Committee on Resources

Subcommittee on Energy & Mineral Resources

Statement

STATEMENT FOR
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COMMITTEE ON RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
HOUSE OF REPRESENTATIVES
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Madam Chairman and Members of the Subcommittee, I appreciate the opportunity to testify today on the Fiscal Year (FY) 2001 budget request for the Minerals Management Service (MMS). We have looked closely at our ongoing operations and responsibilities and this request reflects our best assessment of the funds needed to carry out critical MMS programs during FY 2001.

MMS is requesting $247.7 million, which is $7.3 million above MMS's enacted FY 2000 level. The MMS budget request for FY 2001 reflects the needs of modest programmatic increases and uncontrollable cost increases (mainly the Congressionally approved pay increase) balanced against programmatic decreases. The remainder of my testimony will focus on the particulars of the FY 2001 budget, our recent achievements in improving operations, and the challenges confronting us during the next fiscal year and beyond.

Background

Before discussing MMS's budget request in detail, it is important to put it into perspective by providing a brief overview of the bureau, its programs and the benefits the Nation receives from those programs. As you are aware, MMS's mission is to:

- Manage the Nation's Outer Continental Shelf (OCS) mineral resources in an environmentally sound and safe manner; and
- Collect, verify, and distribute in a timely manner revenues generated from Federal (onshore and offshore) and Indian lands.

To carry out this mission, MMS manages two very important programs - the Offshore Minerals Management (OMM) Program and the Royalty Management Program (RMP). These programs provide major economic and energy benefits to the Nation, taxpayers, States, and the Indian community.

MMS has leased and currently manages more then 44 million acres of the OCS. More then 12.5 billion barrels of oil and 135 trillion cubic feet of natural gas have been produced from the OCS. The OCS is projected to account for approximately 28 percent of the Nation's domestic natural gas production and 26 percent of our domestic oil production in 2001.

From an economic standpoint, in FY 2001, MMS will account for an estimated $6.2 billion in Federal receipts, including $3.2 billion from OCS receipts, $1.2 billion from onshore receipts, and $1.8 billion from the Alaska Escrow Settlement. From a taxpayer's perspective, that means:

- $3.4 billion deposited to the General Fund of the U.S. Treasury;
- $587 million in mineral revenue payments made to onshore states;
- $94 million in shared natural gas and oil receipts with coastal states;
- $150 million to Indian Tribes and individual tribal mineral owners;
- $897 million transferred to the Land and Water Conservation Fund; and
- $458 million credited to the Reclamation Fund

The resources I have described above are applied to the accomplishment of the bureau's two mission goals. During MMS's relatively short history both of these programs have experienced dramatic and profound changes in the business, energy, and government climates in which they operate. These changes have challenged MMS to keep pace, and I believe that the bureau has risen to the challenge. I would now like to review a few of MMS's achievements during the past year and what MMS sees as its challenges for the future.

Royalty Management Program (RMP) Achievements

Reengineer Core Business Processes

The RMP began its reengineering initiative in FY 1997. The principal objective was to design, develop, and implement new core business processes. Reengineering challenges underlying assumptions upon which the organization is built and fundamentally redesigns systems, processes, and structures around desired outcomes, rather than functions, departments, inputs, and outputs.

The purpose of this fundamental shift was to have RMP become more business-like in its approach to royalty management, more efficient in its operations and more able to use technology to good advantage. By doing so RMP will be able to make significant improvements in its operating capabilities and at the same time provide the minerals development and production industry with meaningful savings.

On September 23, 1999, MMS awarded a contract to Andersen Consulting to develop financial and relational database management systems utilizing Commercial Off-The-Shelf (COTS) products with integration services for the introduction of a variety of technology tools. Included in the acquisition are operations and maintenance services for the new systems and applications. Under the Andersen Consulting contract, the key software and service providers include Peoplesoft, Oracle, and Usinternetworking, Inc. Completion and delivery of the new financial system is scheduled for September 2001.

The RMP has implemented several operational models to test the compliance and asset management process in the working environment and to lay the foundation for the organizational structure of a fully reengineered RMP. Five operational models - offshore, onshore oil and gas, solid minerals, geothermal, and Jicarilla Apache Tribe have been staffed and are operational. Approximately 65 RMP individuals with about another

15 representing States/Indians/companies are working full or part time on the operational models, which are taking full responsibility for and applying new reengineered compliance processes to a portion of the lease universe.

Final implementation of the reengineering initiative will be accomplished at the end of FY 2001. However, improvements are being introduced into the work environment as early in the process as possible.

Royalty-in-Kind (RIK)

Under the terms of standard Federal oil and gas leases, the government is entitled to a share (royalty) of production removed or sold from the lease. Historically, the government has received its share in-value, i.e., as a percentage of the sales proceeds received by the mineral lessee. However, MMS intends to aggressively pursue using and expanding RIK under those circumstances where it makes good business sense in the management of the public's royalty assets.

Although it is impossible to determine at this point what properties may meet this test because of changing production trends and the future market, it is the agency's intent to move toward a comprehensive and continuing RIK program to gain maximum benefit for the American taxpayer. We believe that a viable RIK program should benefit both the taxpayer and industry through: lower administrative costs; lower costs of audits, appeals and litigation; and greater certainty on fulfillment of royalty obligations.

We currently have three RIK projects underway. These projects are allowing the agency to learn more about the royalty interests of the Federal government, learn about the market opportunities for RIK products, and gather data on the effectiveness and utility of the RIK program. As MMS analyzes the data from the pilots, it will be able to identify those successful efforts that can be incorporated as one of our management tools into the Royalty Management Program. The data and analysis will also allow us to discuss the results of the pilots with Congress and other constituents to gain support for using RIK where it is effective. In addition, the data from pilots and any continuing RIK efforts will allow MMS to identify opportunities that may need additional study, expertise, authorities, or more innovative approaches, including possible legislation to allow additional flexibility for a successful and efficient program.

RIK Pilot Projects

We currently have three RIK projects underway -- one in the state of Wyoming and two in the Gulf of Mexico. All of these projects are being structured to be consistent with existing lease terms and to examine where, when, and under what conditions RIK might be feasible.

In 1998, MMS and the state of Wyoming initiated the first RIK pilot project, an onshore pilot for crude oil from Federal leases in the Powder River and Big Horn Basins of Wyoming. MMS and Wyoming are cooperatively continuing and expanding joint competitive open-market sales of RIK crude oil from Wyoming properties. Our most recent offering successfully sold 44 percent of the Federal oil royalties in Wyoming. This spring we will move this project to RMP as an ongoing effort.

A second RIK Pilot Project initiated in 1998 was for natural gas from Federal leases in the Texas 8(g) zone of the Gulf of Mexico. Some of this gas is now being delivered to the General Services Administration for use in Federal facilities. We've also entered into a partnership with the Texas General Land Office to explore ways to cost-effectively market Federal RIK gas from the 8(g) zone and State natural gas production to additional purchasers.

A third RIK Pilot Project, initiated in 1999, for natural gas from Federal properties in the Gulf, is expected to be larger and more comprehensive than the two previous. In addition to selling gas competitively to the public, a portion of the gas will be transferred to Federal agencies for direct consumption.

As of December 1999, we are taking about 10 percent of our natural gas royalties in the Gulf in-kind, and we expect that percentage to grow over the course of this year.

Small Refiner RIK

The Department's established RIK program for eligible refiners was initiated to assure small, independent refiners of an adequate supply of equitably-priced crude oil. On October 28, 1999, RMP held a RIK oil sale for certain leases in Federal Pacific and Gulf of Mexico (GOM) regions using a competitive bidding process (deliveries commencing January 1, 2000). Since none of the GOM bids exceeded the RMP minimum threshold no contracts were issued; however, two Pacific contracts were awarded. A subsequent sale was held on February 9, 2000. Three contracts were awarded resulting in 64,000 barrels per day being taken in the GOM.

Federal Oil Valuation Rulemaking

Since the beginning of this rulemaking process on December 20, 1995 MMS has requested public comment in eight separate Federal Register notices and held 20 public meetings/workshops in five States and the District of Columbia. In addition, MMS hired five consultants, talked to numerous other experts in the industry, and worked closely with the States of Louisiana, Wyoming, New Mexico, Colorado, California, and Montana.

On December 30, 1999 MMS published a further supplementary proposed rulemaking containing additional changes in the following areas:

- specific regulatory language regarding "second guessing" of sales under arm's-length contracts;
- binding valuation determinations;
- allows for new depreciation schedule for newly purchased pipelines and a minimum return on fully depreciated pipelines; and
- changes to the definition of affiliate given a recent court decision issued after the end of the most recent comment period.

The comment period on the further supplementary proposed rule closed on January 31, 2000. MMS held public workshops in Denver, Colorado on January 18, 2000; Houston, Texas on January 19, 2000; and Washington, D.C. on January 20, 2000.

The FY 2000 Interior Appropriations Bill delayed publication of the final Federal Oil Valuation Rule until March 15, 2000, without other constraints. MMS published a final rule on March 15, 2000.

Indian Gas Valuation Rulemaking

The Indian Gas Valuation Negotiated Rulemaking Committee was established on February 7, 1995, with a goal to publish regulations that will maximize royalty revenues for Indian Tribes and allottees consistent with the Secretary's discretion to establish value. The Committee agreed on a formula to value gas produced from Indian lands (in areas with a valid index) using publicly available spot market index prices and a discount factor. The formula-derived price will be applied to the wellhead Mcf volume and will satisfy the gross proceeds and major portion calculations required by lease terms. Under this scenario, filing of forms for transportation allowances will not be necessary. Dual accounting requirements can be satisfied in their current form or by applying a percentage increase to the index formula value. For Indian lands with no valid spot market index, lessees will continue monthly reporting of gross proceeds similar to the procedures under the1988 regulations. MMS will calculate and provide the major portion value to lessees. The final rule amending gas valuation regulations for Indian Leases was published August 10, 1999 (64 FR 43506), with an effective date of January 1, 2000. MMS provided training to industry from November 1, 1999 to December 16, 1999.

Indian Oil Valuation Rulemaking

Due to the unique terms of Indian leases, MMS is developing a separate proposed rulemaking for valuing crude oil produced from Indian leases. MMS held public meetings March 26, 1998, in Albuquerque and April 1, 1998, in Denver. The comment period ended May 13, 1998. We met with various Indian representatives in December 1998 and January 1999 to discuss comments received on the February 12, 1998 proposal and to get their feedback on potential changes to the rule.

MMS published a supplemental proposed rule on January 5, 2000 to solicit comments on four changes to the February 12, 1998, proposed rule agreed to by the Indian representatives. These changes are:

- Using spot prices instead of NYMEX prices,
- Using the average of the daily high spot prices for the month rather than the average of the 5 highest NYMEX prices for the month,
- Allowing transportation on the reservation, and
- Simplifying the Form MMS-4416.

The supplemental proposed rule also included an update of the associated economic impact analyses to better reflect costs and benefits for all parties affected by the rule. The comment period closes on March 20, 2000. The FY 2000 Interior Appropriations Bill delays publication of the final Indian Oil Royalty Valuation Rule until March 15, 2000, without further constraints. MMS intends to publish a final Indian Oil Valuation rule soon thereafter.

Accounting Relief for Marginal Properties Rulemaking

Section 7 of the Royalty Simplification and Fairness Act provides for accounting and auditing relief on marginal properties. MMS published the proposed rule in the Federal Register on January 21, 1999. The comment period was to close March 22, but in response to commenters' requests we extended it first to April 21 and ultimately to May 6. Because MMS received conflicting comments, we requested the Royalty Policy Committee to form a subcommittee to resolve the differing opinions of the State and industry commenters. The subcommittee has held several meetings and continues to work on the issue.

Royalty Management Program Challenges

Reengineer Core Business Processes

MMS's number one priority is to complete the reengineering of the RMP's business processes. This comprehensive overhaul was necessary because of new legislative mandates, changing energy markets, the need for more cost-effective operations, and outdated computer systems. The new reengineered RMP will be organized around two core business processes. The first will be the financial management process that will focus on financial accounting and receiving and rapidly distributing revenues. The second will be the compliance and asset management process that will focus on activities related to producing properties. For the customer, the new system will mean "one-stop-shopping" and better customer service. In addition, the new system will reduce reporting requirements by 40 percent and dramatically shorten the compliance and appeals timeframe from six to three years.

Over the next few years RMP will work with its contractor partner to develop and implement the new financial system, award the second phase acquisition contract to support the compliance and asset management business process, work with OST and BIA to develop systems interfaces with TAAMS and TFAS in support of the HLIP, expand the Operational Models lease universe, provide compliance support to the RIK initiative, finalize changes to financial and production reporting forms, and transition RMP employees from today's organization and processes to tomorrow's.

Implement Royalty in Kind (RIK)

RIK represents a valuable tool for MMS as we seek to effectively manage the Nation's public assets. When it has been proven feasible, MMS intends to move quickly to incorporate RIK into the day-to-day business operations of the RMP. The Wyoming Project will be transferred to RMP in the spring of 2000. As other projects prove successful, they will also be transferred to RMP. RMP is being reorganized to support the reengineered business processes and to facilitate decisions on whether to take royalties in value or in kind. An RIK office will be established in RMP to develop and implement RIK strategy. This office will develop, issue, and implement contracts for taking, selling, and marketing royalty production taken in kind. It will also manage the small refiner RIK program and coordinate with States and inter-agency partners on RIK issues. Until the RMP reorganization is approved, an RIK Project Team will be established to operate and manage the Wyoming RIK leases and the Small Refiner Program. The team will also develop and carry out the procedures for a smooth transition of the functions.

Implement Federal and Indian Oil Valuation Rule

MMS is developing procedures to implement the Federal Oil Valuation Rule and will also need to develop procedures for the Indian Oil Valuation Rule. These procedures will guide implementation activities that will take place over the next few years. These activities include: developing training materials and holding training sessions for industry, MMS staff, States and Indian Tribes with delegated audit authority; developing procedures for addressing requests for value determinations and for location/quality information; revising the oil and gas payor handbook; and revising audit procedures for assuring compliance with the new rule.

Additionally, for the Rocky Mountain region, we must develop guidelines for approving and monitoring tendering programs and for the Director to determine value when the first three benchmarks do not apply.

Implement Indian Gas Valuation Rule

This is a new rule that will require many implementation activities over the next few years. For example, MMS has developed procedures for implementing the rule that include publishing the necessary Federal Register Notices, preparing Dear Payor letters, making system changes, resolving system generated exceptions, developing and maintaining web sites to provide payors with data they need, calculating index zone values and major portion values, validating data on MMS Forms 4410 and 4411, and additional outreach and training activities.

Implement the Federal Oil & Gas Royalty Simplification and Fairness Act (RSFA)

President Clinton signed the Federal Oil and Gas Royalty Simplification and Fairness Act (RSFA) on August 13, 1996, to improve the management of royalties from Federal onshore and Outer Continental Shelf oil and gas leases. This is the first major legislation affecting royalty management since the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA). The legislation significantly changed many of MMS's historical operating assumptions and revenue processing methods. RSFA provides:

- The framework for additional delegations of royalty functions to States subject to Secretarial discretion.
- Definitions for enforcement actions.
- Certainty with a 7-year collection statute of limitations.
- A 33-month limit on all administrative appeals.
- Equity by requiring payment of interest on overpayments.
- Administrative relief for marginal properties.
- Repeal of the outdated offshore refund requirements.

RSFA implementation has proven to be a very complex process involving numerous rulemakings, computer system modifications, reporting changes with accompanying payor guidance and new operational processes.

Based on RSFA, MMS is restructuring and streamlining our Administrative Appeals process to comply with the 33-month limit. Previously, there was no time limit. RFSA also requires the use of Alternative Dispute Resolution (ADR) techniques (settlement conferences) within the Appeals process. To accomplish these new requirements, MMS published a final rule in May 1999 and must continue to revise its current Appeal procedures. We requested additional resources ($500,000) in the FY 2001 budget to handle the additional responsibilities outlined above and to process appeals within the time limit.

MMS will continue to develop and publish RSFA required rulemakings and associated information collection requests including rules for Takes or Entitlements, Late and Overpayment Interest, Records Retention, Marginal Properties Relief, Prepayment of Royalties, Liability, and Assessments.

Support for Cobell Litigation

Resolving issues raised by this litigation is one of the Department's highest priorities, and MMS is an important part of this effort. The Cobell litigation is a class action suit filed by five plaintiffs who allege mismanagement of their Individual Indian Money (IIM) Accounts. The suit was filed in 1996 on behalf of all Indian allottees and predecessors in interest, estimated to be well over 300,000.

RMP's Systems Reengineering is a subproject in the Department's High Level Implementation Plan (HLIP) to strengthen its trust responsibilities. This will require regular monitoring and updating. In addition, as part of the HLIP, RMP will be reviewing its Indian trust policies and procedures to ensure they are in agreement with the Department's General Financial Trust Principles. The Department was required to develop a document search and production plan for the five named plaintiffs and the thirty-one-agreed-upon predecessors-in-interest. Accordingly, each affected bureau had to develop their own strategy to supplement the Department's overall plan. Implementing this project has had a major effect on RMP resources. The search for documents basically covers the period 1887 through August 12, 1999. RMP has search teams at the Federal Record Centers in Ft. Worth, Texas and Denver, Colorado. Additionally, each RMP Field Office will have to conduct a search of records maintained on the premises. MMS' Document Search and Production Team provides biweekly status reports to the Department Team, who in turn provide the information to the Court.

Offshore Mineral Management Program Achievements

Developing a major safety initiative for offshore oil and gas operations

The MMS has made safety one of its highest priorities during the past several years. The continued movement of industry into deeper waters and the overall increased industry activity in the Gulf of Mexico have increased both the level and complexity of monitoring and ensuring safe OCS operations. Likewise, there has been a significant rise in the number of operators on the OCS, some without the same level of experience as the more seasoned operators. To address these concerns, MMS has supplemented its existing safety regime with new measures to determine safety and performance of operators--and used this information to improve offshore activities. The major components of this initiative include: 1) annual performance reviews of all offshore operators; 2) assessment of appropriate civil penalties; 3) follow-up inspections and reviews with problem operators; 4) development of a procedure for disqualification of unacceptable operators; and 5) converting a small inspection office to a larger one (full District).

Obtaining scientific information for environmentally sound development

To support the high level of activity in the Gulf of Mexico, MMS has increased its priority in the Environmental Studies Program so that almost 50 percent of the program budget is directed to the Gulf. Within that, a major initiative since 1998 has been to increase our environmental data collection activities in deepwater areas. Over nineteen environmental and socioeconomic projects have been started, and several new multi-year, multi-million dollar deepwater studies are planned for initiation over the next three to four years.

Expanding opportunities for States, localities, and other Federal agencies to use OCS sand for beach restoration purposes

In 1999, MMS received requests for negotiated leases for OCS sand from Brevard County, Florida; the State of Maryland for the State portion of Assateague Island, Maryland; and Gulf Shores, Alabama. We have been working cooperatively with the State and local officials on these requests. We also have had excellent cooperation from the District offices of the U.S. Army Corps of Engineers as a result of the umbrella Memorandum of Agreement (MOA) signed by our Assistant Secretary and the Lieutenant General of the Army Corps in April 1999. This MOA established procedures for early coordination and spelled out each agency's responsibilities when access to Federal sand is needed for shore protection projects. The MMS also completed a report in cooperation with several states on the East Coast and other Federal agencies that synthesizes environmental issues and possible mitigation for the use of Federal sand to offset severe coastal storm damage in New Jersey, Delaware, Maryland, and Virginia.

Providing international leadership on offshore oil and gas issues

The MMS continues to work with regulators worldwide toward the common goal of environmentally safe and sound offshore oil and gas operations. In 1999, MMS continued its work under Agency for International Development funding with nations in the Caspian region--Kazakhstan, Turkmenistan, and Georgia--to provide information on how a regulatory agency is organized and its requirements for safety and environmental protection. The MMS has hosted representatives from the newly established agencies in these governments to show them how offshore oil and gas operations are monitored to assure safety and protection of the marine and coastal environment. In FY 2000, MMS, for the first time, had a line item in its budget to work with international forums in the monitoring and development of international standards that affect the oil and gas industry worldwide and in our domestic waters. We are actively engaged in assessing environmental management systems that the oil and gas industry uses worldwide to determine how they can be incorporated into our offshore management/regulatory systems.

Implementing all relevant provisions of the Deep Water Royalty Relief Act (DWRRA)

The DWRRA of 1995 provided that, under certain conditions, royalty relief would be given to: 1) new leases located in the Central, Western, and a small portion of the Eastern Gulf of Mexico; and to 2) existing leases located in these same areas. Since passage of the Act, MMS has held a total of eight lease sales in the Central and Western Gulf of Mexico, and three of those sales were record-breaking sales. In deep water, 3,173 tracts were leased and $2.8 billion was received in bonus bids for the Federal government on these tracts. Also, to date, MMS has approved four DWRRA applications on existing leases and rejected one application. One deepwater application is currently under review. By the end of 1999, there were five leases issued under the DWRRA with the automatic royalty relief provision that had started to produce.

First Alaska OCS development under review

Although leasing has occurred offshore Alaska since 1976, these Federal leases have yet to yield any sustained production. Development has suffered from the remote location, harsh operating environment, and necessity for finding significant oil reserves to justify substantial development costs. However, in 1998, BP Amoco filed a proposed Development and Production Plan for its "Liberty" prospect in the Beaufort Sea. BP Amoco estimates that the prospect contains about 120 million barrels of recoverable oil. The MMS and other responsible agencies are currently reviewing the plan. If the project receives approval, first production could occur in 2003. Successful completion would make Liberty the first stand-alone OCS development project in the Alaskan Beaufort Sea. Under section 8(g) of the OCS Lands Act, the State of Alaska would receive 27 percent of the project's revenue.

Developing cooperative efforts with States and local governments, industry and others to address various OCS-related safety and regulatory issues

By working with its constituents, MMS has been able to find program efficiencies while continuing to improve the effectiveness of its safety and environmental program. Examples include--

- A Memorandum of Understanding (MOU) with the U.S. Coast Guard concerning shared responsibilities under the Outer Continental Shelf Lands Act. The two agencies based the MOU on input from affected groups.

- An MOU in conjunction with the Special Programs Office of the Department of Transportation governing the regulation of offshore pipelines. With help from the regulated groups, the two agencies arrived at an agreement that gives pipeline owners a role in determining which agency will regulate a given pipeline.

- A series of agreements with other Federal agencies and coastal State governments to cooperatively develop Federal/State boundaries, describing data relevant to leasing as well as State regulatory and enforcement actions. Many of the agreements with coastal States will lead to fixing of the Federal/State boundary by Joint Motions filed with the United States Supreme Court. The latest effort has led to a Supplemental Decree fixing the Offshore Boundary with the State of Texas.

- An MOU with the American Petroleum Institute that created the framework for joint funding of research to monitor the environmental impacts of drilling activities in the Gulf of Mexico. The result leverages MMS's funds eight to one and provides information needed by the Federal government and industry to ensure environmentally sound activities. In addition, MMS has undertaken several projects jointly funded with industry focusing on deepwater environmental issues in the Gulf of Mexico.

- The Coastal Marine Institute program instituted by MMS through cooperative agreements with State Universities in Louisiana, Alaska, and California to reach consensus on needed environmental and socioeconomic research. In recognition of the mutual benefits derived from this program, MMS research funds are matched one to one by the States.

Developing and maintaining an exclusive geological and geophysical database for determining fair market value

The evolution of three-dimensional (3-D) seismic data and information, in conjunction with interactive computer workstations, has made it possible for MMS to more closely define and assess the potential for oil and gas occurrence on the OCS. The MMS has developed, and is currently maintaining, a database of geological and geophysical information that includes 3-D seismic information. This data and information are used to delineate, in greater detail, subsurface geologic conditions associated with the occurrence of natural gas and oil, and directly results in a better ability to accurately determine fair market value for OCS tracts being offered for lease, including tracts containing subsalt prospects. In addition, MMS has been able, using our database, to perform post-lease comparative analyses of company submitted bids for acceptance or rejection. The information is also used to quantify reserves of oil and gas on the OCS as well as assessing undiscovered amounts of oil and gas. The MMS currently maintains a database that includes 3-D seismic information on over 12,800 blocks in the Gulf of Mexico alone.

Beaufort Sea Sale 176, offshore the northern coast of Alaska

This sale is tentatively scheduled for early 2002 and will be the eighth sale in the Beaufort Sea planning area. A *Call for Information and Nominations* was published September 7, 1999 Federal Register. The Call area covered approximately 9.9 million acres, as described in the current Five-Year Program. Comments received in response to the Call and the recommendations of the Alaska Offshore Advisory Committee will be used in the decision process for selecting the area to be further studied in an environmental impact statement.

Offshore Mineral Management Program Challenges

Ensuring safe and clean operations in deep water

Pushed by new deepwater production in the Gulf of Mexico, production of oil and natural gas from the Federal OCS reached record levels in 1998 and continued to increase in 1999. Deepwater oil production increased by over 300 percent between 1994 and 1999 and is forecast to continue to increase over the next several years. Deepwater natural gas production increased by a similar percent from 1994 to 1998 and is also forecast to increase for the next several years. Oil and gas from deep water have become strong and growing components of our total domestic energy policy. While total domestic oil production (not including deep water) declined by 735,000 barrels a day between 1994 and 1998, oil production from deep water increased by 323,000 barrels a day over the same period. Deepwater production continued to increase in 1999, with 11 new projects coming on line. The importance of deepwater production has grown rapidly as production from shallow water has declined. This increased production from deepwater fields is coming at a time when new deepwater leasing has declined significantly. The reason for this can be explained by the long lead-time (up to 10 years) between leasing a deepwater tract and starting production. Along with this continued increased production will come a continued increasing workload for MMS to review new exploration and development plans, examine pipeline right-of-way applications, conduct environmental assessments, and conduct on-site inspections. Additional focus will need to be given to the industry's use of contract operators to run a production facility. To meet these challenges, the agency will continue to work proactively to find ways to effectively manage an increased workload while ensuring proper stewardship of OCS resources.

Effectively managing the 36 undeveloped leases offshore California

There are 36 undeveloped leases offshore California. During the last five years, MMS has worked cooperatively with Federal, State, local, industry, and public representatives to study the onshore infrastructure constraints of developing these leases. This study, known as COOGER, was completed in January 2000 and is now publicly available. During 2000-2001, MMS will be working on environmental evaluations of the potential effects of exploration and development activities on these leases as part of its responsibilities under the National Environmental Policy Act. The MMS will coordinate with State, local, and Federal agencies and other interested parties throughout this process.

Negotiating the "Western Gap"

The U.S./Mexico maritime boundary was ratified in October 1997. The MMS worked closely with the Department of State to explain the importance of the treaty, the necessity of timely ratification, and its impact on domestic energy activities in the Gulf of Mexico. Ratification established a permanent boundary to resolve U.S. and Mexican overlapping claims for offshore lands within 200 miles of the coastline. This recognized boundary will provide certainty to U.S. oil and gas operators pursuing exploration and development activities in areas adjacent to the boundary. Furthermore, ratification set the stage for further delimiting areas beyond 200 miles. At present, negotiations between the United States and Mexico are focused on the area known as the "Western Gap."

Supporting increasing needs by States, localities and other Federal agencies for access to OCS sand and gravel resources

With the passage of amendments to section 8(k) of the OCS Lands Act (P.L. 103-426), OCS sand has become easier to obtain for beach nourishment, shoreline protection, and wetlands enhancement projects that benefit the public. In addition, during the past several years, States, localities and others have seen their needs for OCS sand increase due to adverse weather and diminishing suitable sources located either onshore or in coastal waters. The MMS expects requests for Federal sand for beach restoration and hurricane protection to significantly increase in the future from current levels. In anticipation, the agency's current and future activities are laying the groundwork for effective regional management of OCS sand resources.

Through its Marine Minerals Program, MMS will continue to work cooperatively with interested States, focusing its efforts on integrating geologic and environmental information to identify sand deposits in Federal waters suitable for beach nourishment. Past and ongoing partnerships with States along the East Coast and Gulf of Mexico are designed to collect and analyze in an organized and cost-effective fashion the information needed to make decisions on beach restoration projects. This proactive approach will help ensure that when OCS sand resources are most needed, the necessary groundwork will have already been accomplished, thereby expediting the overall beach restoration process.

Regulating a domestic oil and gas industry that is becoming increasingly global in scope

During the past several years, numerous foreign nations have stepped up their efforts to offer their mineral resources for exploration and development, particularly their offshore oil and natural gas resources. While those decisions have positive aspects, the Administration also has recognized that there is a growing need to ensure that those offshore operations are conducted in an effective and environmentally safe manner since the mineral leasing or development policies of other countries can have a profound impact on the U. S. For that reason, MMS is helping to develop a comprehensive set of internationally recognized technical standards through active involvement with technical and trade associations in the U.S. and international standards setting organizations. Key to this effort is MMS's continued participation in the work of the International Standards Organization (ISO) TC67. International standards developed by ISO TC67 may have significant impacts upon our domestic oil and gas program. The agency participates in information-sharing fora to disseminate information on the best practices utilized by the domestic oil and gas industry as well as to learn about best practices from other offshore regulators around the globe.

In addition to maintaining U.S. leadership in developing international standards, as offshore petroleum operations are expanding around the globe, MMS is increasingly being called on to participate in international projects that further U.S. foreign policy goals. The agency is developing relationships with other regulatory bodies around the world and assisting when asked to develop in-country expertise in nations with both emerging or developed oil and gas programs.

Maintaining a viable OCS program that is consistent with the President's decision to administratively withdraw certain areas of the OCS

As MMS develops its next 5-Year Program (which covers the timeframe of July 2002-June 2007), it must factor into the decision-making process the President's leasing restrictions as well as dialogues with coastal States and other constituencies in areas where offshore oil and gas activity is currently not underway. One of the agency's core responsibilities in managing OCS leasing and development is to ensure that our leasing decisions fully consider the possible risks to coastal communities and environments of offshore development and that our regulatory efforts ensure the highest degree of safety and protection possible in day-to-day operations. A major part of the debate surrounding moratoria is how people perceive the risks of offshore oil and gas activity to their coastal environment. The MMS will continue to work on finding ways to identify the important issues, attempt to address them, and find a forum or fora where all parties can engage in a constructive discussion.

Computer security

The MMS will increase its computer security effectiveness in FY 2001. The OMM has recently undergone an OIG Audit of the Technical Information Management System (TIMS) system. A number of security issues have been identified that will need to be addressed. In addition, the Bureau must tighten its internet system to reduce the vulnerability to potential intrusions and other security breaches. The MMS will give greater attention to security issues to protect the data we collect from industry and to maintain the integrity of that data and systems.

Bureauwide Challenges

Government Performance and Results Act (GPRA)

With respect to GPRA implementation, MMS has woven strategic planning and accountability for results into its culture. The MMS has developed, through a team approach, a mission, goals, and performance indicators that are being used to measure the performance of the bureau's critical systems. As part of this process, the organization has examined political, legislative, judicial, administrative, environmental, and economic factors while developing its strategic plan and has focused on programmatic outcomes.

To date, MMS has made great strides with the development of its first strategic and annual performance plans and the development of a methodology to gather and report performance information as required by GPRA. The bureau views implementation of this Act as one of the cornerstones of its management efforts. As more experience and knowledge are gained, MMS will continue to refine its strategic thinking, will reevaluate its goals and measures, and will improve its capacity to gather, analyze and make performance information available to its managers as well as its customers and stakeholders.

Continuing efforts in 2000 and beyond will focus on:

- Verification, validation, and reporting of performance information in a way that is useful;
- Refining and revising strategic plans to respond to a changing world;
- Creating stronger linkages between performance and the budget; and
- Creating more accountability for program performance.

The Budget Request

The MMS budget request is $247.656 million, an increase of $7.338 million or slightly less then 3 percent above the 2000 enacted level of $240.3 million. The $7.338 million increase includes $6.620 million for uncontrollable cost changes (mostly pay raises), $1.318 million for programmatic increases, and a programmatic decrease of $0.6 million. Programmatic increases/decreases include:

- +$0.5 million to respond to the drastically shortened time period for deciding appeals as required by the Royalty Simplification and Fairness Act which will pay for personnel and related cost in connection with hiring five additional FTE;
- +$0.818 million for upgrading MMS's Geographical Interpretive Tool (GIT) computer capability to ensure that the public continues to receive fair market value for OCS oil and gas resources.
- -$0.6 million to discontinue funding for the Marine Minerals Research Center at the University of Mississippi.

In addition, this proposed funding level will allow MMS to complete funding of its highest priority initiative, the reengineering of the Royalty Management Program.

FY 2001 Proposed Operating Appropriations/Offsetting Collections	*dollars in thousands*
Royalty and Offshore Minerals Management	$124,128*
Offsetting Collections	$117,410*
Oil Spill Research	$6,118
Total	**$247,656**

* Assumes approval of legislative proposals to collect $10 million in new user fees.

MMS receives funding for operations from three sources: the Royalty and Offshore Minerals Management (ROMM) appropriation, Oil Spill Research (OSR) appropriation, and offsetting collections (primarily from rental receipts from offshore leases). The largest portion (97.5 percent) of the MMS operating budget is the Royalty and Offshore Minerals Management (ROMM) appropriation. This account is comprised of both direct appropriations and offsetting collections. Direct appropriations from ROMM have declined from FY 1993 until 2000, at the same time MMS's reliance on offsetting collections grew significantly (from $0 in FY 1993 to $124 million, in FY 2000). Initially, these offsetting collections were only used in the OCS Lands Program, however, with progressively more of MMS's budget being received from offsetting collections, authority for use of these receipts is now bureau-wide.

What made it possible to switch MMS funding away from appropriations to offsetting collections was the dramatic increase in leasing activity in the Gulf of Mexico (GOM) from 1996 through 1998. This increased activity was made possible by new technologies and newly enacted legislation (OCS Deep Water Royalty Relief Act) that encouraged deepwater exploration.

Because of the decline in new leasing activity in 1999 MMS is requesting the cap on currently authorized offsetting collections be lowered to $107.41 million in FY 2001 with an additional $10 million to be provided in new user fees. MMS has drafted proposed legislation to provide a flexible source of funds that would neither impose a significant burden on industry nor have a noticeable effect on overall revenues from OCS activities. While leasing activity has declined MMS's workload will remain very active: reviewing new exploration and development plans, examining pipeline right-of-way applications, conducting environmental assessments, and conducting on-site inspections as tracts leased in previous years go into the development and production stage.

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 2001 Proposed Permanent Appropriations ***(dollars in thousands)***	
Mineral Leasing Associated Payments (MLAP)	583,233
National Forest Fund Payments to States *(Forest Fund)*	3,347
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	783
Total	**$587,363**

Conclusion

Madam Chairman, that concludes my written testimony. At this time I would be happy to answer any questions you or other Members of the Subcommittee may have regarding any aspect of our budget request for FY 2001.

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