

**STATEMENT OF
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UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE
COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
U.S. 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 2016 President's Budget for the U.S. Department of the Interior's Office of Natural Resources Revenue.

On October 1, 2010, the Secretary of the Interior established ONRR within the Office of the Secretary under the Assistant Secretary for Policy, Management and Budget and charged ONRR with the collection, verification, and disbursement of revenues associated with energy and mineral leasing on the Outer Continental Shelf (OCS) and onshore Federal and American Indian lands. As such, ONRR is entrusted with an important fiduciary role as we collect, account for, analyze, audit, and disburse an average of \$10 billion in annual revenues from energy and mineral leases and other monies owed for the utilization of public natural resources. ONRR also serves as a trustee of the royalty asset from Indian trust properties and as an advocate for the interests of Indian mineral owners.

ONRR is one of America's leading mineral asset managers and our revenue management effort is one of the Federal government's greatest sources of non-tax revenues. In fiscal year 2014, ONRR disbursed over \$13.4 billion in annual revenues. Every American benefits from the revenues we collect, either directly through payments to tribes and individual Indian mineral owners or indirectly through contributions to the Historic Preservation Fund, the Land and Water Conservation Fund, the Reclamation Fund, and disbursements to States and the General Fund of the U.S. Treasury.

When the Secretary of the Interior established ONRR, it provided an opportunity for a top to bottom review to improve the management and oversight of revenue collection and disbursement activities. ONRR's centralized placement in the Department positioned ONRR to leverage its revenue collection expertise to serve a leadership role in agency-wide collaboration and implementation of key initiatives to provide reasonable assurance that Interior is collecting every dollar due.

These are exciting and crucial times for ONRR as we take on new challenges and directions in the enhancement of revenue collection and auditing procedures and systems. Since its inception in 2010, ONRR has continually adapted to change and has successfully made improvements to become more operationally efficient and ensure we are collecting every dollar due on behalf of the American public. The principles of continuous improvement, leadership and collaboration are the central components of ONRR's 2016 President's Budget.

2016 Budget

The 2016 budget request for ONRR is \$128.7 million, which is \$7.1 million above the 2015 enacted level. The 2016 budget includes \$3.6 million and 15 FTE for ONRR to assume the financial accounting, auditing, and production reporting responsibilities for the Osage Nation, \$1.3 million to fully fund an onshore production verification pilot and data integration effort, \$1.0 million to pursue a valuable investment in Geospatial Information Systems, and \$1.2 million to fund a fixed cost increase. In addition, the 2016 budget request supports ONRR's mission to "collect, disburse, and verify Federal and Indian energy and other natural resource revenues on behalf of all Americans" and the work of our three program areas:

- The activities of our Financial and Production Management Program ensure that all revenues from Federal and Indian leases are efficiently, effectively, and accurately collected, accounted for, and disbursed in a timely manner. This program also supports efforts to ensure accurate reporting of production volumes and to enhance production measurement verification.
- The Audit and Compliance Management Program activities ensure that the Nation's Federal and Indian mineral revenues are accurately reported and paid. Federal and Indian compliance activities represent a large and critical part of the operational strategy, ensuring that companies are in compliance with applicable laws, regulations, and lease terms.
- The Coordination, Enforcement, Valuation and Appeals Program ensures consistency and oversight in valuation regulations and determinations, market research and information gathering, and enforcement actions and appeals. This program's activities also include outreach with American Indian constituents, resolution of their royalty-related inquiries, and administration of cooperative audit agreements with States and Tribes.

Strengthening the Management of Trust Assets

On October 14, 2011, the Department reached a negotiated settlement with the Osage Nation, ending litigation regarding Interior's accounting and management of the Osage Nation's trust accounts, trust lands, and other natural resources, including the Nation's mineral estate. The settlement marks a new beginning – one of enhanced communication between the Department and the Nation, and strengthened management by the Department of tribal trust funds and trust resources. To achieve the promise of this new beginning, the Bureau of Indian Affairs asked ONRR to assume the same trust responsibilities that ONRR already performs for every other Tribe receiving mineral revenues.

The 2016 budget requests the resources necessary for ONRR to assume financial accounting, auditing, and production reporting responsibilities for the Osage Nation consistent with those ONRR provides to every other Tribe receiving mineral revenues. The budget request leverages ONRR's existing financial systems and expertise in mineral audit and compliance activities to most efficiently and effectively meet the commitment of the U.S. Government to the Osage Nation. The result of ONRR's support of the Osage Nation will be a consistent level of service

across the Department, a decrease in redundancy and fragmentation, and the reduction of the Department's litigation risk.

The budget request of \$3.6 million will strengthen management of the Osage Nation's trust assets and improve communications between the Interior Department and the Osage Nation. The Osage Nation's interest in ONRR's services represents a positive turning point in their historical relationship with the Department of the Interior and confidence in ONRR's ability to collect every dollar due.

Improving Federal and Indian Oil and Gas Production Verification

In cooperation with the Bureau of Safety and Environmental Enforcement (BSEE) and the Bureau of Land Management (BLM), ONRR is responsible for enhancing Federal and Indian oil and gas production accountability. As part of our department-wide leadership, ONRR is leveraging our expertise to improve the Department's onshore and offshore production measurement inspection programs and ensure the accurate measurement of production volumes and the timely collection and verification of production data.

ONRR has successfully implemented a reimbursable support agreement with BSEE to perform production verification, meter inspections, and other production measurement oversight functions on offshore rigs, platforms, and production facilities. ONRR engineers provide in-depth analysis, verify the accuracy of production reports, and coordinate work-plans with the BSEE offshore measurement inspectors to ensure inspections are prioritized based on highest risk of foregone revenues.

As a result of the success offshore, starting in 2015 and continuing in 2016, ONRR has requested funding to pilot an inspection partnership with BLM. The partnership would establish an agile inspection team to address onshore production hot spots and additional petroleum engineers to assist field offices in their review of complex measurement applications and train and support the field inspectors. The 2016 budget request of \$1.3 million also supports onshore and offshore production verification efforts by developing and integrating production systems and production measurement data.

Full funding for this initiative will improve the effectiveness of the Department's efforts to address concerns cited in the Government Accountability Office's High Risk report and will ensure ONRR's ability to provide reasonable assurance that the Department is collecting its share of revenue from oil and gas produced on Federal lands.

Enhancing Compliance with Geospatial Information

The budget requests \$1.0 million to expand ONRR's Geospatial Information Systems (GIS) capabilities and enhance compliance efforts. GIS is a powerful tool that will allow ONRR to use the visual benefits of mapped data to better understand the relationships between leases, transportation lines, processing facilities, etc. As an organization whose work relies on the location of a property to accurately determine the value of the resources produced, effectively

depicting where royalties and production occur will instantly add a dimension to data that will allow ready access to information.

The expansion of GIS will dramatically improve the effectiveness of ONRR's compliance, auditing, and enforcement functions by providing ready access to location and configuration of leases, transportation lines, processing facilities, and relevant data needed to accurately determine the value of the resources provided. Enhanced GIS capabilities will provide the added benefit of fostering stronger partnerships with Bureaus and offices across the Department. As part of this initiative, ONRR will ensure that geospatial information is available and accessible to employees and stakeholders, provide oversight and accountability for the development of geospatial resources, and sustain a technology environment that allows for geospatial information to be easily and effectively used.

Increasing Transparency and Accountability

In September 2011, the President announced the United States' intention to implement the Extractive Industries Transparency Initiative (EITI) and, in October 2011, named the Secretary of the Interior as the U.S. Senior Official responsible for implementing the United States Extractive Industries Transparency Initiative (USEITI). Implementation of USEITI provides additional oversight to the collection and disbursement of the Nation's mineral resources revenues and helps ensure the full and fair return to the American public for the utilization of their resources.

EITI offers a voluntary framework for governments to disclose revenues received from their oil, gas and mining assets and parallel disclosure by companies of what they have paid the government in royalties, rents, bonuses, taxes, and other payments. The design of each EITI framework is country-specific, developed through a collaborative process by a Multi-Stakeholder Group (MSG) comprised of representatives from government, industry, and civil society. The EITI principles align with the Administration's Open Government initiative, and its pledge of a more transparent, participatory, and collaborative government.

In March 2014, the U.S. became an EITI candidate country. The group approved and hired an Independent Administrator to publish the first USEITI Report in December 2015. ONRR is leveraging the implementation of USEITI to make Federal mineral data more understandable and transparent. Specifically, ONRR spearheaded the creation of the Natural Resources Revenue Data Portal located at useiti.doi.gov. The portal, with interactive visualizations and verified data sets, went live in December 2014 and provides an easy way for the public to see the payments companies make to ONRR. The portal offers a wealth of information to the public in a comprehensive and accessible manner.

Implementation of USEITI and creation of the Data Portal are important steps in ONRR's efforts to reform and modernize the Department's revenue management.

Clarifying Valuation Regulations

As part of the Department's overall regulatory reform initiative, the Department published the Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform Proposed Rule in

the Federal Register on January 6, 2015, for a 60-day public comment period. The Secretary received a significant number of requests from stakeholders, particularly from the Governors of Montana and Wyoming, with requests to extend the public comment period. ONRR published a notice in the *Federal Register* on February 13, 2015, announcing that the comment period has been extended by 60 days to May 8, 2015.

The proposed “Valuation” rule clarifies and reforms valuation criteria that have not kept pace with significant changes that have occurred in the domestic energy markets. The recommended changes are designed to simplify and clarify aspects of the existing regulations, decrease industry’s cost of compliance and the government’s cost of enforcement, streamline audits, and reduce the risk of litigation. ONRR’s goal is to make the regulations more understandable and provide early certainty to industry and ONRR that companies have paid every dollar due.

The recommended regulatory changes would not alter the underlying principles of the current regulations. For example, by proposing these amendments, the Department reaffirms that, for purposes of determining royalty, the value of crude oil and natural gas produced from Federal leases and coal produced from Federal and Indian leases is determined at or near the lease, and that gross proceeds from arm’s-length contracts are the best indication of market value. In non-arm’s-length or no-sale situations of natural gas from Federal leases, ONRR proposes to eliminate current benchmarks (a series of indicators used to derive market value) and replace them with options to use the first arm’s-length-sale price or publicly available index prices. In situations where Federal and Indian coal lessees sell their production to an affiliate, ONRR proposes to eliminate the coal benchmarks and instead rely on the affiliate’s first arm’s-length sale of the coal to value the production for royalty purposes.

Another significant proposed change is adding a new “default provision” that addresses valuation situations where circumstances result in the Secretary’s inability to reasonably determine the correct value of production. Such circumstances include, but are not limited to, the lessee’s failure to provide documents, the lessee’s misconduct, the lessee’s breach of the duty to market, or any other situation that significantly compromises the Secretary’s ability to reasonably determine the correct value.

Legislative Proposals

The 2016 President’s budget includes a suite of legislative and offsetting collection proposals affecting spending, revenues, and available budget authority that require action by Congressional authorizing committees.

As indicated by the Secretary of the Interior in her hearings before this Committee, the Administration is committed to ensuring American taxpayers receive a fair return from the sale of public resources and taxpayers throughout the Country benefit from the development of offshore energy resources owned by all Americans. The Administration proposes to work with Congress on legislation to redirect funds currently allocated to Gulf of Mexico Energy Security Act of 2006 (GOMESA) revenue-sharing payments to select States from Gulf of Mexico oil and gas leases; under current law, 37.5 percent of qualified OCS revenues are distributed to only four coastal States. The Administration proposes to redirect these payments, which are set to expand

substantially starting in 2018, to programs that provide broad natural resource, watershed and conservation benefits to the Nation, help the Federal government fulfill its role of being a good neighbor to local communities, and support other national priorities.

The Administration has also proposed a package of legislative reforms to bolster and backstop administrative actions being taken to reform management of Interior's onshore and offshore oil and gas programs, with a key focus on improving the return to taxpayers from the sale of these Federal resources and on improving transparency and oversight. Proposed statutory and administrative changes fall into three general categories: advancing royalty reforms, encouraging diligent development of oil and gas leases, and improving revenue collection processes.

Conclusion

Thank you for the opportunity to testify on the President's 2016 budget request for the Department of the Interior's Office of Natural Resources Revenue. Full funding of ONRR's budget will strengthen the Department-wide management and accountability of natural resource revenues, support the clarification and simplification of regulations governing valuation, provide opportunities to make ONRR's data more understandable and accessible, leverage our expertise to improve the Department's onshore and offshore production measurement inspection programs, and ensure the collection of every dollar due. This budget is responsible, and proposes to maintain core capabilities as well as support the continued improvement of ONRR. I look forward to answering questions about this budget. This concludes my written statement.