

**STATEMENT OF HOWARD CANTOR, DIRECTOR
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UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE
HOUSE NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES**

**On the Fiscal Year 2025 President's Budget Request for the
Office of Natural Resources Revenue
May 23, 2024**

Chairman Stauber, Ranking Member Ocasio-Cortez, and Members of the Subcommittee, I am pleased to join you today to discuss the President's Fiscal Year (FY) 2025 budget request for the Office of Natural Resources Revenue (ONRR), an office under the Assistant Secretary for Policy Management and Budget within the Department of the Interior (Department).

Background

For the benefit of all Americans, ONRR collects, accounts for, and verifies natural resource and energy revenues due to states, American Indians, Alaska Natives, and the U.S. Treasury. In FY 2023 alone, ONRR disbursed \$18.24 billion in revenue from energy production on federal and Tribal lands and offshore areas, including \$4.72 billion to 33 states. Given the large size of the revenue stream handled and disbursed, ONRR strives for transparent and efficient operations, collecting every dollar due and ensuring that the American taxpayer and Indian Tribes receive full payment of the revenues that they are owed for the development of their resources. ONRR maintains a collaborative working relationship with industry through reporter training, providing speakers for industry-led conferences, and informal interactions in an effort to gain compliance with the laws and regulations before any formal actions need to be taken.

Every American benefits from the revenues generated from mineral resources, either directly through payments to American Indian Tribes and Individual Indian Mineral Owners or indirectly through payments to the Historic Preservation Fund, the Reclamation Fund, states, and the General Fund of the U.S. Treasury. ONRR also contributes to the Land and Water Conservation Fund (LWCF), with appropriations made permanent in August 2020 as part of the Great American Outdoors Act (GAOA), and tracks and reports the energy funds available for calculation of the amounts attributable to the National Parks and Public Land Legacy Restoration Fund created under the GAOA.

The Federal government has collected revenues from mineral production on federal onshore lands since 1920, on American Indian lands since 1925, and on federal offshore areas since 1953. In 1982, the Federal Oil and Gas Royalty Management Act called upon the Department to establish a comprehensive, consolidated system for the collection, accounting, and disbursement of these revenues. From FY 1982 through FY 2023, Interior has provided over \$371 billion to federal, state, and American Indian recipients through this program. Approximately 56 percent

of all annual collections have gone to the General Fund of the U.S. Treasury, 23 percent to special purpose funds, 16 percent to states, and five percent to the American Indian community.

Fiscal Year (FY) 2025 Request

The FY 2025 budget request for ONRR is \$175,987,000 to support ONRR's mission to "collect, disburse, and verify federal and Indian energy and other natural resource revenues on behalf of all Americans" through the work of our various program areas:

- **Revenue, Reporting, and Compliance Management:** These activities ensure revenues from federal and American Indian leases are efficiently, effectively, and accurately collected, accounted for, invested, and disbursed in a timely manner. This program's activities also include support of the Bureau of Indian Affairs Indian Energy Service Center, as well as efforts to ensure timely, complete, and accurate reporting while providing reasonable assurance of company compliance.
- **Audit Management:** These activities focus on accurate reporting and payment of the nation's federal and American Indian mineral revenues. Federal and American Indian audit and compliance activities represent a critical part of the operational strategy to ensure companies comply with applicable laws, regulations, and lease terms. This program's activities also include administering cooperative agreements with states and American Indian Tribes, tribal consultations, and investigating and responding to the inquiries of individual Indian mineral interest owners.
- **Research, Enforcement, Guidance, and Appeals:** These activities develop and implement consistent and comprehensive compliance planning, as well as market and geospatial analysis, valuation guidance and determinations, production meter verification, rulemaking, responding to appeals of ONRR actions, bankruptcies, litigation support, and enforcement.

The FY 2025 budget request is \$8.05 million above the FY 2024 enacted level attributed to the following:

- \$4.1 million and 25 full time equivalent (FTE) for ONRR to assume the mineral revenue management responsibilities for the Osage Nation.
- \$7.0 million to restore Audit and Compliance activities.
- \$5.5 million to fund a fixed cost increase for FY 2024 and \$1.5 million for FY 2025 fixed cost increases.
- A reduction of \$10 million in ONRR's ongoing information technology modernization efforts.

Osage Trust Accounting Implementation

In 2014, ONRR was first tasked with providing minerals revenue management functions for the Osage Tribe so that the Department could comply with a settlement agreement with the Tribe. However, a court delayed, and then the Bureau of Indian Affairs (BIA) withdrew a final rule intended to shift the Department's Osage minerals revenue management responsibilities from BIA to ONRR. BIA published a new proposed rule in January 2023 and is working to publish the final rule in FY 2024. ONRR requests an additional +\$4.1 million and +25 FTE in FY 2025 as part of a multi-phase and multi-year implementation effort to ensure essential collection, disbursement, and compliance functions for Osage mineral revenues. ONRR's assumption of the full oil and gas revenue and production reporting and verification program on Osage lands represents a significant increase in ONRR's workload across its mission activities. Once fully implemented, ONRR expects that taking on Osage properties will increase its Indian-related workload by approximately 50 percent. There are currently 2,900 active leases and 14,500 producing wells on Osage lands, which will increase the number of Indian leases and wells in ONRR's systems by 46 percent and 62 percent, respectively. Additionally, ONRR expects to provide guidance and training to 230 new production and royalty reporters, a 43 percent increase in the number of Indian reporters. The Osage-related workload is likely to continue increasing, as an additional 4,760 wells are expected to be drilled by 2037 on Osage lands.

With its current Osage funding, ONRR is performing limited compliance activities as permitted by existing regulations. ONRR proposes a phased approach to funding and fully carrying out its functions for the Osage Tribe once the final rule is effective. The additional funds requested in FY 2025 will help ensure ONRR conducts essential collection and disbursement activities for Osage mineral revenues. In addition to continuing current limited compliance activities, this would allow ONRR to perform required functions in FY 2025.

Transitioning these activities to ONRR will require a significant time investment as ONRR works with Osage stakeholders to shift them to ONRR's forms and processes. ONRR's production and royalty forms will be completely new to Osage reporters, and ONRR plans to provide reporter training sessions to assist them. Even so, ONRR expects it will need to respond to questions and investigate and assist in resolving reporting errors. Also, BIA's current processes do not involve enforcement, so ONRR expects to inform and educate affected payors and lessees about ONRR's enforcement processes.

Audit and Compliance Activities

Funding reductions enacted in the FY 2024 appropriation are impacting ONRR's Audit and Compliance activities. ONRR disbursed over \$18 billion in FY 2023, so even relatively small percentage reductions to collections can equate to large dollar amounts, which can adversely impact the financial well-being of tribal members and allottees, as well as states' abilities to fund vital programs. Restoration of the \$7.0M reduction ONRR received in FY 2024 would enable ONRR to perform additional data mining activities, compliance reviews, and audits, thereby increasing ONRR's ability to ensure accurate reporting and payment of royalties due.

IT Modernization

ONRR has made significant progress implementing its IT Modernization program and has determined the funding received for these efforts can be reduced by \$10.0 million beginning in FY 2025 without significantly impacting the project schedule. ONRR's IT Modernization effort supports EO 14028, Improving the Nation's Cybersecurity, by continuing on the path to replace its aging Minerals Revenue Management Support System (MRMSS) with modernized systems. This work will ensure the stability and security of systems that disbursed over \$18 billion in FY 2023 and enhance efficiency and mission delivery.

Baseline Capacity

The FY 2025 budget includes important investments in programs needed to help strengthen America and be more competitive as the world continues to change. These investments include funding needed to maintain a robust and talented workforce and the must-pay requirements needed to continue to fulfill ONRR's mission. The budget includes +\$5.5 million for ONRR, which reflects the incremental amount needed to cover the fixed costs associated with mission operations in FY 2024. This request, in combination with the FY 2025 fixed cost amounts, will allow the program to meet must-pay requirements without impacting program activities.

Conclusion

I would like to take this opportunity to express our appreciation for the continued support for responsible, secure, and accurate collection of mineral revenue from federal and Indian lands and federal waters. The FY 2025 request will support ONRR's efforts to modernize systems, become more transparent, and add capacity to ensure the American taxpayer and Indian Tribes receive full payment of the revenues they are owed for the development of their resources.

I thank the Chairman and Ranking Member for inviting me here today, and I would be happy to answer the Subcommittee's questions.