

Minerals Management Service



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Systems Recovery

Financial Management Systems Recovery

- MRM Financial and Compliance/Data Warehouse Systems and all MMS Internet connections inoperative since 12/6/01
- Widespread impacts to constituents: States, Indian Tribes and allottees, as well as across MMS particularly with MRM operations
- Special Master approved restoral of MRM Financial and Compliance/Data Warehouse Systems operation -- 3/20/02
Accomplished 3/22 -- First Indian distribution to BIA 3/25
- Special Master approved reconnection of MMS to Internet -- 3/21/02
Accomplished 3/27

The Recovery -- Areas of MRM Focus

- Estimate minimum one year for recovery and systems stabilization
- Areas of Priority Focus include:
 - Receiving and processing 4 months of past period reports and also current reports/payments
 - Manage systems processing constraints and data base storage issues
 - Redirect resources to support recovery

The Recovery -- Areas of MRM Focus

(Continued)



- Accomplish distribution and disbursement of funds
 - Indian receipts on weekly distribution cycle linked to BIA/OTFM disbursement cycle
 - Federal receipts on a monthly cycle
 - Continue estimated payments to States through May 2002
- Reconcile estimated payments to States -- determine late disbursement interest liability
- Complete Financial Systems software development for exception processing billing and production reporting
- Complete Compliance/Data Warehouse development

The Recovery -- Areas of MRM Focus

(Continued)



- Realign and continuously adjust compliance strategy as recovery proceeds
- Work closely with industry, States, Tribes, BIA, OTFM, BLM, OMM and other constituents
- Conduct aggressive outreach and communications on recovery strategy and status

Estimated Payments to States



- During the systems shutdown, MRM was able to lessen the impact to our State constituents by making estimated payments in December 2001, and January - March, 2002
- Estimated payments were based on the average actual state/fund code distributions for the preceding three months, multiplied by a percentage derived at by analyzing receipt trends

Estimated Payments to States *(continued)*

- December, 2001 - estimated payments to 16 States totaling \$59.3 million
- January 2002 - estimated payments to 12 States totaling \$27.7 million
- February 2002 - estimated payments to 13 States totaling \$44.9 million excluding an extra distribution to Wyoming for coal lease deferred bonus payments
- March 2002 - estimated payments to 22 States totaling \$38.4 million excluding an extra distribution to New Mexico for a settlement and deferred bonus payments



Royalty in Kind Briefing

Reengineering and RIK

- Royalty in value (RIV) and royalty in kind (RIK) identified in Reengineering Initiative as MMS's future asset management strategy options
- Reengineering Initiative focused primarily on development of the RIV option but provides the basic process and systems infrastructure and property focus needed to support RIK and RIV
- MRM is now integrating the RIK option into MMS's asset management strategies through implementation of the RIK Road Map

RIK Road Map -- A Strategic Plan



- Issued by MMS Director in January 2001
- Presents a 3-year strategic plan for advancing RIK concepts and processes
 - Further refine the RIK business processes and organizational framework and expand use
 - Identify and acquire the technology and tools to effectively manage an RIK portfolio

RIK Road Map -- A Strategic Plan

- RIK Business Model, Operational Processes and Organizational Structure based on:
 - Oil and gas industry consultants
 - Best practices of recognized industry leaders
 - Findings in pilot operations
 - Recommendations of industry business partners
- Moving from Pilots to Operations
 - Development of supporting technology to integrate RIK into asset management strategy
 - Continuous evaluation of business results

RIK Road Map -- A Strategic Plan

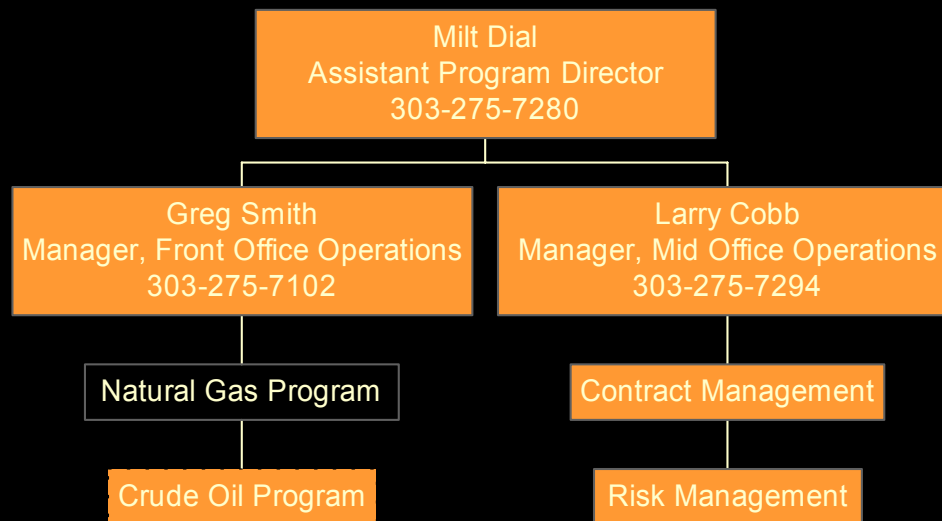


- Road Map focus for evolution of RIK Program is the Gulf of Mexico
- For Federal onshore leases, RIK expansion to be pursued only with the support and participation of the affected States
- For Indian leases, MMS to work with Tribes when they express an interest in the RIK approach

Road Map Timeline

- 2001-2002
 - Development of Process and Organization
 - Prepare for Systems Development
 - Define Information Requirements
- 2002-2003
 - Systems Development
 - Complete Integration of RIK into Reengineered MRM
- Ongoing
 - Industry Partnership and Communications

RIK Organization



Current RIK Sales Programs

- Wyoming Oil - 4,000 barrels/day -- includes State land royalty oil
- Gulf of Mexico OCS Oil -- 110,000 barrels/day
 - Small Refiner Program -- 50,000 barrels/day
 - Strategic Petroleum Reserve -- 60,000 barrels/day effective 4/1/02
- Pacific OCS Oil -- 10,000 barrels/day -- Small Refiner Program
- Gulf of Mexico OCS Gas -- Up to 400 million cubic feet/day under competitive gas sales

RIK Program Status of Pilots



Wyoming Oil RIK Pilot Draft Report Findings

- Final report is due the end of April, 2002
- Selective use of RIK can be revenue neutral
- Lessees can benefit from a reduced administrative burden
- Greater certainty for both lessees and the government
- RIK does not work across the board

RIK Program Status of Pilots

Federal 8(g) Gas RIK Pilot, Offshore Texas

- MMS is nearing completion of its evaluation of this pilot
- Draft report will be published in the Federal Register for comment in the Spring of 2002
- Preliminary assessment results indicate that for sales of RIK gas at robust market centers, under standard contract terms, MMS will get the same price as anyone else who sells that way

RIK Oil Transfer Program to Fill the Strategic Petroleum Reserve

- On November 13, 2001, President Bush announced an initiative which directed DOI and DOE to undertake a joint effort to fill the Strategic Petroleum Reserve
- This is the second time that DOI has transferred oil to the SPR (in 1999 and 2000, MMS transferred 28 million barrels to the DOE)
- Gulf of Mexico Outer Continental Shelf royalty oil to be used to accomplish fill of Strategic Petroleum Reserve
- Approximately 120 million OCS royalty barrels to be delivered by DOI to DOE for SPR fill
- Transfer of OCS royalty oil to be completed in about 3 years

RIK Oil Transfer Program to Fill the Strategic Petroleum Reserve



- DOI/DOE Memorandum of Understanding to govern roles, responsibilities and project schedule
 - DOI to manage supply side logistics to market centers
 - DOE to manage oil supply/exchanges beyond market centers

SPR Transfer Schedule

11/01 - 3/02

Project mobilization, complete DOI/DOE MOU, identify properties, establish aggregation/exchanges and notify operators to deliver royalty oil

4/02 - 1/05

Commence deliveries of royalty oil at initial rate of 60,000 barrels/day with staged increases in delivery rate thereafter until SPR fill complete

1/05-7/05

Final reconciliations and contract closeouts

Status of SPR Fill Initiative

- DOI/DOE Memorandum of Understanding in place
- Extensive involvement of DOI, DOE and industry staff to structure approaches for contracting, physical deliveries, and administration of imbalance reconciliations, etc.
- MMS completed contract awards for onshore market center deliveries beginning 4/1/02
- DOE completed contract award for delivery of exchange volumes to SPR beginning 4/1/02