

**STATEMENT OF
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UNITED STATES DEPARTMENT OF THE INTERIOR
COMMITTEE ON NATURAL RESOURCES
HOUSE OF REPRESENTATIVES**

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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the reorganization of the Department of the Interior's Office of Natural Resources Revenue (ONRR).

The Office of Natural Resources Revenue

The ONRR collects, accounts for, analyzes, audits, and disburses revenues associated with energy and mineral leasing on the Outer Continental Shelf (OCS) and onshore Federal and American Indian lands. The ONRR fulfills part of the Department's Indian trust responsibility by serving as a trustee of the mineral revenue assets generated from Indian trust properties and as an advocate for the interests of Indian mineral owners. The ONRR collects and disburses approximately \$10 billion in annual revenues to the U.S. Treasury, five Federal agencies, 38 states, 41 American Indian tribes, and about 30,000 individual Indian mineral owners.

The Creation of ONRR

Last year, Secretary of the Interior Ken Salazar initiated an aggressive effort to reform the Department's oil and gas leasing and revenue management programs. On May 19, 2010, Secretary Salazar issued Secretarial Order 3299 separating the responsibilities previously performed by the Minerals Management Service (MMS) and reassigning those responsibilities to three separate organizations: ONRR, the Bureau of Ocean Energy Management (BOEM), and the Bureau of Safety and Environmental Enforcement (BSEE).

On October 1, 2010, the Department's revenue collection functions were formally transitioned to the Office of the Assistant Secretary for Policy, Management and Budget (PMB), creating structural separation of the revenue collection activities from the offshore mineral leasing, safety and environmental functions. The establishment of ONRR in PMB centralizes the collection and management of revenues from energy development on our public lands and oceans, which strengthens the ability of employees to independently and rigorously carry out their revenue management responsibilities, and ensures better protection of American taxpayer interests.

The establishment of ONRR took place as planned and without disruption, thus eliminating prior conflicts of interest, mitigating the risks of organizational change, and allowing greater focus on specific opportunities to improve the Department's

management of mineral revenues. During the transition of the royalties function to ONRR, day-to-day operations were maintained without interruption, and ONRR continues to enjoy excellent working relationships with delegated authority states and cooperative agreement Tribes. Being located centrally in the Department has provided independence from leasing and inspection activities, supported transparency and mission focus, and increased ONRR's ability to influence cross-agency collaboration.

The ONRR Strategic Review

The creation of ONRR sparked an agency-wide transformation and presented an opportunity for ONRR to initiate a top to bottom review of ongoing efforts to improve the management and oversight of the royalty and revenue collection and disbursement activities for the Department. This strategic review allowed ONRR to assess potential improvements and develop a strategic framework to guide decision making and put forward clear organizational priorities. More importantly, the strategic review renewed a sense of ownership, optimism and enthusiasm across the organization.

In January, ONRR concluded the first phase of the extensive strategic review and has begun the implementation phase by establishing working groups comprised of employees from across the organization to execute strategic initiatives. Specific high impact initiatives include: 1) enhancing data mining efforts to improve the accuracy of company reported data, 2) further automating data sharing with the Bureau of Land Management and the Bureau of Indian Affairs to streamline revenue distribution and data processing, and 3) piloting an integrated approach to analyzing company compliance and targeting high risk payor segments to ensure collection of every dollar due.

In conjunction with implementation of the strategic review, ONRR launched a major communications effort to continue to build momentum as the organization strives to reach our strategic outcomes. ONRR has begun a continuous improvement effort that involves evaluating progress and strategic priorities – a new way to make decisions, hold people accountable, measure success and achieve results. The ONRR is proactively investing resources in implementing strategic priority initiatives that will allow us to achieve our vision of being a world class revenue management agency that ensures industry compliance, provides accurate revenues and data, and maintains professionalism and integrity.

The strategic review allowed ONRR to prioritize recommendations from the Government Accountability Office (GAO) and the Office of Inspector General (OIG). Of the 11 ONRR-related recommendations contained in GAO's High Risk Report, ONRR has already implemented five, scheduled another five for implementation this fiscal year, and targeted completion of a recent recommendation for 2013. Since FY 2008, ONRR has been the subject of six OIG audits/reviews/evaluations resulting in 17 recommendations. ONRR has already implemented ten of those recommendations, scheduled four for implementation this fiscal year, and will complete the remaining three recommendations next year.

ONRR recently published two Advance Notices of Proposed Rulemaking seeking comments and suggestions to simplify regulations governing the valuation of oil and gas produced from Federal leases and the valuation of coal produced on Federal and American Indian leases. The goal is to make the regulations easy to understand, reduce the government's and industry's cost of compliance, and provide early certainty to industry and ONRR that companies have paid what they owe the American taxpayers. These changes could dramatically improve compliance and reduce administrative costs for industry and the government, as well as better ensure proper royalty valuation by creating a more transparent royalty calculation method.

The FY 2012 budget for the Department includes funding to complete the reorganization of ONRR and reflects the transfer of ONRR's funding from BOEMRE to the Office of the Secretary. The FY 2012 budget provides an appropriate level of funding to ensure that the Department effectively implements critical revenue management reforms and allows ONRR to enhance revenue collection activities by directing resources to our audit, oversight and enforcement programs, data mining initiatives, systems, and the State and Tribal audit program. The FY 2012 budget request also supports closure of the RIK program.

Closure of the RIK Program

ONRR has been implementing the closure of the RIK Program in a deliberate and orderly fashion with adherence to proper internal controls, record keeping, accounting standards, applicable laws and regulations, and established procedures. As RIK oil and natural gas sales contracts expired, RIK properties reverted to in-value status. As contracts expired, ONRR employees resolved any outstanding issues with purchasers, operators and pipeline companies, and ensured that all volumetric imbalances – both positive and negative – were resolved and that the proper volumes were delivered. The ONRR transitioned all RIK volumes to in value as of September 30, 2010, and the royalties owed are now paid on an in-value basis.

It is currently anticipated that the close out of the program will be completed by the end of this fiscal year - September 30, 2011, at which time RIK will no longer exist as a program within the ONRR organization. As a result of the phase-out, ONRR is transitioning employees previously focused on in-kind mineral revenues to in-value compliance activities. This transition ensures that ONRR maintains ongoing compliance oversight capabilities and the overall return to the American people from mineral revenue collections. The transition of these employees will be reflected in a structural change to the ONRR organization that will become effective October 1, 2011.

Conclusion

This is an exciting time for ONRR as we continue to improve the Department's revenue management activities and move forward on implementing critical reforms. As we continue to move forward executing our mission, and at the same time, transform as an organization, we are committed to seeking new methods to enhance our royalty

management program. I would also like to take this opportunity to express my appreciation for the continued support this Committee has provided ONRR.

In addition, I would like to highlight a quote from the Secretary of the Interior, Secretary Ken Salazar -- “[The creation of ONRR] is significant not only for moving forward with our overall reorganization, but also for the American taxpayers, whose interests will be better protected by the improved collection and management of revenues from energy development on our public lands and oceans.”

Mr. Chairman, this concludes ONRR’s prepared statement. Thank you for the opportunity to present an update on ONRR’s reorganization. ONRR would be happy to respond to any questions.