests by maintaining a dialogue with all potentially affected parties and (2) carrying out its programs with an emphasis on working to enhance the quality of life for all Americans by lending MMS assistance and expertise to economic development and environmental protection.

Minerals Management Service
Gulf of Mexico Region

Managing America's offshore energy resources

Protecting America's coastal and marine environments

Reengineering the Business Processes and Support Systems of the RoyaltyManagement Program



U.S. Department of the Interior
Minerals Management Service
Royalty Management Program

February 1998

Reengineering the Business Processes and Support Systems of the Royalty Management Program

U. S. Department of the Interior
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Executive Summary

The Royalty Management Program (RMP) was created in early 1982 under the Minerals Management Service (MMS) to ensure that all revenues from Federal and Indian mineral leases are efficiently, effectively, and accurately collected, accounted for, and disbursed to recipients. These revenues, totaling about $4.5 billion annually, are distributed and disbursed to 38 States, 41 Indian Tribes, some 20,000 Indian mineral royalty owners, and to U. S. Treasury accounts.

The RMP recently embarked upon a Business Process Reengineering Initiative to address all of its core business processes including financial, accounting and compliance operations. The objective of this program-wide effort is to design and implement new royalty management business processes and automated support systems for the 21st century. To guide the effort, RMP senior managers established performance improvement goals and a reengineering project management team to formulate the future designs. The reengineering team recently developed its preliminary designs for a future RMP that is process centered; focused on outcomes; less costly; and well positioned to meet its mission requirements.

The reengineering team recommends dramatic improvement in RMP's organization and business processes, information reporting requirements, and automation infrastructure. Recommended improvements include:

- Reducing RMP's current business cycle from 6 years to 3 years, consistent with expected industry standards,
- Aligning RMP's operations into two core end-to-end business processes (performance-based teams would plan, organize, prioritize and accomplish work focused on desired outcomes),
- Establishing organizational accountability for compliance and asset management outcomes at the producing property level (mineral leases would be brought in compliance and kept in compliance),
- Simplifying current regulatory reporting requirements to reduce reporting burden for both RMP and industry (royalty reporting can be reduced 40 percent), and
- Modernizing RMP's automated information infrastructure.

The RMP of today is comprised of function-based processes and a layered organizational structure that is largely focused on outputs rather than desired outcomes. The reengineering team is recommending process changes that will enable the RMP to more efficiently organize, prioritize, and timely complete mission critical work. The team is further recommending development of new business processes that can move RMP closer to determining, in real time, whether a mineral lease is in compliance with royalty payment provisions or whether given companies correctly paid their royalty obligations.

The reengineering team also concluded that current regulatory reporting requirements are inefficient and overly burdensome to both RMP and industry. Report forms and requirements need to be modified to increase the efficiency of data gathering and reduce future costs to industry and the RMP.

Lastly, the reengineering team concluded that RMP's mainframe-based systems are obsolete and cannot support future reengineered business processes. The current systems were implemented in the early 1980's and have been subjected to thousands of changes to meet an expanding mission. The system environment is complex, inefficient, difficult to change and expensive to maintain. The mix of aging systems and changes of the magnitude needed to support reengineered business processes represents a major risk to future systems reliability and operational stability. The RMP managers have concluded that further and continued change to the existing systems is not an acceptable strategy and that a new automated infrastructure should be immediately pursued.

The RMP is confident that the recommended reengineering improvements, coupled with a modernized automated infrastructure, will dramatically improve the overall performance of its accounting and compliance-related business processes and ensure that all future mission requirements are fulfilled at the lowest possible cost. The recommended modernization includes acquisition of a relational data base management system, work flow/case management tools, and commercial off-the-shelf accounting products. On-line data access will be available to RMP and its customers through the use of state-of-the-art technology and capabilities of the world-wide web.

The modernization of RMP's automation infrastructure is not only a sound business decision, but it is cost justified. The cost is estimated to be about $26 million with implementation to occur over a two or three year period, depending on the phased implementation strategy selected. Implementation is scheduled to begin in FY1999. Upon full implementation, the RMP can save $3.5 million annually in program operating costs, and can increase annual revenue collections by about $10 million. Thus, the investment costs for systems modernization to fully support new business processes could be recovered in two years. Since the estimated life cycle of the modernized system infrastructure is approximately 10 years, another $104 million in benefits can be realized from the initial investment. Additionally, the simplified reporting schemes envisioned by the reengineering team can save the minerals industry millions of dollars through reduced reporting burden.

The President's Budget for FY 1999 includes a requested program increase of $5 million to further RMP's reengineering initiative. RMP will use the $5 million increase to begin modernization of its existing automated systems as needed to support reengineered business processes. Additional funding will be needed to complete the initiative. The final designs for the new royalty management business processes and support systems are expected in late June 1998. They will include detailed performance and investment benefit/cost analyses consistent with the Clinger-Cohen Act of 1996.

Reengineering the Business Processes and Support Systems of the Royalty Management Program

Minerals Management Service

Background

The Royalty Management Program (RMP) is responsible for ensuring that some $4.5 billion in annual revenues from Federal and Indian mineral leases is collected, accounted for, verified, and disbursed to appropriate recipients in a timely manner. In addition to a broad range of financial services, the RMP also operates a comprehensive compliance strategy that includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid, and an audit program staffed by MMS, State and Tribal auditors.

The Federal Government is the largest mineral royalty owner in the United States. The business environment in which the RMP administers royalty payments is similar in many respects to private land and State land minerals owners. However, in scale of activity, and variety and complexity of lease terms, it is significantly different. Currently, the RMP administers the rental, royalty, net profit share and other financial terms for nearly 26,000 producing mineral leases. This lease universe includes onshore Federal lands (20,000 leases), Indian Tribal and allotted lands (3,800 leases), and Outer Continental Shelf lands (2,000 leases). The RMP also administers approximately 46,000 non-producing mineral leases. The RMP has a broad customer and stakeholder base including interfaces with the Bureau of Land Management, Bureau of Indian Affairs, and MMS Offshore Minerals Management. Over 2,000 companies report and pay royalties monthly and over 3,000 operators report production, also on a monthly basis.

Current Organization, Systems and Operating Environment

To accomplish its mission, the RMP is staffed with about 610 employees, plus an additional 190 personnel under contract to provide systems and operations support, and over 100 State and Tribal auditors to augment the RMP audit effort. Automated systems are critical to supporting RMP's royalty and production reporting, accounting, financial and compliance operations.

The primary automated systems used by the RMP to accomplish its mission are:

> **Auditing and Financial System (AFS)** - the primary financial system used to receive and account for mineral revenues reported and paid; distribute and disburse revenues to States, Tribes, the Bureau of Indian Affairs and other Federal agencies, and the U. S. Treasury; maintain a general ledger, and receivables and payables accounts; conduct financial exception processing to identify late payments, underpayment and nonpayment of revenues due; bill for additional revenues and late payment interest due; and calculate

interest due lessees on overpayments.

Production Accounting and Auditing System (PAAS) - the primary production accounting system used to receive and account for minerals production from Federal and Indian lands, and conduct volumetric exception processing.

Business Information System (BIS) - the primary management information system that permits MMS, State, Tribal and other Federal agencies to access basic lease and agreement information as well as financial and production information resident on MMS data bases.

The systems environment is centered around a Hitachi Data Systems CMOS P15S Enterprise Server. Combined, the systems represent over 2.1 million lines of application code and are supported by a 71 gigabyte data base. Additional client/server applications provide functionality not delivered in the primary business systems. The RMP and its clients are served by a growing telecommunications network. These local- and wide-area networks enable over 800 RMP users and over 100 State and Tribal users in 34 locations to communicate and interact with each other and to access royalty and production data.

The last significant RMP systems improvement effort, the Business Systems Planning Initiative (BSPI), was started in October 1989. The BSPI was a multiyear effort to improve and consolidate existing automated royalty systems under a common shared data structure; modernize and enhance software in RMP's financial and production accounting systems; add additional exception processing functionality to AFS; move BRASS functionality into the AFS; and establish the Business Information System.

The Reengineering Initiative

In 1996, the RMP began a reengineering effort to improve the business processes in its compliance operations. The principal objective was to define and implement a compliance strategy for the future that ensured, in the most cost effective manner possible, that Federal and Indian lease revenues were accurately and timely paid. Using a structured business process reengineering methodology, the RMP anticipated dramatic improvements stemming from a fundamental rethinking and redesign of compliance-related business processes.

In the early stages of the initiative, RMP began to consider the need for expanding the scope of the initiative to maximize benefits and also to address aging systems that were well beyond expected life cycle. However, on August 13, 1996, the Federal Oil and Gas Royalty Simplification and Fairness Act (RSFA) was enacted into law. This law amended the Federal Oil and Gas Royalty Management Act of 1982, the Outer Continental Shelf Lands Act, and the Mineral Leasing Act. In so doing, RSFA introduced a host of new requirements that significantly changed many of the RMP's historical operating assumptions and revenue processing methods. Although near-term changes in processes and systems were needed to implement the law, RMP managers recognized that longer-term strategies, fundamental business processes and aging computer systems had to be addressed for the RMP to remain cost effective and responsive to customer needs.

In March 1997, a formal decision was made to expand reengineering beyond compliance activities and instead conduct an in-depth reengineering of all RMP core business processes. A Program Office and multi-disciplinary reengineering team was established within the RMP to manage and implement the Reengineering Initiative. The reengineering team includes representatives from RMP, MMS' Office of Policy and Management Improvement, and State and Tribal governments. Furthermore, information technology and business process reengineering consulting services are being provided by Performance Engineering Corporation.

The Reengineering Approach

The principal objective of the Reengineering Initiative is to design, develop and implement new core business processes, with supporting systems, for the 21st century. The following design criteria, performance stretch goals and parameters were developed by RMP senior managers to guide the reengineering team in developing future business processes and support systems.

Design Criteria

- Supporting the collection of royalties both in-cash and in-kind.
- Supporting delegated activities related to royalty administration.
- Permitting the use of a variety of methodologies to value production.
- Permitting RMP to provide related financial services for other customers through franchising arrangements.

Performance Stretch Goals

- Provide recipients with access to their money within 24 hours of the due date.
- Assure compliance with applicable laws, lease terms, and regulations for all leases in the shortest possible time, but no later than 3 years from the due date.

Design Parameters

- Current laws will continue to apply.
- RMP regulations can be changed.
- Reporting requirements should be simplified.
- New work processes should cost less than the current equivalent mission costs.

In undertaking the design phase of the initiative, the reengineering team first examined the current RMP business environment beginning with an intensive mapping of its "as-is" process. This was augmented by an in-depth assessment by PEC of the automation infrastructure supporting the existing business processes. The team conducted extensive benchmark surveys of other public and private enterprises within and outside the United States to identify "best practices" for consideration in the design of future RMP processes. The team examined prior studies and recommendations prepared by MMS, the Royalty Policy Committee, the Office of Inspector General and others. Additionally, the team consulted with employees, industry, States and Indian Tribes about the efficiency and effectiveness of current RMP processes and viable alternatives for managing royalty revenues in the future. In February 1998, the team issued its preliminary designs for future RMP business processes, and PEC issued its analysis of information technology implications and associated costs for implementation.

Challenges Needing to be Addressed

The reengineering team identified key issues in three areas of RMP's current operations that must be addressed to achieve the performance stretch goals and design parameters of the envisioned future RMP. The principal findings and conclusions of the team in each of these areas are discussed below.

Organization and Business Processes

The RMP is function-based in terms of its business processes and the organization structure in place to manage those processes. By design, RMP's business cycle lasts 6 or more years from the time that a royalty payment is due to the time that the RMP ends its work and is satisfied that the royalty payment was correct. Many organizations in the public and private sector that are comparable to RMP complete their business cycles with the minerals industry in half the time. The many benefits to be gained from reducing business cycle time led RMP's senior managers to set the stretch goal of 3 years which is more representative of expected performance in the industry.

The RMP of today is comprised of function-based processes and layered organizational structures that often constrain RMP's employees from effectively coordinating or sharing the results of efforts to correct royalty reporting and payment problems. RMP's current business processes must be reengineered if it is to achieve the performance stretch goals and parameters envisioned for the future. The reengineering team is recommending organizational and process changes that will enable the future RMP to more efficiently organize, prioritize, and timely complete mission critical work. The team is also recommending development of new business processes that can dramatically expedite the current business cycle and move RMP closer to determining, in real time, whether a lease is in compliance with its royalty payment provisions or whether given companies correctly paid their royalty obligations.

To overcome these constraints, fundamental changes are necessary in the current functional alignment of business activities as well as the organization that supports those activities if the future RMP is to be the "best in its class" of service. These needed changes are not just to eliminate existing overlaps, redundancies, waiting time and other inefficiencies in the current work; they must be made to fundamentally enable the RMP to efficiently organize, prioritize, decide, and do work that is centered on outcomes. The RMP must, in the future, be able to quickly engage its business enterprise and focus its resources, in end-to-end processes, at the most logical asset management level -- the producing property that gives rise to the royalty payment that RMP can choose to take either in-kind or in-value. Furthermore, the RMP must become an efficient knowledge manager, timely gaining, maintaining and leveraging information to accomplish its business goals.

Lastly, the envisioned reengineering changes can enable RMP to fully capitalize on the outstanding talents, education, and broad experience of its workforce. The RMP's current operational approaches and processes often constrain some organizations and their employees from participating in the royalty process as a whole. The RMP, through its reengineering initiative, seeks to change its existing hierarchy and engage its workforce in multi-disciplinary performance-based teams that can fully integrate their talents and knowledge to expedite all facets of work, be highly responsive to customers and constituents, and produce superior work within a demanding schedule.

Information Needs

Information is critical to RMP in meeting its mission. The information that will support future reengineered processes must be of the highest possible quality and received in the most efficient manner. The RMP routinely obtains information from a variety of sources. The vast majority of the information is received through required royalty-related and production-related reporting forms submitted by royalty payors and lease operators. Basic information related to leases is provided by surface management agencies including the Bureau of Land Management (BLM); the MMS' Offshore Minerals Management (OMM); and the Bureau of Indian Affairs.

The reengineering team found that RMP's current regulatory report formats and requirements are inefficient and overly burdensome. The team believes that RMP can eliminate or redesign many of its current reports and thereby substantially reduce the amount of data that is being collected and improve processing efficiency for both RMP and industry. Additional information needed to support future reengineered business processes will come from Federal and State agencies, lessees, purchasers, facility operators, and third parties on an as-needed basis.

Automation Infrastructure

The RMP's mainframe-based systems, while operative, are obsolete. The current systems were designed and implemented in the early to mid-1980's. These systems have been modified on a continuing basis ever since. The cumulative effect of ongoing change and new mission requirements is an increasingly complex and inefficient systems environment. The risk of systems failure is growing; the cost of operations and maintenance is high; and the responsiveness of the systems to change is low yet costly. Recent reports by the Office of Inspector General and Performance Engineering Corporation confirm the condition of the systems and the need for a new automated infrastructure. The team also concluded from its review that systems modernization is necessary to support the future reengineered business processes.

Future Business Process Designs

The reengineering team envisions a future RMP organization that is process centered; focused on outcomes; less costly; and well positioned to meet its mission requirements. The following design concepts will move the RMP toward achieving the performance stretch goals and parameters desired for the future. The concepts are grouped into three areas: organization and business processes, information needs, and automation infrastructure.

Organization and Business Processes

Organize and manage RMP work in end-to-end core business processes

Two end-to-end core business processes are envisioned for the future RMP. The financial management process, which involves receipt and processing of information and money and the compliance and asset management process. The financial management process will be accountable for the receipt and processing of information and money. The compliance and asset management process will be accountable for assuring that all revenues, whether received through in-kind or in-value royalties, are accurately reported and paid and the compliance status of all leases is known.

Retain a centralized financial management process

The financial management process will focus on payors, operators, Federal and State agencies, and Tribal governments and allottees for information and money flow. The process will be supported by a true automated accounting system which features double-entry accounting, end-to-end accountability for funds, integrated reporting, system generated financial statements, and more rapid and user friendly access to financial data. A commercial off-the-shelf accounting package will be explored to achieve these ends.

Other financial management activities such as billing, payment application, and distribution and disbursement will be extensively automated and supported by workflow and case management systems.

Institute regional basin groups that are accountable for the compliance and asset management process

The regional basin groups will focus on defined producing areas and the properties located therein. The groups will manage a full range of compliance and asset management activities, including product valuation, market analyses, majority price calculations, verification, and audit, that are necessary to address royalty taken either in-kind or in-value. The groups will be responsible for identifying and acting upon opportunities for taking royalty in-kind that serve the business goals of RMP. The groups will structure analytical capability at the same level that the industry operates, the property and producing area. They will leverage knowledge of producing areas including the physical infrastructure of gathering and transportation systems and processing plants; markets served and prices realized; buyer-seller relationships; and numerous other factors. The groups will be accountable for leases being and staying in compliance whether royalty is taken in-kind or in-value.

Utilize performance-based teams to the maximum extent possible in developing the organization to work the end-to-end core business processes.

Teams are the typical means of implementing reengineered business processes. The newly reengineered organization will bring together expert personnel from various functional entities to work together in end-to-end processes. The design team believes that forming these personnel into performance-based teams will leverage the operational efficiency gains achieved by moving to the end-to-end processes.

Information Needs

Make changes to regulatory information reporting requirements of payors and operators to increase efficiency and reduce errors.

After reviewing RMP's existing information collection requirements, future information needs for reengineered processes, and recommendations made in the May 1996 Royalty Policy Committee report titled "Royalty Reporting and Production Accounting," the team believes the following major changes need to be made:

- Eliminate Form MMS-4025 Payor Information Form
- Modify the Form MMS-2014 Report of Sales and Royalty Remittance and associated reporting requirements.
- Eliminate the existing Form MMS-3160; simplify the Oil and Gas

Operations Report Form MMS-4054 (OGOR); and use the simplified OGOR for both onshore and offshore.

- Eliminate all existing Solid Minerals Production Report Forms including the MMS-4050; 4051-S; 4059; 4060; and combine production and royalty information on one report.
- Augment RMP's information infrastructure to collect data on an as-needed basis to support the compliance and asset management process.

Automation Infrastructure

Apply technology to new and existing business processes to achieve mission performance objectives

The RMP must augment its existing infrastructure with new technology which allows it to implement new business processes. The focus will be on providing data access to RMP and customers utilizing state-of-the art data capture, transmission and analytical tools. Integration of the automation infrastructure will allow RMP analysts and customers alike to utilize RMP data to conduct business operations. Reliance on a single data repository will reduce duplication of effort, redundant systems and locally developed solutions and allow RMP to become both more efficient and more effective. RMP will base the future infrastructure around a relational database management system that supports ongoing operations through on-line management of the royalty and production data captured by RMP. The needed infrastructure will also include work flow/case management systems, internet/intranet technology, geographic information systems, online analytical processing tools, and other commercial off-the-shelf accounting products.

State-of-the art automated tools will also be developed to support the compliance and asset management process. The tools will allow RMP and State analysts on basin teams to interact with a variety of data concerning leases, properties, payors and operators to evaluate royalty amounts; selectively analyze leases and properties by using sensitivity parameters and trend analyses to highlight abnormal royalty or production data; initiate resolution actions; and institute audit procedures. These tools and a new data network which emphasizes properties and producing areas will enable basin teams to assure that leases are and stay in compliance. Furthermore, this new infrastructure will support asset management decisions related to whether an in-kind or in-value strategy for given properties or producing areas best serves the business goals of RMP.

Expected Benefits

Benefits expected to be realized by RMP and customers include:

Organization and Business Processes

- Increased confidence that royalties have been paid correctly. As compliance is confirmed on large segments of the lease universe, resources can be concentrated on leases and producing areas with suspected reporting and payment problems. As a result, compliance coverage can effectively be increased and reporting errors reduced. A variety of issues including issues related to processing and transportation infrastructures, historically receiving little attention, can be addressed. Current mineral revenues are over $4.5 billion per year and compliance-related findings have averaged in excess of $100 million per year. Through reengineered processes, compliance personnel will be provided better tools to timely identify and collect royalty underpayments. We anticipate compliance collections to increase by approximately $10 million per year owing to greater compliance coverage.

- Realizes many of the efficiencies and potential cost savings presented in recent reports of the Office of Inspector General (OIG) and others reports calling for modernization of RMP systems that support core business functions. The OIG report estimated annual operational savings of $2 million per year.

- A dramatic reduction in the RMP business cycle from 6 years to 3 years. This change will place the RMP on a business cycle that is more closely aligned with the business cycle of the royalty payors. Benefits that will be realized by RMP, States, Tribes and industry include:

  - Accelerates cash flows derived from more timely identification of royalty underpayment issues.

  - Improves accuracy of first reporting and payment of royalties, thereby reducing the overall cost of royalty administration to RMP and industry.

  - Ensures identification of emerging royalty payment issues which permits earlier resolution before the passage of time makes resolution more difficult.

  - Substantially increases efficiency and reduces costs in problem identification and resolution. Payor records access is improved when records have not been archived. Furthermore, employees involved in the creation and use of the records in paying royalties are more likely to be available for assisting in analysis and resolution.

- Improves focus of RMP's resources and decision making on its organizational goals, objectives, and desired outcomes, and its ability to establish accountability within the organization.

- Removes the current obstacles inherent in a functionally-aligned organization through a geographically-oriented team approach. Depending on implementation strategy, one layer of management supervision can be eliminated.

- Enables RMP to have a current understanding of its leases, the production environment, markets served, prices realized, etc. For the first time, RMP will have information and analytical capability to make asset management decisions at the lease and producing area, as to whether royalties should be taken in-kind or in-value.

- Allows RMP employees to better understand the broader royalty management process. They will be able to conduct in-depth analysis of all variables affecting royalties and more effectively acquire, manage and transfer this knowledge. One associated outcome will be the ability to determine and communicate lease status. Another is better integration of RMP compliance activities with BLM and OMM production verification activities. Finally, RMP staff will have a greater ability to become true resource managers.

Information Needs

- Simplifies reporting requirements and reduces reporting burdens for both industry and RMP. The design team estimates that oil and gas royalty reporting alone will be reduced 40 percent. The RPC estimated that RMP would save about $1.5 million annually by adopting its recommended changes to reporting. The team is recommending adopting most of the RPC recommendations and additional substantive changes in oil and gas and solid minerals reporting that will even further reduce costs. Additionally, the simplified reporting schemes envisioned by the reengineering team will save the minerals industry millions of dollars through reduced reporting burden.

Modernization of the Automated Support Systems

RMP must pursue modernization of its existing automated support systems in order to realize the dramatic performance gains and many benefit opportunities of the reengineered business processes. The RMP is confident that the recommended reengineering improvements, supported by a modernized automated infrastructure, can dramatically improve the overall performance of its accounting and compliance-related business processes and ensure that all future mission requirements are fulfilled at the lowest possible cost. The resulting technical architecture will cost effectively support RSFA-based delegations and future franchising initiatives. The modernization includes acquisition of a relational data base management system, work flow/case management tools, and commercial off-the-shelf accounting products. On-line data access will be available to RMP and its customers, through the use of state-of-the-art technology and capabilities of the world-wide web.

The modernization of RMP's automation infrastructure is not only a sound business decision, but it is cost justified. RMP, in conjunction with its technical support contractor Performance Engineering Corporation, has developed a preliminary estimate of about $26 million for the systems modernization. Implementation of RMP's new business processes and automated support systems is scheduled to begin in FY1999. The reengineering changes will be phased in over a two or three year period depending on the implementation strategy selected. Upon full implementation, the RMP can save $3.5 million annually in program operating costs, and can increase annual revenue collections by about $10 million. Thus, the investment costs for systems modernization to fully support new business processes could be recovered in two years. Since the estimated life cycle of the modernized system infrastructure is approximately 10 years, another $104 million in benefits can be realized from the initial investment. Additionally, the simplified reporting schemes envisioned by the reengineering team can save the minerals industry millions of dollars through reduced reporting burden.

The President's Budget for FY 1999 includes a requested program increase of $5 million to further RMP's reengineering initiative. RMP will use the $5 million increase to begin modernization of its existing automated systems as needed to support reengineered business processes. Additional funding will be needed to complete the initiative.

Government Performance and Results Act (GPRA) Performance Goals & Measures Supported

One of the primary goals set forth in the Strategic Plan for the Minerals Management Service is "to provide timely, accurate, and cost effective mineral royalty collection and disbursement services." This goal is complimented by the strategic objective of being recognized as the "best in the business" through:

- High quality service and information
- Reduced cost
- Automation
- Innovation

Each of these elements is prominently featured in the RMP reengineering effort whose overall objective is to develop and implement new core business processes, with supporting systems for the 21st century. The reengineering effort will advance a host of GPRA performance goals and their related measures including:

- Improve the timeliness and accuracy of payments to States, Indian Tribes, BIA offices and other Federal agencies.
- Improve the cost effectiveness of mineral royalty collection and disbursement services.
- Improve reporters' compliance with lease terms, regulations, and laws.
- Improve customer service and communication.

Case studies indicate that major improvements and savings are realized by focusing on the business from a process rather than a functional perspective. Reengineering that focuses on redesigning processes can yield benefits far greater than attempts to improve the operations within a functional area. The RMP GPRA activities are more closely aligned to the former approach, whereas the reengineering effort will accelerate RMP's effort to attain full harmony with GPRA. As new reengineering designs are tested and finalized, associated performance metrics will be incorporated into RMP GPRA goals and measures. We anticipate that this will occur in the summer of 1998.

Next Steps

The reengineering team has begun the prototyping and testing of its recommended designs to finalize the new business processes; demonstrate new technology; define the best performance based/team oriented organizational structure; quantify benefits; and refine estimates on resource requirements. The final reengineering designs will be completed in June 1998. They will include reengineering transition and implementation plans, and a detailed performance and investment benefit/cost analysis consistent with the Clinger-Cohen Act of 1996. An RMP Reengineering Contract Support Team has been created to manage budget and acquisition processes for modernization of RMP's automated support systems. The goal of the Contract Support Team is to complete those tasks necessary to award an implementation contract in FY 1999.