



MMS and New Mexico

*U.S. Department of the Interior ~ Minerals Management Service
Summer 2003*

MISSION: The Minerals Management Service manages the minerals resources on the Outer Continental Shelf and Federal and Indian minerals revenues to enhance public and trust benefits, promote responsible use, and realize fair value.

Of the \$690,659,798 collected from Federal onshore leases for FY 2002, MMS distributed \$191.7 million to the State of New Mexico.

We also collected \$38,596,687 from American Indian leases located within the State of New Mexico and disbursed that amount to the Bureau of Indian Affairs to be distributed to the applicable Indian owners. (Major Indian Tribes receiving mineral revenues for properties within the State include: Navajo, Ute Mountain Ute, and Jicarilla Apache Tribes.)

From 1968 through FY 2002 the following monies have been distributed to the State of New Mexico from Federal Outer Continental Shelf (OCS) funds approximately:

- **\$36.9 million for Land and Water Conservation Fund State Grants**
- **\$204.9 million for Land and Water Conservation Fund Federal Acquisitions**
- **\$12.9 million for Historic Preservation Fund Grants**

MMS programs provide major economic and energy benefits to the Nation, taxpayers, States, and the Indian community. For example ---

The State of New Mexico has 7,518,291 acres of Federal and American Indian lands which include 4,104,154 acres with 6,552 producing leases. The remaining 3,414,137 acres represent 6,101 non-producing leases.

The State of New Mexico derives production royalties from carbon dioxide, coal, gas, gas plant products, heated water sources, langbeinite, oil, oil lost, potash, sodium and sulfur.

The Minerals Management Service collects royalties, rents, bonuses and other forms of revenue from Federal and Indian leases in New Mexico and disburses approximately 50 percent of those revenues to the State.

I. Ongoing MMS Relationships with the State of New Mexico

Cooperative Efforts with the State

The State of New Mexico's Taxation and Revenue Department has a cooperative audit agreement with MMS under Section 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) to audit Federal oil and gas leases located in the State of New Mexico. As provided for in the 1992 Appropriations bill, that agreement also allows New Mexico to audit Federal solid mineral leases within the State.

Funding for the 205 agreement with New Mexico in FY 2003 is \$1,029,031 covering 16 auditors and support staff.

The only delegated function that New Mexico has assumed under the Royalty Simplification and Fairness Act of 1996 (RSFA) is audit.

A representative from the State of New Mexico recently served as a member of the Marginal Properties Subcommittee of the Royalty Policy Committee (RPC). The Subcommittee was tasked with making recommendations to the RPC on the provisions of RSFA that provide accounting and auditing relief for marginal properties and allow the prepayment of royalties on marginal properties.

II. Major Issues of Interest to the State of New Mexico

Federal Indian Minerals Office: The Federal Indian Minerals Office (FIMO) in Farmington, New Mexico provides fiduciary and "one stop" service for Navajo individual mineral owners pertaining to oil and gas in the Four Corners Region. The FIMO operation consolidates and integrates multi-bureau functions under one line of authority.

The FIMO was established in 1992 to coordinate the mineral activities of the BIA, BLM, and MMS and offer one-stop shopping for Indian mineral owners. In 1996 the Department of the Interior recommended consolidating the three bureau functions and employees under one manager, which the Indian Minerals Steering Committee (IMSC) endorsed. The FIMO: 1) provides outreach and customer service to Navajo individual mineral owners and companies who operate the Indian leases; 2) inspects allotted oil and gas leased lands and enforces regulations pertaining to operational, surface, and environmental issues; 3) manages lease issues including assignments, bonding, bonuses, and rentals; 4) reviews volumes used to compute royalties and ensures that values and methods used to compute royalties are in accordance with applicable Federal laws, regulations, and lease terms; and 5) reviews Office of Trust Fund Management's (OTFM) Individual Indian Monies (IIM) accounts and forwards any changes to OTFM for input.

The FIMO was made a permanent office on September 28, 2001. The Department is assessing

the feasibility of expanding the program to other geographic areas having a significant population of Indian mineral leases and lessees.

Federal Oil Valuation Regulation: MMS published the final version of the new rule in the Federal Register on March 15, 2000. It took effect June 1, 2000. However, in March 2003, MMS held a series of public workshops to discuss issues regarding the existing regulations for valuing crude oil produced from Federal leases. The Federal oil valuation rule is working well and accomplishes its objective of ensuring a fair return on Federal properties. However, MMS continually evaluates the effectiveness and efficiency of its regulations. MMS's experience with the 2000 Federal oil valuation rule, 5 years of experience with taking royalties in kind, and information learned during litigation of valuation rules has led MMS to identify specific technical issues that warrant additional discussion. These issues focus on which published market prices are most appropriate for valuing oil and what transportation deductions should be allowed. MMS is currently reviewing all public comments received.

Indian Oil Valuation Regulation: In 1997, MMS initiated a rulemaking for valuing oil produced from Indian leases reflecting MMS' ongoing trust responsibilities with the Indian tribes. The purpose of the proposed rulemaking was to ensure that Indian lessors receive maximum revenues from crude oil production off Indian lands as well as receive timely royalty payments at the time royalties are due.

MMS published the initial proposed rule on February 12, 1998, with a supplementary proposed rule issued on January 5, 2000. The supplementary proposed rule modified the comparative value to the average of the daily high spot prices for deliveries in the production month. The rule was drafted and was under Departmental review and postponed. On February 12, 2003, MMS reopened the comment period on the proposed rule for valuing crude oil produced from Indian lands at the same time it announced workshops on the Federal Oil Valuation Rule to discuss technical revisions. The comment period closed on April 12, 2003, and the Department is currently reviewing public comments.

MMS Biannual Joan Killgore Award Honoring Tribal Members Working With MMS: In 2002, the Minerals Management Service presented its first annual Joan Killgore Award which recognizes individuals from Indian tribes who have made a significant contribution toward both improvement of a tribe's ability to manage its own minerals revenue program, as well as self-governance. MMS will present this award every two years to outstanding individuals who make an outstanding contribution to the tribes.

The MMS Joan Killgore Award is named for a highly-motivated and dedicated MMS employee, who long served as the agency's principal point of contact for Indian royalty management issues.

Natural Gas Regulation: On April 10, 2003, MMS announced it will be holding four workshops to discuss issues regarding the existing regulations for valuing natural gas produced from Federal leases. The purpose of the Federal natural gas valuation rule is to ensure that the public receives a fair return on federal resources. MMS continues to evaluate the effectiveness and efficiency of its regulations. While the Federal gas valuation rule generally is accomplishing its objective, that rule is now 15 years old. With the changes having taken place in the natural gas market over the past 15 years, past experience with the 2000 Indian gas valuation rule, and 5

years of experience with taking royalties in kind, MMS has identified possible changes to the existing rule.

Indian Gas Valuation Regulation: On August 10, 1999, MMS published a final Indian Gas Valuation Rule which became effective January 1, 2000. The new gas rule made several significant changes to valuation methods. This rule made valuation of Indian gas more efficient for companies and MMS and at the same time fulfilled MMS' trust responsibility to the Indian community.

MRM contributes to the Department's ability to provide accurate and timely information and revenues to Trust beneficiaries. Enforcement of the Indian gas rule and completion of major portion and index valuation compliance work for the year 2000 resulted in the collection of more than \$1.4 million.

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