



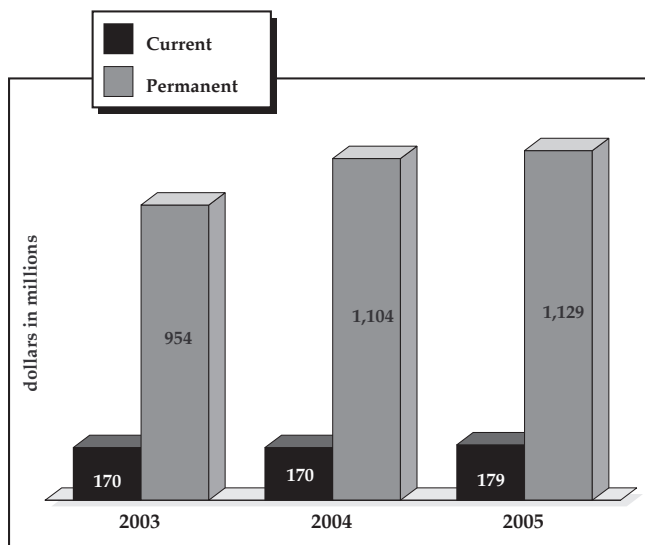
MINERALS MANAGEMENT SERVICE

Mission – The Minerals Management Service was formed by Secretarial Order in 1982 to facilitate the Nation’s mineral revenue collection efforts and the management of its Outer Continental Shelf offshore lands. The MMS has two major responsibilities: management of energy and mineral resources on the Nation’s OCS in an environmentally sound and safe manner; and timely and accurate collection, distribution, accounting for, and auditing of revenues owed by holders of mineral leases on Federal onshore and offshore and Indian lands.

Program Overview – The MMS programs are vitally important, contributing significantly to the Nation’s economic well-being and energy security. Energy production from the OCS helps to limit dependence on imported energy. The natural gas produced from the OCS will continue to play a key role in providing the Nation a reliable clean-burning energy source. In 2005, the MMS programs will collect \$7.1 billion in revenues from minerals produced from offshore and onshore Federal and Indian lands. This income contributes to the funding of other Federal programs. In addition to Federal and tribal interests, MMS also supports States and local governments through revenue sharing and by providing OCS sand and gravel for beach nourishment projects. Since 1994, increasing OCS rental revenues have permitted MMS to use receipts to cover over \$776 million in previously appropriated activities, releasing the equivalent amount of limited discretionary budget authority to address other Federal high-priority programs. The 2005 budget request will add another \$103.7 million to that total.

To ensure OCS development is carried out in an environmentally responsible manner, MMS inspects all offshore facilities, reviews plans of exploration and development, analyzes statements of financial responsibility, and funds scientific and engineering research related to OCS mineral development. The MMS also utilizes a broad range of financial services, and pursues 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 to ensure proper revenues are collected and disbursed.

MMS Funding



Management Excellence – The MMS continues to follow the President’s management agenda for improving management and performance of the Federal government, practicing the Secretary’s vision for citizen-centered management excellence. The budget proposal supports the Department’s new strategic plan, specifically in relation to the goals of managing energy resources to enhance public benefit, promoting responsible use of the Nation’s resources, protecting lives and the environment in offshore operations, and ensuring that taxpayers receive optimal value for the development of those resources.

In 2003 MMS began implementing activity-based cost management. For 2005, MMS will continue to refine the ABC/M reporting capabilities to assure that managers will be able to receive effective and informative data from the system. As part of 2005 budget formulation, a Program Assessment Rating Tool evaluation was conducted on the MMS Minerals Revenue Management program. The assessment found that the program has a clear purpose. Based upon the evaluation, MMS and MRM are designing a new performance architecture that will be based upon organizational processes and their contributions

linking the Department strategic plan to the MMS budget structure. The MMS has also implemented the Inspector General's recommendation to conduct an external quality control peer review on MRM audit activities. The MMS is awaiting the final external report.

Budget Overview – The 2005 budget request for MMS is \$282.4 million in current appropriations and offsetting receipts. Three permanent appropriations totaling \$1.1 billion will provide States with their statutory shares of mineral leasing revenues generated on Federal lands.

Offsetting receipts are estimated to be \$103.7 million, an increase of \$3.5 million over 2004. The request for direct appropriations is \$178.7 million, which is an increase of \$8.4 million over the 2004 enacted budget. This increase will enable MMS to continue development of the e-government initiative in the Offshore Minerals Management program; perform gas hydrates studies; update Gulf of Mexico resource evaluation technologies to keep pace with the private sector; and allow MMS to continue improvements in areas of Indian trust. Within the additional funding is \$3.7 million for uncontrollable costs.

OCS Program – The goal of the OCS program is to provide for safe and environmentally sound energy and mineral development on the OCS and to ensure that the public receives fair market value for these resources. The MMS OCS activities contribute to the Nation's economic well-being and energy security. To carry out this goal, MMS's activities include review of new exploration and development plans, examination of pipeline right-of-way applications, environmental assessments, and safety inspections of mineral extraction operations on-site. The 2005 budget requests \$146.1 million for OCS program activities, a net increase of \$6.8 million above the 2004 enacted budget.

The 2005 budget request includes an increase of \$1.9 million to support of Gulf of Mexico technologies. In order to ensure that MMS is receiving optimal value on lease permits, it must keep pace with the private sector, which has embraced and developed new technologies to meet the increasing challenge of competition in exploring for petroleum resources. Geological interpretive tools allow MMS to maintain technological parity with industry to ensure accurate evaluations. The improved quality of interpretation allows for better evaluations and estimates through reducing uncertainties, thus optimizing value achieved through leasing activities. The GIT proposal includes a 3-D visualization room, which will allow a more accurate interpretation of seismic data. The request also includes additional GIT training, workstation-ready well logs, and seismic data management. These technologies are routinely used by the private sector in making fair market value determinations.

The demand for natural gas is expected to increase significantly in response to conversion of electric power plants from coal to cleaner burning natural gas, and other industrial and domestic needs. Domestic production from conventional sources cannot keep pace with the increase in demand. An alternate domestic source of natural gas to meet the projected demand may be methane hydrates. The Methane Hydrate Research and Development Act of 2000 directs MMS to commence basic and applied research to identify, explore, assess, and develop methane hydrates. The MMS is the only agency with specific responsibility for the environmentally responsible extraction of gas hydrates. The 2005 budget proposes a \$600,000 methane hydrates increase to build upon the program begun in 2004. In 2005, MMS will spend \$200,000 to begin a tract-specific hydrate assessment to determine fair market value once production is practical. In addition, MMS will dedicate \$400,000 to complete phase one of a two-year study to examine the potential environmental impacts of the recovery of this energy source, a necessity before the recovery of gas hydrates becomes economically viable. This gas hydrates initiative supports the National Energy Policy, which focuses on increasing and diversifying the Nation's sources of traditional and alternative fuels.

As a result of its expanding workload in offshore mineral development, MMS is faced with an exponential increase in the volume of data it handles and the need for optimal data integrity and management. The needs of the organization have outpaced the business practices under current technology. In 2003, MMS began the first phase of a multi-year plan to develop an e-government transformation initiative, an innovative web-based management information system. In 2005, MMS requests an increase of \$4.3 million to launch the third phase of OCS Connect, which includes expanding the development of electronic document and records management systems capabilities. Increased resources will allow more of the private sector's required processes to be completed online with a lesser burden of information collection, and will allow MMS to analyze and act on industry requests more quickly. The long-term result is that offshore oil and gas resources will be available more quickly. Total 2005 funding for the project is \$16.0 million.

Minerals Revenue Management – In 2005, the total MRM program is funded at \$81.9 million, an increase of \$2.2 million from the 2004 enacted budget. The goal of the MRM program is to ensure that revenue from Federal and Indian mineral leases are effectively, efficiently, and accurately collected, accounted for, and disbursed to recipients. These revenues, which have historically averaged over \$6 billion per year, are distributed and disbursed to 38 states, 41 Indian Tribes, some 20,000 Indian mineral royalty owners, and to U.S. Treasury accounts.

The 2005 request includes a \$941,000 Indian trust initiative. One component of this initiative is to fully fund tribal cooperative audit partners. The additional funds would partially cover the cost-of-living increases for the eight Indian Tribes currently in the program, and start-up costs of a new cooperative agreement with the Chippewa Cree Tribe in 2005. The second component of the Indian trust initiative is expanding outreach to Tribes and individual Indian mineral owners. The outreach will allow MMS to continue its objective of providing the highest possible Indian trust service in its role in collecting and disbursing royalties from Indian lands. The final component of the initiative is a proposal to safeguard Indian records by creating the capability in MMS systems to separate Indian and Federal records.

Section 205 of the Federal Oil and Gas Royalty Management Act of 1982 authorizes the Secretary of the Interior to delegate audit, inspection, and investigations to any State. In 2005, MMS is requesting \$305,000 to partially cover cost-of-living increases for the ten States currently in the program and for a newly delegated agreement with the State of Alaska.

Oil Spill Research Program – This program supports oil pollution research and other duties related to oil spill prevention, as authorized by the Oil Spill Pollution Act of 1990. The MMS requests total funding of \$7.1 million in 2005, an increase of \$88,000 over 2004. The additional funding will allow MMS to continue a four-year phased

replacement of equipment and increased operational costs at the National Oil Spill Response Test Facility. The only one of its type in the world, the facility is a critical tool in the development of oil spill response technology by providing full-scale equipment and methodology testing in a safe, controlled environment.

Other Program Changes – The 2005 MMS budget request includes a decrease of \$14,000 for anticipated savings related to improved vehicle fleet management, and a \$776,000 increase to fully fund financial statement audit costs previously funded in part by the OIG. The request also includes increases of \$256,000 to support implementation of the Administration's high-payoff e-Government initiatives to integrate agency operations and information technology investments. These initiatives eliminate redundant systems and significantly improve the government's quality of customer service for citizens and businesses. The 2005 budget also includes a reduction of \$318,000 for IT security and accreditation. The budget includes an increase of \$602,000 for implementing the Department-wide Enterprise Services Network, a modern, integrated network backbone that will provide the infrastructure to integrate enterprise processes and technologies Department-wide. The MMS budget includes \$180,000 for competitive sourcing studies.

Uncontrollable Costs - Uncontrollable cost increases total \$4.6 million of which \$3.7 million are budgeted and \$832,000 are absorbed.

SUMMARY OF BUREAU APPROPRIATIONS
(all dollar amounts in thousands)

Comparison of 2005 Request with 2004 Enacted:

	2004 Enacted		2005 Request		Change from 2004	
	FTE	Amount	FTE	Amount	FTE	Amount
Appropriations						
Royalty and Offshore Minerals Management*	1,551	163,279	1,582	171,575	+31	+8,296
Oil Spill Research	22	7,017	22	7,105	0	+88
Subtotal, Direct Appropriations.....	1,573	170,296	1,604	178,680	+31	+8,384
Offsetting Collections	138	100,230	138	103,730	0	+3,500
Subtotal, Appropriations.....	1,711	270,526	1,742	282,410	+31	+11,884
Permanents and Trusts						
Mineral Leasing and Associated Payments	0	1,098,906	0	1,123,715	0	+24,809
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes.....	0	1,472	0	1,505	0	+33
Nat'l. Forests Funds, Payments to States.....	0	3,440	0	3,442	0	+2
Subtotal, Permanents and Trusts	0	1,103,818	0	1,128,662	0	+24,844
TOTAL, MINERALS MANAGEMENT SERVICE ..	1,711	1,374,344	1,742	1,411,072	+31	+36,728

* FTE totals include numbers for both appropriations and the Interior Franchise Fund.

HIGHLIGHTS OF BUDGET CHANGES
By Appropriation Activity/Subactivity

APPROPRIATION: Royalty and Offshore Minerals Management

	2003 Actual	2004 Enacted	2005 Request	Change from 2004 Enacted
Outer Continental Shelf Lands				
Leasing & Environmental Program				
Appropriation.....	17,186	16,701	17,127	+426
Offsetting Collections	20,335	20,335	20,335	0
Total, Leasing & Environ Prog	37,521	37,036	37,462	+426
Resource Evaluation Program				
Appropriation.....	17,928	18,178	19,154	+976
Offsetting Collections	8,903	8,903	8,903	0
Total, Resource Evaluation Prog.	26,831	27,081	28,057	+976
Regulatory Program				
Appropriation.....	36,330	35,022	35,995	+973
Offsetting Collections	14,443	14,443	14,443	0
Total, Regulatory Program.....	50,773	49,465	50,438	+973
Information Management Program				
Appropriation.....	8,942	11,657	12,598	+941
Offsetting Collections	14,049	14,049	17,549	+3,500
Total, Info Mgmt Program	22,991	25,706	30,147	+4,441
OCS Appropriation.....	80,386	81,558	84,874	+3,316
OCS Offsetting Collections	57,730	57,730	61,230	+3,500
Subtotal, OCS Lands.....	138,116	139,288	146,104	+6,816

	2003 Actual	2004 Enacted	2005 Request	Change from 2004 Enacted
Minerals Revenue Management				
Compliance & Asset Management				
Appropriation.....	35,258	32,622	34,514	+1,892
Offsetting Collections	13,235	13,235	13,235	0
Total, Valuation & Operations.....	48,493	45,857	47,749	+1,892
Revenue & Operations				
Appropriation.....	21,157	20,610	20,892	+282
Offsetting Collections	13,250	13,250	13,250	0
Total, Compliance	34,407	33,860	34,142	+282
Indian Allottee Refunds				
Appropriation.....	0	0	0	0
Offsetting Collections	15	15	15	0
Total, Indian Allottee Refunds	15	15	15	0
RM Appropriation	56,415	53,232	55,406	+2,174
RM Offsetting Collections.....	26,500	26,500	26,500	0
Subtotal, Royalty Management.....	82,915	79,732	81,906	+2,174
General Administration				
Executive Direction				
Appropriation.....	1,023	1,049	1,072	+23
Offsetting Collections	1,000	1,000	1,000	0
Total, Executive Direction	2,023	2,049	2,072	+23
Policy & Management Improvement				
Appropriation.....	3,075	3,111	3,176	+65
Offsetting Collections	1,000	1,000	1,000	0
Total, Policy & Mgmt Improve.....	4,075	4,111	4,176	+65
Administrative Operations				
Appropriation.....	14,985	15,084	15,626	+542
Offsetting Collections	1,555	1,555	1,555	0
Total, Admin Operations.....	16,540	16,639	17,181	+542
General Support Services				
Appropriation.....	8,362	9,245	11,421	+2,176
Offsetting Collections	12,445	12,445	12,445	0
Total, General Support Services	20,807	21,690	23,866	+2,176
GA Appropriation.....	27,445	28,489	31,295	+2,806
GA Offsetting Collections	16,000	16,000	16,000	0
Subtotal, General Administration.....	43,445	44,489	47,295	+2,806
TOTAL APPROPRIATION	264,476	263,509	275,305	+11,796
Total Appropriation	164,246	163,279	171,575	+8,296
Total Offsetting Collections	100,230	100,230	103,730	+3,500

Highlights of Budget Changes

	<u>Amount</u>
Uncontrollable Costs	[+4,575]
Outer Continental Shelf Lands	
Leasing & Environmental	+426
Uncontrollable costs total \$552 of which \$426 are budgeted and \$126 are absorbed.	
Resource Evaluation	+976
An increase of +\$1,943 is proposed for Gulf of Mexico Interpretive Technologies and +\$200 is requested for methane hydrates. A redirection of \$400 is proposed from within the Environmental Studies program to pursue methane hydrates research. Decreases of -\$790 are proposed for Center for Marine Resources and Environmental Technology, and -\$790 for Marine Minerals Technology Center. Uncontrollable costs total \$535 of which \$413 are budgeted and \$122 are absorbed.	
Regulatory	+973
An increase of +\$494 is proposed for offshore inspections. Uncontrollable costs total \$621 of which \$479 are budgeted and \$142 are absorbed.	
Information Management	+4,441
An increase of \$4,321 is proposed for the multi-year e-government initiative. Uncontrollable costs total \$156 of which \$120 are budgeted and \$36 are absorbed.	
Minerals Revenue Management	
Compliance and Asset Management	+1,892
An increase of +\$245 is proposed for the Tribal 202 Cooperative Audit program, +\$196 for expanded outreach to Tribes and individual Indians, +500 for safeguarding Indian records, and +\$305 is requested for the State 205 Cooperative Audit program. Uncontrollable costs total \$836 of which \$646 are budgeted and \$190 are absorbed.	
Revenue & Operations	+282
Uncontrollable costs total \$365 of which \$282 are budgeted and \$83 are absorbed.	
General Administration	
Executive Direction	+23
Uncontrollable costs total \$30 of which \$23 are budgeted and \$7 are absorbed.	
Policy & Management Improvement	+65
Uncontrollable costs total \$85 of which \$65 are budgeted and \$20 are absorbed.	
Administrative Operations	+542
An increase of +\$180 will support competitive sourcing studies. Uncontrollable costs total \$468 of which \$362 are budgeted and \$106 are absorbed.	
General Support Services	+2,176
An increase of +\$776 is proposed for Audit, +\$602 for the Enterprise Services Network, and +\$256 for Quicksilver e-gov projects. A Decrease of -\$318 is proposed for IT Security, -\$43 for Department Working Capital Fund technical changes, -\$14 for fleet reduction, and -\$10 for GSS base. Uncontrollable costs total \$927, all of which are budgeted.	

APPROPRIATION: Oil Spill Research

	<u>2003 Actual</u>	<u>2004 Enacted</u>	<u>2005 Request</u>	<u>Change from 2004 Enacted</u>
TOTAL APPROPRIATION	6,065	7,017	7,105	+88

Highlights of Budget Changes

Oil Spill Research

An increase of +\$88 is proposed for the replacement of equipment and increased operational costs at the National Oil Spill Response Test Facility.

Amount

+88