



U.S. Department of the Interior

Office of Natural Resources Revenue

Overview and Updates



National Ocean Industries Association

October 14, 2011

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Outline of Presentation

- Reorganization of MMS
- ONRR Strategic Review
- ONRR FY 2012 Reorganization
- Program Highlights
- New Initiatives
- Royalty in Kind Close-Out





Reorganization of MMS

By Order dated May 19, 2010, Secretary Salazar restructured the Minerals Management Service into three new bureaus/offices:

Bureau of Ocean Energy Management (BOEM): A new bureau under the Assistant Secretary for Land and Minerals Management (ASLM) responsible for the sustainable development of the Outer Continental Shelf's conventional and renewable energy resources, including resource evaluation, planning, and other activities related to **leasing**.

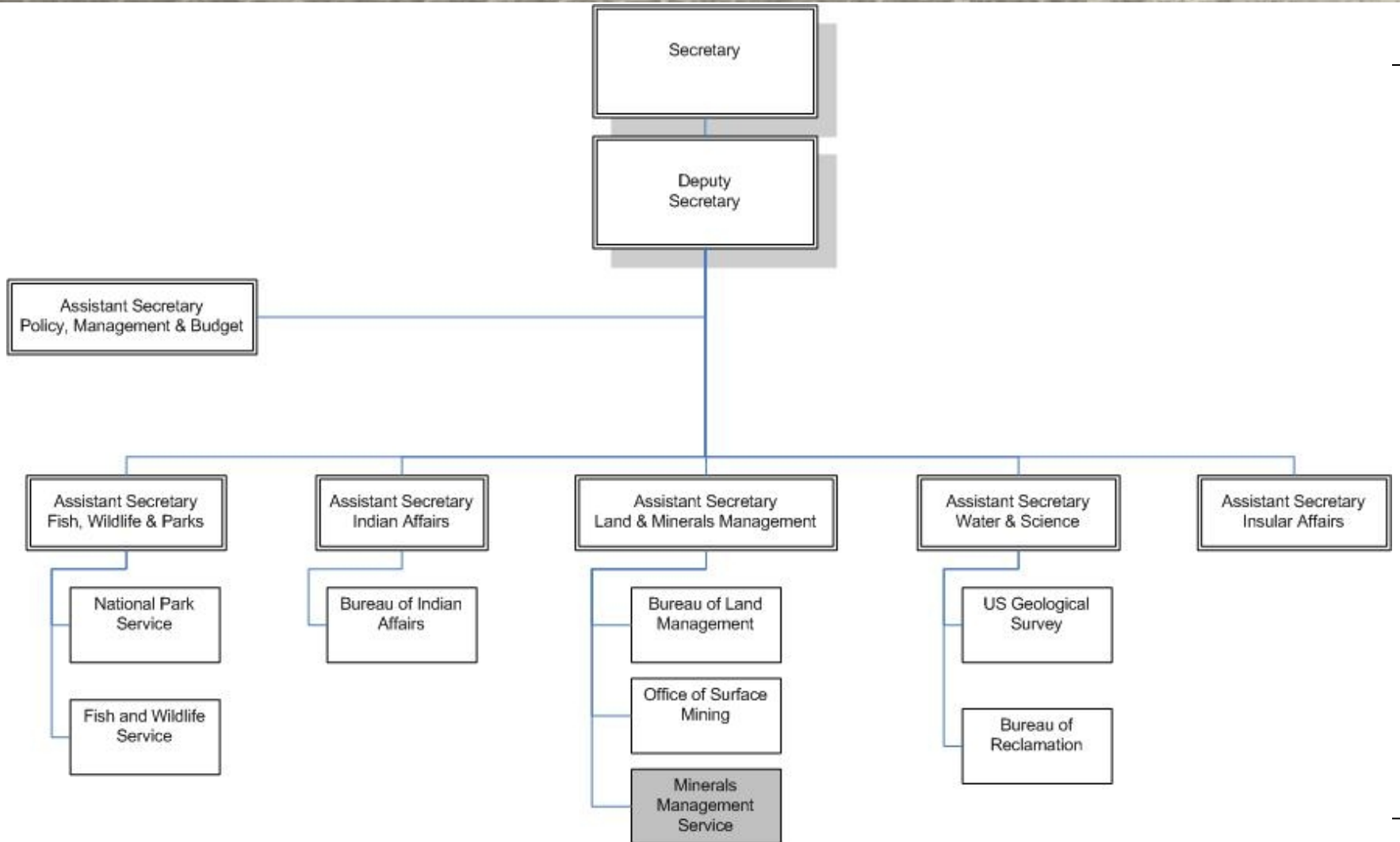
Bureau of Safety and Environmental Enforcement (BSEE): A new bureau under ASLM responsible for ensuring comprehensive oversight, **safety, and environmental protection** in all offshore energy activities.

Office of Natural Resources Revenue (ONRR): A new office under the Assistant Secretary for Policy, Management, and Budget, responsible for the **royalty and revenue management** function including the collection and distribution of revenue, auditing and compliance, and asset management.



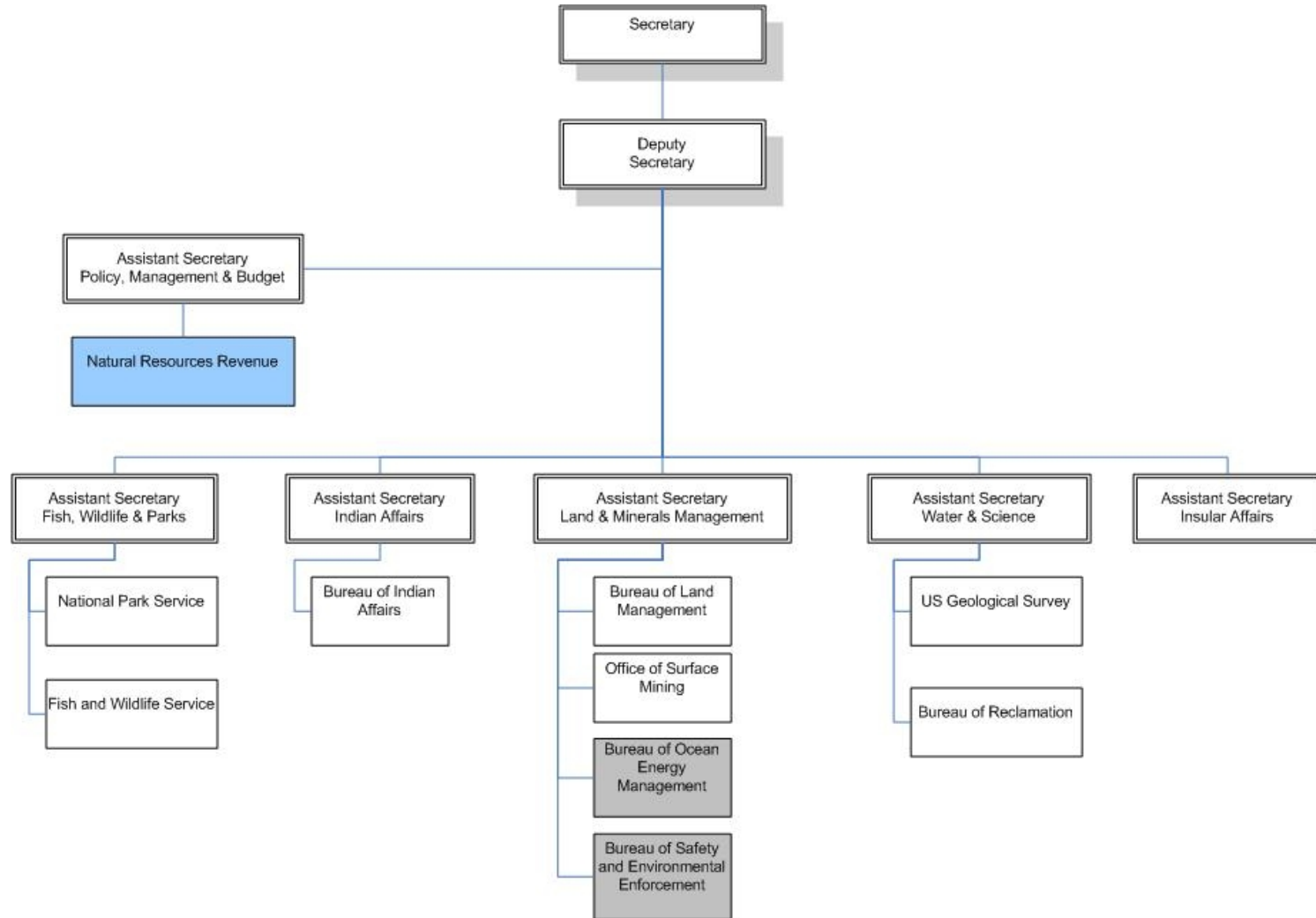


DOI: Prior to Restructuring





DOI: After Restructuring





Reorganization of MMS

- On October 1, 2010, ONRR was formally established and moved under the Office of the Assistant Secretary for Policy, Management and Budget.
- The move to PMB provided:
 - ✓ Independence from leasing and inspection activities
 - ✓ Greater transparency and mission focus as a stand-alone entity
 - ✓ Greater ability to influence cross-agency collaboration
 - ✓ Opportunity to be a test case for broader DOI reforms
- ONRR used the reorganization to spark an agency-wide Strategic Review, developing a strategic framework to prioritize new and ongoing initiatives for implementation.



ONRR's Strategic Review

ONRR's Employee-Driven Strategic Review had Three Steps

1

Identifying Opportunities for Improvement

- Conducted focus groups and interviews in every field office and talked to ~200 employees
- Reviewed survey data and comments from over 430 employees that responded to the employee survey
- Conducted 6 “all hands” meetings in every field office

2

Developing Initiatives to Address Opportunities

- Three full-time teams formed from throughout the organization to investigate opportunities

Clarifying Strategic Objectives and Assessing Existing Initiatives

- QSC convened to define outcomes and strategic objectives, and assess existing initiatives

3

Prioritizing and Planning for Implementation

- New and existing initiatives prioritized and integrated
- Timing, accountability and management plan created for implementation
- Internal and external communications plans developed





Three Outcomes Define ONRR's Success

1 Companies timely comply with laws, regulations and lease terms and pay every dollar due

2 States, Tribes, Indian mineral owners, US Treasury and other entities receive timely and accurate revenues and data

3 The public trusts ONRR's professionalism, integrity, efficiency and quality





ONRR Strategic Framework

Linking Objectives to the Three Strategic Outcomes

Strategic Outcomes desired by fulfilling the ONRR Mission

Companies timely comply with laws, regulations, and lease terms and pay every dollar due

States, Tribes, Indian mineral owners, U.S. Treasury and other entities receive timely, accurate revenues and data

The public trusts ONRR's professionalism, integrity, efficiency and quality



Core Process Objectives that deliver the Strategic Outcomes

Strengthen management practices to achieve effective performance

Integrate and execute core management of energy revenues to ensure and enforce compliance

Improve effectiveness of relationships with states, tribes, Indian mineral owners, agencies and the public



Objectives that support the Core Processes

Maximize workforce effectiveness

Target and deploy tools and support



Resources & Investment

Align and efficiently utilize existing resources and secure appropriate additional resources



Implementing Strategic Priorities

Several Implementation Work Groups are now actively implementing ONRR's Strategic Priority Initiatives focused on

- Enhancing our understanding of risk, companies, and the market
- Integrating and enhancing efforts to drive compliance
- Improving efficiency, expanding automation, and increasing effectiveness of core processes
- Simplifying, clarifying, and strengthening regulations
- Increasing alignment with partner agencies
- Providing accountability for performance
- Maximizing talent and knowledge development
- Improving support services





ONRR FY 2012 Reorganization

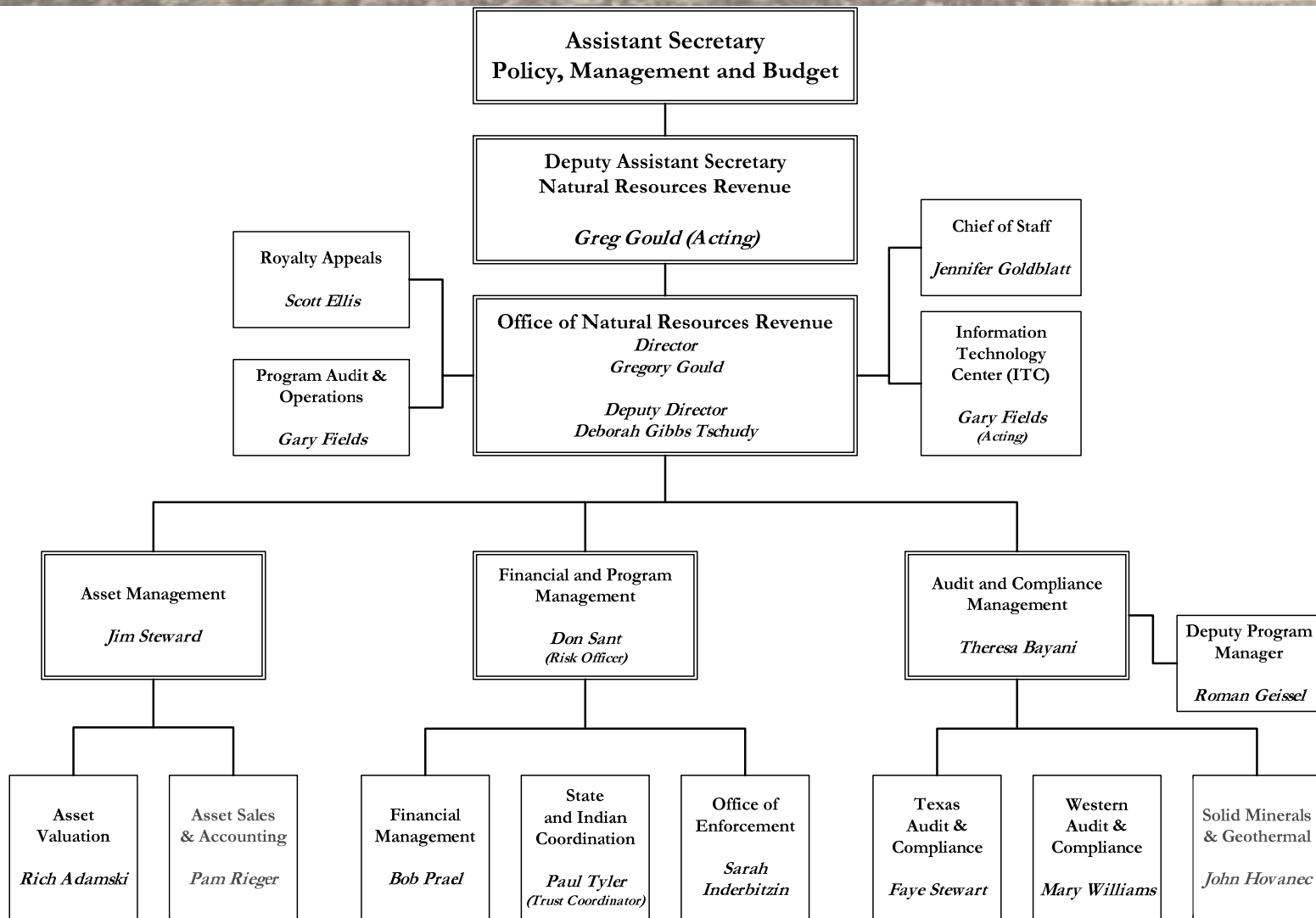
Following the Strategic Review, ONRR initiated a reorganization to:

- Align organizational resources to address priority initiatives.
- Transition HR and Procurement support for ONRR to the National Business Center, in support of the Secretary's commitment to centralize Administrative support.
- Incorporate all former RIK employees into other ONRR program areas, such as Audit and Compliance Management, Valuation, and Data Mining.
- Balance executive level oversight and management.



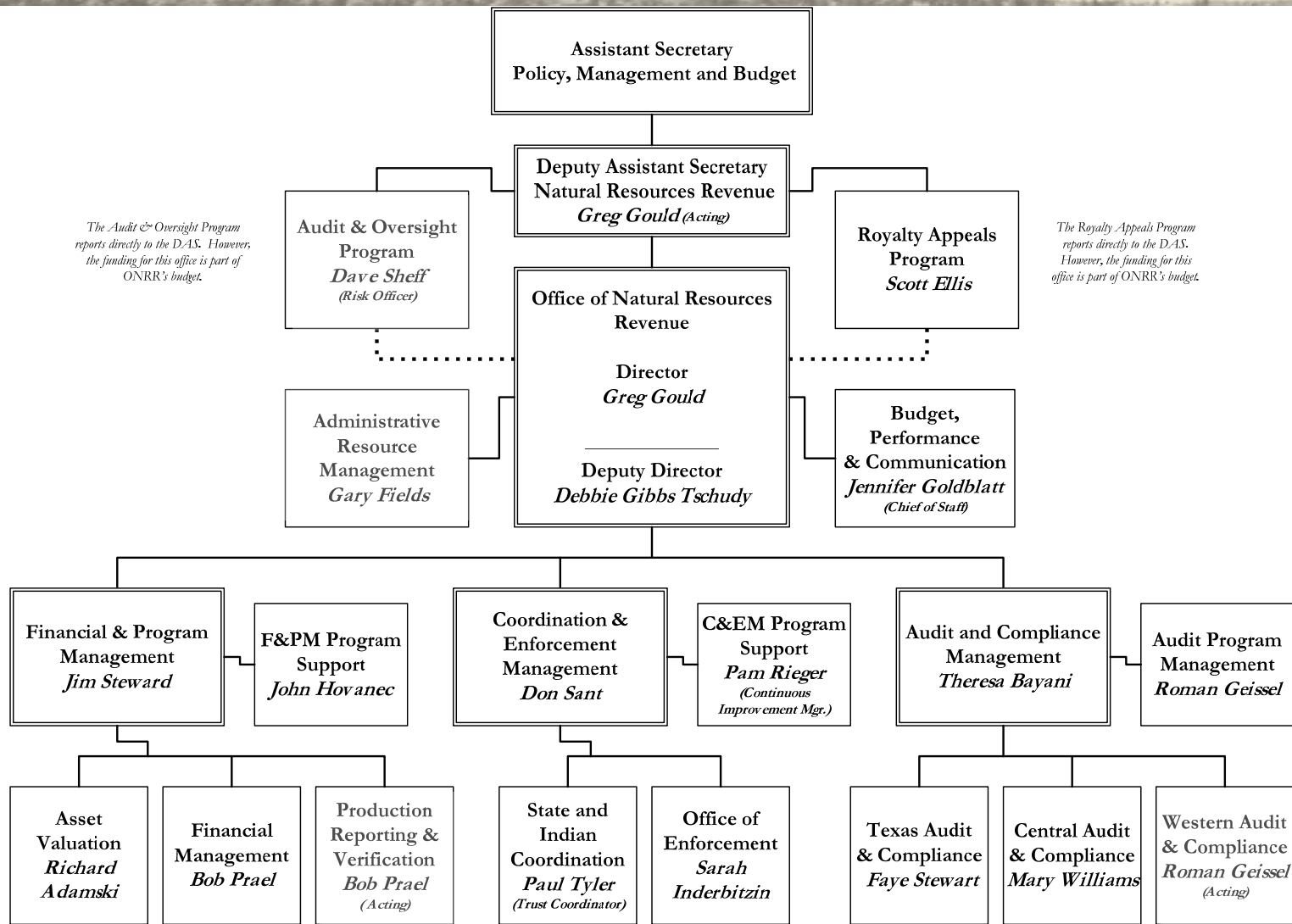
ONRR FY 2012 Reorganization

Former Structure





ONRR FY 2012 Reorganization New Structure





Office of Natural Resources Revenue

Program Highlights



FY 2010 Disbursements

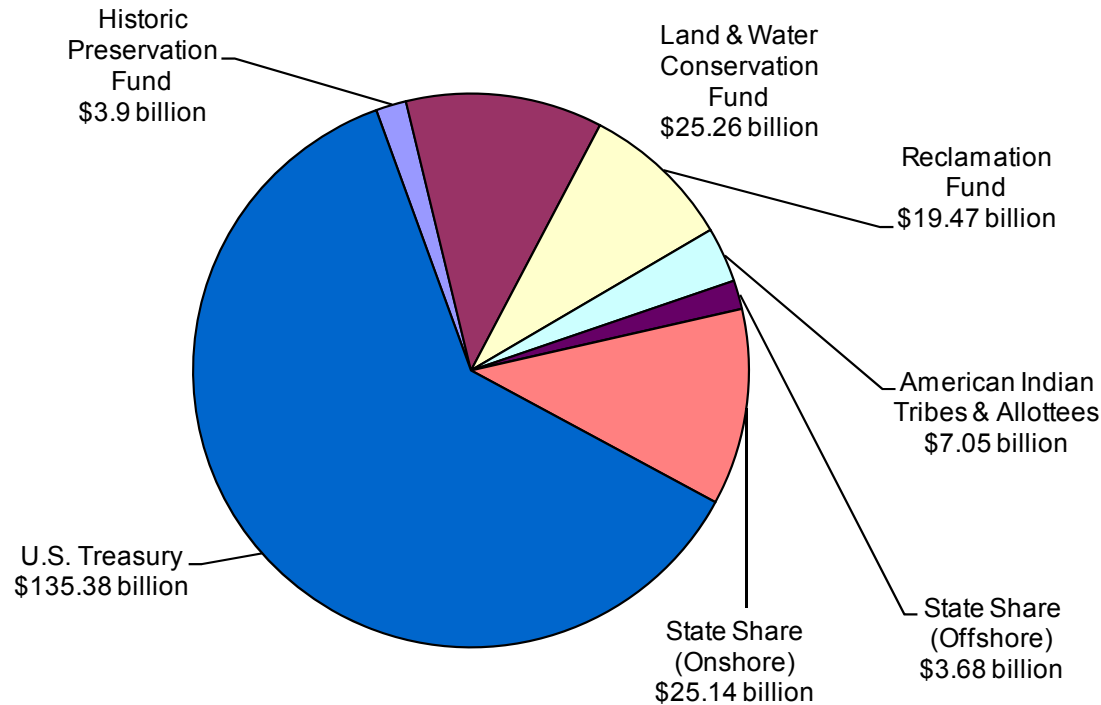
FY 2010 Disbursements -- \$9.17 Billion

- \$ 4.52 Billion to the U.S. Treasury
- \$ 899 Million to the Land & Water Conservation Fund
- \$ 150 Million to the Historic Preservation Fund
- \$ 1.36 Billion to the Reclamation Fund
- \$ 1.83 Billion to 34 States
- \$ 408 Million to the Department's Office of the Special Trustee on behalf of 34 Indian tribes and approximately 30,000 individual Indians





FY 2010 Cumulative Mineral Lease Revenue Disbursement ~ \$219.86 Billion



- Since 1982, ONRR has distributed \$219.86 billion in revenues from onshore and offshore lands to the Nation, states, and American Indians
- The ONRR distribution to the U.S. Treasury is one of the Federal government's greatest sources of non-tax income

Note: Rounding may affect totals



Financial Management Accomplishments

FY 2010 Reports Received:
2,000 payors (Form 2014)
1,900 operators (Oil and Gas Operations Report)

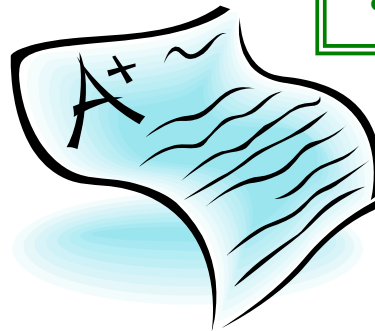


FY 2010 Lines Processed:

3.9 million royalty lines
@ 98.8% accuracy rate

5.8 million production lines
@ 96.5% accuracy rate

The PeopleSoft accounting system was one of the first in DOI to satisfy OMB and Federal Managers Financial Integrity Act financial system requirements



Financial operations and internal controls contributed to DOI achieving **unqualified** opinions* during the annual CFO audits

*Unqualified opinion (Clean Audit) - In conformity with U.S. generally accepted accounting principles (GAO-09-946SP)



Audit and Compliance

Received unqualified opinion on 2008 Peer Review of our audit activities

FY 2011 Peer Review Underway & Scheduled to be Completed October 2011

Since 1982, audit and compliance activities have collected \$3.8 billion

Completed 162 audits and 1,233 compliance reviews in FY 2010

For every dollar spent in 2010, ONRR returned \$5.06 back to taxpayers





Office of Natural Resources Revenue

New Initiatives



GAO High Risk Report

GAO High Risk Report

Three "shortcomings" in Interior's revenue collection policies:

- 1) The Federal Government receives a fair return on its oil and gas resources (so called "government take")
- 2) Interior completes its production verification inspections
- 3) Interior's data on production and royalties are consistent and reliable

Responsibility shared with BLM and BOEMRE

ONRR's responsibility to accurately collect royalty and production data from industry





GAO High Risk Report

Four ONRR-related GAO Reports Cited on the GAO High Risk Report

GAO-08-0893R – *Mineral Revenues: Data Management Problems and Reliance on Self-Reported Data for Compliance Efforts Put MMS Royalty Collections at Risk*

Status: 4 implemented

GAO-09-549 – *Mineral Revenues: MMS Could Do More to Improve the Accuracy of Key Data Used to Collect and Verify Oil and Gas Royalties*

Status: 3 implemented

2 targeted for full implementation in FY 2012

GAO-10-313 – *Oil and Gas Management: Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes*

Status: 1 implemented

GAO-11-34 – *Federal Oil and Gas Leases: Opportunities Exist to Capture Vented and Flared Natural Gas, Which Would Increase Royalty Payments and Reduce Greenhouse Gases*

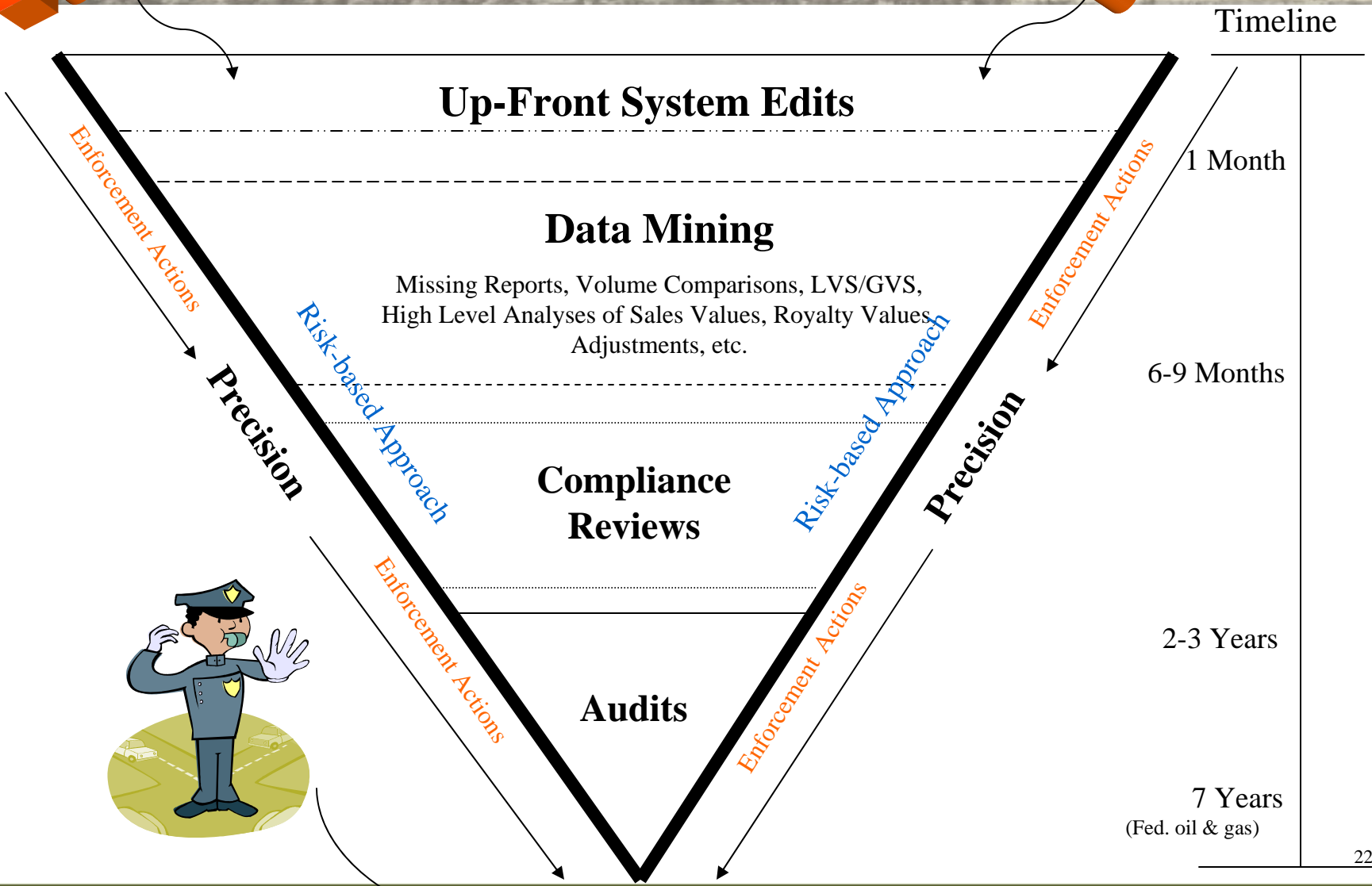
Status: 1 targeted for full implementation in FY 2014



2014\$

ONRR DATA ACCURACY EFFORTS

OGORS



Industry Compliance

Accurate Revenues & Data

Professionalism & Integrity



Federal Oil & Gas Valuation - Advanced Notice of Proposed Rulemaking

- ONRR published an Advanced Notice of Proposed Rulemaking for Federal Oil and Gas Valuation on May 27, 2011; comment period closed on July 26, 2011

- Purpose is to provide regulations that would:
 - ✓ Offer greater simplicity, certainty, clarity, and consistency in production valuation for mineral lessees and mineral revenue recipients;
 - ✓ Be easy to understand;
 - ✓ Decrease industry's cost of compliance and government's cost of enforcement; and
 - ✓ Provide early certainty to industry and ONRR that companies have paid every dollar due.





Federal Oil & Gas Valuation - Advanced Notice of Proposed Rulemaking

- ONRR received responses from 19 commenters representing states, industry, industry trade associations and the general public.
 - 8 Industry
 - 4 States
 - 4 Trade Groups
 - 0 Indian Tribes
 - 1 Public Interest Group
 - 1 Pricing Publication
 - 1 State Association

Comments viewable at:

http://www.onrr.gov/Laws_R_D/PubComm/AA01rmpr.htm





Federal Oil & Gas Valuation - Advanced Notice of Proposed Rulemaking

Public Meetings

- Houston Tuesday, Sept 27, 2011
- Washington, D.C. Thursday, Sept 29, 2011
- Denver Tuesday, October 4, 2011

Next Steps

Based on outcome of public meetings and review of comments, ONRR will consider publication of proposed regulations for public comment.



Office of Natural Resources Revenue

Royalty in Kind Close-Out





RIK Close-Out

- The Secretary of the Interior announced the termination of the RIK Program on September 16, 2009
- On December 8, 2009, the Secretary established guiding principles for the RIK phase out including
 - Minimize impact to RIK employees
 - Conduct termination in a deliberate and orderly fashion
 - Honor all existing RIK sales contracts
 - Cease all future RIK sales
- All RIK sales ended as of September 30, 2010
- Form MMS-2014 reports received on all leases that reverted to in value
- As of September 30, 2011, nearly all close-out tasks completed





RIK Close-Out

Operator Imbalances (as of September 30, 2011)

- 99.85% of the operator imbalances (668 out of 669) have been reconciled and were either cashed out or written off. Includes 179 oil Facility Measurement Points (FMPs) and 487 gas FMPs.
 - ✓ 203 Orders Issued totaling over \$57 Million
 - ✓ 132 Credit Memos Issued totaling over \$31 Million
 - ✓ 333 Written Off (below threshold) or previously issued
 - ✓ 51 Orders appealed totaling over \$15 Million
 - ✓ 18 Appeals closed totaling over \$6 Million





Questions?

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