Strategic Goal 3: Manage Resources for a Healthy Environment and a Strong Economy

Managing the vast resources of America's public lands has been a core Interior responsibility since the Department was founded in 1849. Over 150 years ago, the newly formed Department focused on development by handling land sales and title adjudication as the Nation expanded. As gold and silver were discovered, the Department's role included managing a system of access to those mineral resources as well.

The Department is still managing resources, but the work has become more complex. It is our task today to determine where and how to make available renewable and non-renewable economic resources on public lands consistent with our resource protection and recreation mandates.

While some lands such as wilderness areas have been set aside for special protection, the Department of the Interior's multiple use lands produce resources that provide energy to warm our homes and power our transportation systems; minerals used for manufacturing and household goods; forage for livestock; and forest resources. The lands and offshore areas we manage or influence supply about 28 percent of the Nation's domestic energy, including about 35 percent of the natural gas, 32 percent of the oil, 35 percent of the coal, 48 percent of the geothermal energy, and 20 percent of the wind power.

In addition Interior manages over 2,500 dams and 348 reservoirs that provide water to over 31 million people for municipal, agricultural, and industrial use. This same water infrastructure generates 17 percent (42 billion kilowatt hours) of the Nation's hydropower, making Interior the second largest producer of hydroelectric power in the United States.

The resources produced from public lands-including energy and non-energy minerals, water, timber, grazing land, and electricity—contribute substantially to virtually all sectors of the American economy. In FY 2003, Interior generated $9 billion in revenue to the Federal Treasury and other recipients from the lands and waters it manages.

Performance Results

The Department of the Interior measures its performance in managing natural resources for a healthy environment and a strong economy against two long-term measures: our ability to ensure environmentally sound development and our ability to manage resources to ensure economic viability and the sound management of mineral receipts.

Ensuring environmentally sound development is an increasingly complex challenge, requiring a balancing among many, often-conflicting points of view. Success depends on a combination of careful environmental assessments, strong public input, and fulfillment of regulation and inspection requirements.

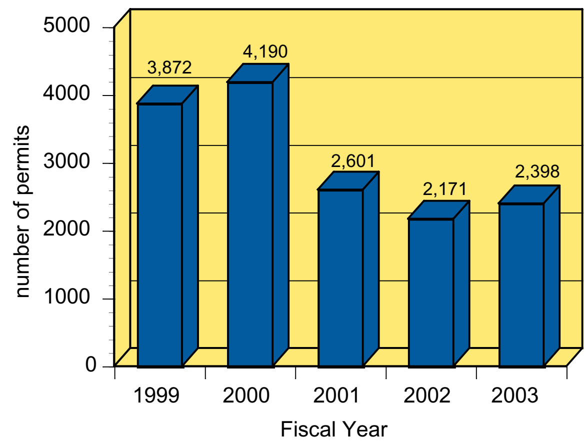
Given the size and mixed uses of its holdings, the BLM faces particularly broad challenges. The BLM manages one-eighth of the Nation's land, along with some 54,000 oil and gas leases, 400 geothermal leases, 300 coal leases, 440 other solid leasable mineral leases, and 220,000 mining claims.

In FY 2003, the BLM processed 4,619 energy mineral (such as coal) lease actions and 5,173 non-energy mineral actions on Federal lands against targets of 5,360 and 4,000, respectively. It processed 54,765 energy mineral post-lease actions and 1,205 non-energy mineral post-authorization actions on Federal lands, exceeding targets of 28,700 and 800, respectively. It also completed 20,051 energy mineral and 7,908 non-energy mineral compliance, inspection and enforcement actions on Federal lands, exceeding targets of 19,500 and 7,850 in FY 2003. The BLM issued 2,398 grazing permits or leases for a cumulative total of 11,360 grazing permits, exceeding its target of 1,200 permits issued in FY 2003 and a cumulative total of 10,162 permits (*Figure 13*). While these targets are output oriented in nature, as stated earlier in the introduction to this report, the Department of the Interior, through its new Strategic Plan and measures, will begin systematically measuring the outcome of these efforts beginning in FY 2004.

The Minerals Management Service (MMS) likewise bears responsibility for simultaneously achieving commercial activity and environmental goals. Its focus is on mineral resources associated with 1.76 billion submerged acres on the Outer Continental Shelf (OCS). About 1.8 million barrels of oil per day are produced from the OCS. The MMS manages more than 7,300 active oil and gas leases on the Federal OCS, which cover about 40 million acres. Since 1982, it has spent more than $650 million in environmental studies to decrease negative impacts related to commercial activities.

FIGURE 13

Grazing Permits Issued by the BLM



When access to resources on public lands for development purposes is environmentally and economically prudent, the responsibility of the government is to realize fair market value for those resources consistent with Federal statutes. Once revenues accrue from industry exploration and development efforts, it is essential that an accurate accounting of the revenue occur, and that payments to the U.S. Treasury and royalty recipients be made effectively and on time.

In FY 2003, the fair market value of commercial products (including oil and gas, coal, other salable minerals, and timber) from public lands managed by the BLM totaled about $18 billion. Over 99 percent of production value was derived from energy and minerals. The direct and indirect economic impact of these commercial activities amounted to about $38 billion. Federal revenue generated from these activities amounted to $2.2 billion. While much of the revenue is provided to the Treasury Department, about $800 million is shared with the States.

Re-engineering Customer Service at MMS

Process improvement is driven by the public demand for greater effectiveness and efficiency in the work we do. The more we can re-engineer our programs and processes to be cheaper, faster, and better, the more likely we are to meet or exceed our mission targets.

Significant process improvement doesn't always come as a single dramatic change. It is just as likely to build over several related steps, like the best-practice customer service improvements driven by the Secretary's 4Cs at the MMS.

Consider the MMS audit partnerships—cooperative agreements with 8 Tribes, and delegated authority to 10 States—that allow those Tribes and States to conduct the required inspections, audits, and investigations of activities on royalty-producing properties within their jurisdiction.

State and tribal auditors follow General Accounting Office accounting and auditing standards when performing field audits on behalf of the MMS. These audits are a critical component of overall MMS royalty compliance activities. The State or Tribe is reimbursed up to 100 percent of the costs directly required to carry out the agreed-upon activities by the MMS.

Putting the 4Cs to work is what makes these partnerships click. To ensure consistent application of government auditing standards, issue resolution, and continuing dialogue on MMS' policies and procedures, key MMS managers and technical experts meet on a quarterly basis with the State and Tribal Royalty Audit Committee. MMS's continuing dialogue with the Audit Committee underscores the importance of partnering with our constituents to ensure a fair return for minerals produced on public and tribal lands.

The cost-benefit result has been impressive, too—a 5.4 to 1 dollar return to the Federal government.

Key success factors include keeping the States and Indian Tribes constantly informed on valuation, settlement, financial/compliance system, and royalty issues, along with having them participate on various MMS teams, and receiving their input on the issues concerning them. These actions have enabled the States and Tribes to become partners who are vested in MMS strategies and goals.

Further process improvements are being implemented, including the planned E-government redesign of MMS's Offshore Minerals Management (OMM) Program business processes. Developed collaboratively by the OMM and involving input from State and Federal agencies, industry, and citizen groups, the redesign will transform previously paper-based business processes so that the MMS can electronically receive, process, and deliver data, information and knowledge across all business levels. This E-government transformation will allow the MMS to shift its focus from processing data to evaluating and analyzing work products such as equipment testing, facility inspection, environmental and technical research, lease administration and economic valuation, and mineral resource assessment.

In addition, MMS's Minerals Revenue Management (MRM) Program's reengineered business processes are improving reporter compliance with lease terms, regulations, and laws by reducing the MRM business cycle from 6 years to 3 years, consistent with expected industry standards. Process redesign also aligned the MRM multiple functions into two core end-to-end business processes, established organizational accountability for compliance and asset management outcomes at the producing property level, simplified regulatory reporting requirements to reduce reporting burdens to both MRM and industry, and modernized the MRM information technology environment.

These best practices are spreading widely among the Department's resource stewards. Similar process redesigns are planned for energy, mineral, water, forage, and forest products over the next five years to cut cycle times, reduce process friction, and improve collaboration.

Over the last 10 years, the MMS has disbursed over $60 billion, with about $7.5 billion of that going to 36 states as their share of revenues from leases located within their borders or adjacent to their shores. States receive 50 percent of the royalties collected, except for Alaska, which gets a 90 percent share as prescribed in the Alaska Statehood Act. In FY 2003, the MMS disbursed 92.6 percent of its revenues, against a target of 92 percent, to recipients by the end of the month following the month received

Special purpose funds, including the Land and Water Conservation Fund (LWCF), the National Historic Preservation Fund, and the Reclamation Fund, have received more than $15 billion in MMS-collected mineral revenues over the last 10 years. During the past decade, mineral revenues from the Outer Continental Shelf have accounted for more than 90 percent of the deposits to the LWCF. Most LWCF revenues in recent years have been used to purchase or acquire through exchange about 4.5 million acres. Acquisitions funded through LWCF grants must remain in recreation use into perpetuity.

Average annual collections by the MMS since 1982 total more than $6 billion. In FY 2003, over $8.2 billion was collected with approximately 51 percent going to the U.S. Treasury, 36 percent to Interior agencies, 1 percent to Indian Tribes and agencies, and 12 percent to States and other Federal agencies (*Figure 14*). Revenues directed to the Federal government are used to fund programs enacted by Congress. Monies that go to the States are used as the States deem necessary, often for schools, roads, libraries, public buildings, and general operations. Revenues collected from Indian lands go directly to the American Indian tribes and individual American Indian mineral owners, meeting a wide variety of their needs.

The Bureau of Reclamation is the largest manager and supplier of water in the country. Throughout the west, Reclamation fulfills its contractual obligations to deliver water. As of this writing, Reclamation estimates that it will have delivered 26.1 million acre feet (MAF) of water to meet its commitments in FY 2003, against a target of 27 MAF. While final data will not be available until after the publication of this report, Reclamation anticipates that its results may be slightly below target due to continuing drought conditions throughout parts of the western United States.

FIGURE 14

FY 2003 Distribution of MMS Revenues

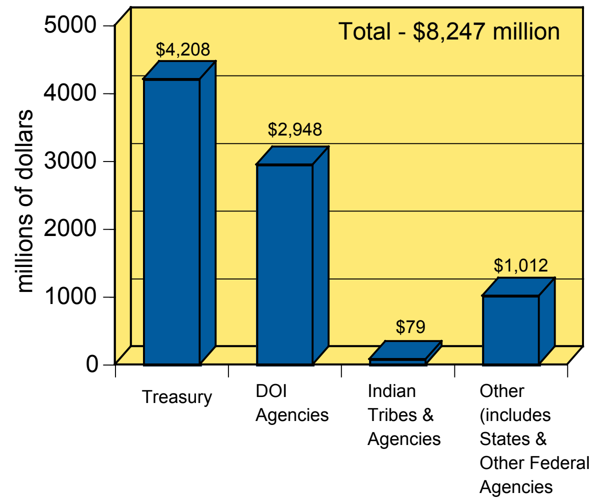
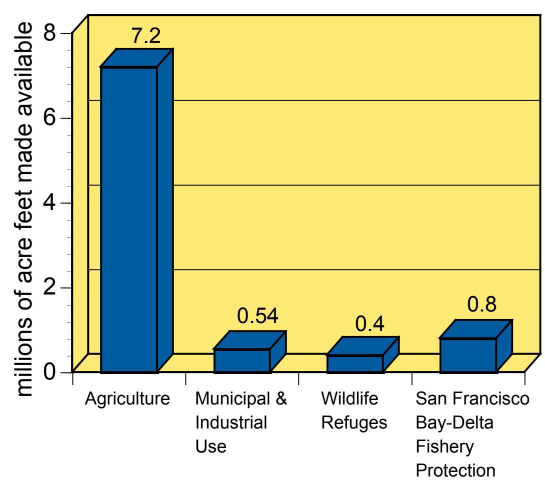


FIGURE 15

Differing Resource Needs Addressed by BOR's Central Valley Project

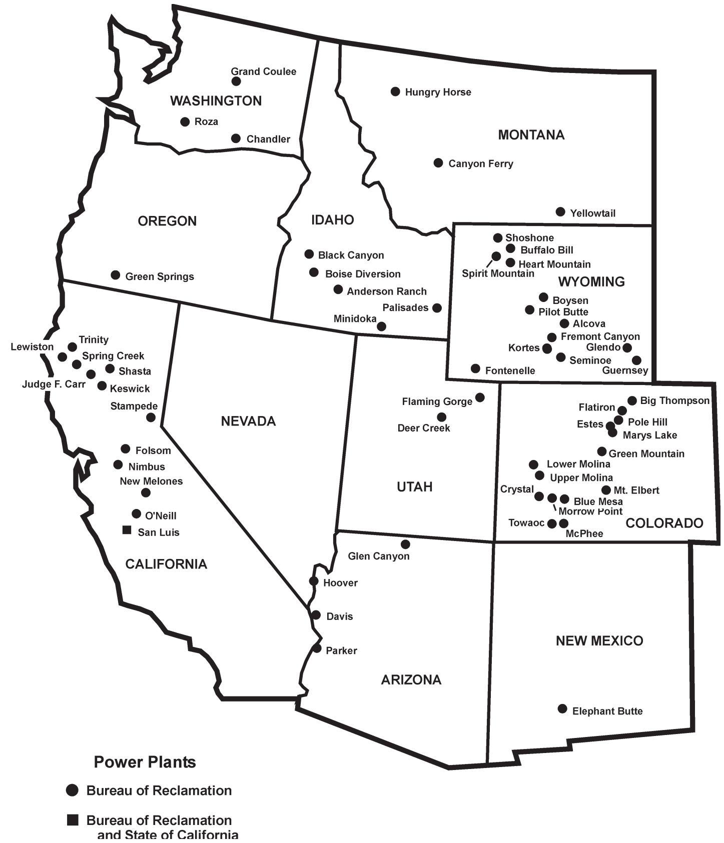


Reclamation considers many resource needs (for example recreation, fish and wildlife habitat, environmental enhancement, and Native American trust responsibilities), while ensuring reliable water deliveries under Reclamation contracts. For example, in FY 2003, Reclamation's Central Valley Project in California addressed different demands simultaneously (*Figure 15*). About 7.2 MAF of water was made available released for agriculture; 540,000 acre feet for municipal and industrial water users; 400,000 acre feet for wildlife refuges; and 800,000 acre feet to protect and restore the San Francisco Bay-Delta fishery, as required by the Central Valley Project Improvement Act.

As the second largest producer of hydropower in the Nation (*Figure 16*), Reclamation maximizes its power generation and efficiency by maintaining power production costs at a level comparable to the most efficient and lowest-cost sector of the hydropower industry. For the past five years, Reclamation has been within the 75th percentile of lowest cost hydropower facilities. In FY 2003, Reclamation continued to perform well in ensuring its facilities were available to generate power. Its forced outage rate was 1.5 percent, against a target of 3 percent or lower for its hydropower units (*Figure 17*). These statistics make Reclamation a leading source of high reliability, low-cost power.

FIGURE 16

Reclamation Powerplants



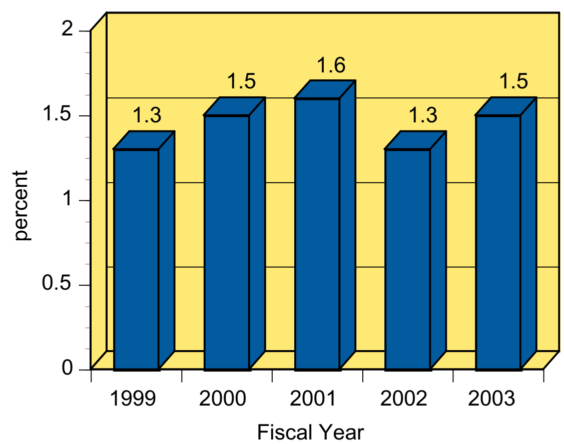
Looking Forward

The Department's responsibility for careful resource stewardship is certain to increase in the years ahead. As demand grows, we will continue to evaluate the resource potential of public lands and provide access for exploration and development consistent with environmental quality goals.

Although the public lands and the Outer Continental Shelf are an important energy source, they cannot themselves meet rising domestic demand. Public lands provide nearly 30 percent of annual national energy production and are estimated to contain 68 percent of the Nation's undiscovered oil resources and 74 percent of our undiscovered natural gas resources. Even with those resources, however, America's energy needs outstrip supply. Over the next 20 years, U.S. oil consumption is projected to grow by over 6 million barrels a day, while production is estimated to decline by 1.5 million barrels per day. Over the same time period, U.S. natural gas consumption has been projected

FIGURE 17

Forced Outage Rate for BOR Hydropower Units



to grow by over 50 percent, while production will grow by only 14 percent.

The growing demand for water is an even more critical concern, particularly in the 17 western States served by the Bureau of Reclamation. As populations soar, municipal, industrial, and agricultural users all call for more water, but too often there is not enough water to meet everyone's needs.

Shortages are likely to become even more severe in the years ahead. The Bureau of Reclamation will continue to forge partnerships with local entities to plan and implement conservation measures, facility modernizations, and improved monitoring and management. Long-term success, however, will depend on a cooperative and forward-looking approach to water management for the next century.

An example of such an approach that provides hope our ability to innovatively meet future challenges is the Colorado River Water Delivery Agreement. The Agreement, signed by Secretary Norton and officials of four California water agencies, provides assurances of long-term water supplies and clears the way for market-based transfers and other essential tools to meet the growing water needs of the region. Under Secretary Norton's leadership, Cali-

Water for the West

It is difficult to predict with accuracy how much water will be available to America's western States in the years to come. Supply will depend on naturally occurring yearly water supply, variable weather patterns, and water management.

But there is one certainty. However much there is, demand for water will exceed supply.

The West is the fastest growing region of the country today, and water is its scarcest resource. Demand already exceeds supply—a gap that will continue to grow as the numbers and needs of commercial, municipal, industrial, agricultural, environmental, and domestic users continue to swell.

For the Bureau of Reclamation (Reclamation), which currently provides water to over 31 million people, the task over the next decade will be to address those supply-demand challenges, reconciling the needs of all of the competing groups.

Aging water facilities limit our available options. Most of the Federal water management infrastructure is nearly 50 years old, and some facilities have almost a century of service. Our goal will be to optimize the overall benefits from the water available through more effective management and operations.

We will ensure that delivery systems are as efficient as possible, looking to watershed modeling, precipitation forecasting, process enhancements, and technological improvements to drive performance. We will focus on developing innovative water management tools and partnerships, consistent with the substantive and procedural requirements of Federal and State water law, along with water banking, voluntary water transfers, and improved water treatment technologies We will address environmental concerns and complete existing construction projects to increase delivery infrastructure and water availability.

The problem of water for a thirsty West will not be solved in the next five years. Even if we exceed all the targets in our strategic plan, challenges will not be solved in the next 25 years either—unless we begin to address the long-term challenges today.

Interior launched "Water 2025: Preventing Crisis and Conflict in the West" to focus attention on those long-term challenges. The danger is that conflict between competing users will turn into crises, with serious social, economic, and environmental impacts.

Improved crisis management is not the answer. It is, at best, a short-term fix. Instead, any solution will depend on planning and preparation by local and regional communities long before the conflicts arise.

Ultimate responsibility for solving the West's water problems appropriately belongs to State, local, and tribal governments. The Department's role is to focus public and water-user attention, and to provide resources where limited Federal dollars can have the biggest impact.

"Water 2025" will facilitate a cooperative, forward-looking focus and balanced practical approach to water management for the next century. It aims to stretch or increase supplies to satisfy the demands of growing populations, protect environmental needs, and strengthen regional, tribal, and local economies.

The Department has identified four key tools needed to turn the goals into reality:

• Conservation: working with our partners to retrofit and modernize existing facilities, using improved water management and market-based approaches to head off conflicts;

• Collaboration: using cooperative approaches to resolving disputes;

• Technology: finding new tools to purify wastewater and saltwater to increase supply; and

• Cooperation: taking down the institutional barriers to improved water management and building coordination among Federal agencies.

fornia has agreed to take specific, incremental steps that will reduce its over-reliance on Colorado River water in the next 14 years, allowing the State to live within its authorized annual share of 4.4 million acre-feet. The agreement allows the six other Colorado River Basin States to protect their authorized shares to meet future needs.

Performance and Costs at a Glance

Tables 6 and 7 summarize FY 2003 performance and cost data for Strategic Goal 3.

Interior incurred costs of approximately $3.8 billion for Strategic Goal 3, a decrease of over 12% from FY 2002. The Department established 45 performance measures for Strategic Goal 3. Of the 45 performance measures, the Department achieved or exceeded the goals for 27 measures (60%). This represents an increase of 10% over FY 2002. Interior did not meet the goal for 12 performance measures (27%) and is unable to report performance information on 6 performance measures (13%) because performance data is not available at this time.

GPRA program activity, "Operate and Maintain Facilities Safely, Reliably, and Efficiently to Provide Project Benefits," incurred $1.34 billion or 36% of Strategic Goal 3 costs. The resources devoted to this GRPA program activity are 7% greater than in FY 2002. Of the nine performance measures in this GPRA program activity, FY 2003 results show that 67% of the measures were met or exceeded, down from 100% in FY 2002. Final data are not available on the remaining performance measures. However, preliminary or estimated data show that one measure of power production cost will exceed target and one measure to deliver water will fall slightly below target due to continuing drought conditions. Data are not yet available on power production benchmarking.

Though less resources were provided to "Provide Revenue Recipients with Access to their Money within 24 Hours of the Due Date" and "Ensure Safe Outer Continental Shelf (OCS) Mineral Development" activities in FY 2003, the Department was still able to achieve its goals. However, in other cases where reduced resources were provided to GPRA activities, performance information is not available to determine whether the goals were achieved. More detailed information concerning performance results is available in Part 3, Performance Section.

TABLE 6

Strategic Goal 3 FY 2002 Performance Measure Scorecard						
GPRA Program Activity	**Number of Measures**	**Exceeded Goal**	**Met Goal**	**Did Not Meet Goal**	**No Report**	**Percent Exceeding or Meeting Goal**
Provide Opportunities for Environmentally Responsible Commercial Activities	15	9	2	4	0	73%
Reduce Threats to Public Health, Safety, and Property	9	3	0	6	0	33%
Operate and Maintain Facilities Safely, Reliably, and Efficiently to Provide Project Benefits	9	5	1	1	2	67%
Ensure Safe Outer Continental Shelf (OCS) Mineral Development	1	0	1	0	0	100%
Ensure Environmentally Sound Outer Conti-nental Shelf Mineral Development	2	1	1	0	0	100%
Ensure that the Public Receives Fair Market Value for Outer Continental Shelf Mineral Development	1	0	0	0	1	0%
Provide Revenue Recipients with Access to Their Money within 24 Hours of the Due Date	1	1	0	0	0	100%
Ensure Compliance with Applicable Laws, Lease Terms and Regulations for All Leases in the Shortest Possible Time, But No Later than 3 Years from the Due Date	2	0	1	0	1	50%
Interact with Our Customers in an Open and Constructive Manner to Ensure That We Provide Quality Services to Satisfy Our Customers' Needs	1	0	1	0	0	100%
Overview	4	1	0	1	2	25%
TOTAL	45	20	7	12	6	60%

TABLE 7

Strategic Goal 3 Costs (in millions)		
GPRA Program Activity	**FY 2003**	**FY 2002**
Provide Opportunities for Environmentally Responsible Commercial Activities	$371	$347
Reduce Threats to Public Health, Safety, and Property	584	628
Operate and Maintain Facilities Safely, Reliably, and Efficiently to Provide Project Benefits	1,341	1,258
Ensure Safe Outer Continental Shelf Mineral Development	65	237
Ensure Environmentally Sound Outer Continental Shelf Mineral Development	60	224
Ensure that the Public Receives Fair Market Value for Outer Continental Shelf Mineral Development	33	127
Provide Revenue Recipients with Access to Their Money Within 24 Hours of the Due Date	860	952
Ensure Compliance with Applicable Laws, Lease Terms, and Regulations for All Leases in the Shortest Possible Time, but No Later than 3 Years from the Due Date	75	218
Interact with Our Customers in an Open and Constructive Manner to Ensure that We Provide Quality Services to Satisfy Our Customers' Needs	*	*
Payments in Lieu of Taxes and Other Payments Made to States and Local Governments	436	364
Total Gross Cost Prior to Eliminations	3,825	4,355
Less: Elimination of Intra-Department Activity	(62)	(43)
Total Gross Cost After Eliminations	$3,763	$4,312