STATEMENT OF
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COMMITTEE ON RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
HOUSE OF REPRESENTATIVES

March 10, 2005

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify today on the Fiscal Year (FY) 2006 budget request for the Minerals Management Service (MMS). We have looked closely at our ongoing operations and responsibilities and this request reflects our best assessment of the funds needed to carry out mission critical MMS activities during FY 2006.

The FY 2006 request is $290.2 million in current appropriations and offsetting receipts, a net increase of $12.6 million over 2005. The request for direct appropriations is $167.4 million, a decrease of $6.4 million from the FY 2005 enacted level. Offsetting receipts are estimated to be $122.7 million, an increase of $19.0 million over FY 2005. The FY 2006 budget for MMS includes $19.0 million in new user fees.

Our budget request is based upon our accomplishments in successfully implementing programs that are vitally important and contribute significantly to the Nation's economic well being and energy security. It is also based upon the challenges confronting us during the next fiscal year and beyond, which are the reasons for the increases in budgetary requirements. The request includes funding to:

- Manage the regulatory and inspection requirements associated with deep water oil and gas exploration and development. Deep water activity has, over the last decade, led to an increase of over seventy-five percent in the amount of crude oil produced from our offshore waters.
- Ensure that the Nation continues to receive fair market value for its mineral assets through existing royalty collection, Royalty-In-Kind, enhanced geologic interpretive technologies and improved bid evaluation models.
- Manage the re-engineering of our business process in the transition to a more efficient E-government environment.
- Manage Indian mineral trust records.
- Expand partnerships with stakeholders by providing resources to allow individual tribes and states to assume more responsibility in the areas of compliance and auditing as well as continuing to maintain and improve our role as stewards of American Indian mineral assets through the implementation of an Indian Compliance Assurance Initiative.

The MMS, a federal agency within the Department of the Interior (DOI), is responsible for managing the Nation's oil, natural gas, and other mineral resources on the Federal Outer Continental Shelf (OCS) and the mineral revenues from OCS, Federal, and Indian lands. To carry out this mission, MMS manages two very important programs – the Offshore Minerals Management (OMM) Program and the Minerals Revenue Management (MRM) Program. Collectively, these programs manage activities that generate 30 percent of America's domestic oil production, 23 percent of domestic natural gas production and an average of over $6 billion in annual revenue for the Nation, States, and American Indians.

In FY 2004, MMS disbursed $9.3 billion in mineral revenue in accordance with legislated formulas, as follows:

- $4.6 billion deposited to the General Fund of the U.S. Treasury;
- $1.2 billion disbursed to states;
- $1.2 billion (equivalent value) of oil transferred to the Strategic Petroleum Reserve
- $924 million credited to the Reclamation Fund;
- $900 million transferred to the Land and Water Conservation Fund;
- $354 million for American Indian Tribes and Allottees; and
- $150 million for the Natural Historic Preservation Fund.

The receipts I have described above are derived from the accomplishment of the Bureau's two program missions. Since 1994, OCS oil production has increased 63 percent and MMS revenue collections have increased 155 percent. The FY 2006 MMS request provides the resources necessary to meet the increasing demands and expanding responsibilities, brought on by constantly changing external factors, such as technological and industry innovations on the OCS and regulations and litigation that affect the collection and distribution of mineral revenues. I would now like to review a few of MMS's recent achievements and what MMS sees as its challenges for the future.

Offshore Minerals Management Program Achievements

Providing Energy for America

The Federal OCS is a major supplier of oil and natural gas for the domestic market, contributing more oil and natural gas for U.S. consumption than any single state or country in the world. The U.S. is now in its ninth year of sustained expansion of domestic oil and gas development in the deep water area of the Gulf of Mexico (GOM). The OCS now accounts for almost 30 percent of domestic oil production and about 23 percent of U.S. natural gas production. Within the next 5 years, offshore production will likely account for more than 40% of oil and 26% of U.S. natural gas production, owing primarily to deep water discoveries.

Deep Water Gulf of Mexico Production

In 2004, operators announced 14 new deep water producing projects and 14 new deep water discoveries. Anticipated production from these facilities will help sustain production increases in deep water, and additions such as *Thunder Horse, Atlantis,* and *Mad Dog* will dramatically raise production in 2005 and 2006. Still, we expect that it will be several years before deep water areas of the Gulf of Mexico reach their potential. The continued use of royalty relief in the deep waters of the Gulf provides economic incentive to keep industry moving forward on new technologies and exploring deeper water frontiers. The deep water success story has helped to not only double oil production from Federal OCS lands over the last 10 years but to also stave off decline in OCS natural gas production by adding increased supply from deep water to take the place of declining shallow water production. Deep water oil production has risen 386% since 1996 and accounts for 62% of total Gulf production. Deep water gas is up 407% since 1996.

Lease Sale Implementation
DOI is continuing OCS oil and gas leasing and approval of exploration and development plans on predictable schedules. DOI is keeping to its 5-year lease sale timetable and has held all sales as planned and on time. In FY 2003 and 2004, MMS held seven lease sales—the 131^{st} through the 137^{th} competitive lease sales since OCS leasing began in 1954. In these seven sales, MMS leased 1,811 tracts in the Gulf of Mexico and in the Beaufort Sea offshore Alaska, bringing in more than $994 million in revenue from high bids (not counting future royalties and rentals) for the American people. Production from leases issued as a result of these sales will contribute substantially to future domestic oil and gas production and will provide royalties to the U.S. Treasury and adjacent coastal states.

OCS Economic Incentives
The continued success of the Offshore Program in part is due to MMS's judicious use of leasing incentives to promote continued industry interest and investment in new technologies for exploration and development to extend the frontiers of U.S. OCS development—such as deep and ultra-deep waters and from deep below the seabed in shallow waters of the Gulf of Mexico. Since 2001, the administration has continued incentive programs for deep water areas of the gulf and introduced new incentives for other areas. A recent incentive in the Gulf of Mexico offers exploration companies royalty relief to tap into reservoirs of natural gas deep under shallow waters that otherwise would be too costly and financially risky to attempt. Incentives are also being used in Alaska, where oil and gas exploration and development are expensive due to technological challenges. These include royalty suspension, subject to a price threshold; reduced minimum bid levels; and sliding scale rentals. The Beaufort Sea Sale held in September 2003 – the first to use these incentives – was the largest Beaufort Sea sale in a decade. MMS included lease stipulations intended to minimize effects to the environment and to the Inupiat people from any development of the area's oil and gas resources.

Safety and Environmental Protection
The MMS regards the safety of personnel, the environment, and operations as top priorities. Prevention is our most important safety strategy. The continued movement of industry into deeper waters and the overall increased industry activity in the Gulf of Mexico have increased both the level and complexity of monitoring and ensuring safe OCS operations.

In addition to the complexities of the operational activities, we must plan and prepare for the severe storms that frequently threaten large areas of the Gulf of Mexico. Consistent with our strategy of prevention, MMS and the oil and gas industry work together to make sure measures are in place to protect workers and minimize the possibility of pollution when storms occur.

The effectiveness of our preparations was demonstrated during the 2004 hurricane season. Hurricanes Charley, Frances, and Ivan devastated the coastlines of Florida and brought severe weather to the Gulf. Despite the fury of these storms, no injuries, fatalities, or significant pollution incidents associated with offshore facilities were reported—a significant tribute to the programs in place for safeguarding life, property, and the environment.

In the aftermath of Hurricane Ivan, MMS and industry inspections found that few of the 4,000 platforms or the 117 rigs working in the Gulf had sustained major damage. For the vast majority, the structural damage was relatively minor. However, together with the damage to several pipelines, the impacts on production were significant. As Hurricane Ivan made landfall on September 16, 2004, operators were reporting that shut-in production from the Gulf of Mexico amounted to approximately 1.4 million barrels of oil (82% of production) and 6.5 billion cubic feet of gas (52% of production). By October 1, 2004, the amount of production shut-in as a result of the hurricane had decreased to 484 thousand barrels of oil (28% of production) and 2.3 billion cubic feet of gas (18% of production). As of February 14, 2005, approximately 126 thousand barrels of oil per day of oil (7% of production) and about 146 million cubic feet of gas per day (1% of production) remained shut-in.

Offshore Minerals Management Program Challenges

Deep Water: America's Expanding Frontier

As industry strives to meet America's energy supply challenge, oil and gas exploration in deep water will very likely continue to experience high levels of activity. Much of the future role of the OCS can be addressed by exploring in deep (1,000 feet and deeper) and ultra-deep (5,000 feet and deeper) waters. MMS has made available various economic incentives to stimulate production of offshore oil and gas in deep water. Industry is responding by developing the technology and practices required to tap these resources. The role played by the MMS in this major energy expansion has been critical — from ensuring that the leasing plan is reliable and sales are timely held to the evaluation and approval of new technology. MMS also ensures the receipt of fair market value for the sale of the leases. MMS will continue to work with industry and respond to new challenges in drilling, protecting the environment, worker safety and infrastructure to serve deep water discoveries.

Ensuring the Safety of an Aging Infrastructure

The average age of all current OCS platforms is about 20 years. In order to have this infrastructure remain in safe and useful condition for years to come, it is important to properly protect and maintain wells, platforms, and pipelines through sound engineering standards and rigorous inspection. MMS is working closely with industry to ensure the continued safety of OCS facilities, protecting workers and the environment.

Managing Alternative Energy and Other Uses of the OCS
Increasingly, the Federal Government is advocating the use of renewable sources of energy and the private sector is considering non-traditional projects on the OCS. Managing access to the OCS is becoming more complicated with aquaculture, wind and wave power, hazard areas, artificial reefs, sand borrow sites, shipping, fishing, liquefied natural gas (LNG) ports and fiber optic cables competing for limited space. Energy-related types of projects are the subject of new legislation now pending before Congress. Others are governed by statute administered by other agencies. Potential competing uses may present MMS with increasingly complicated multiple-use and primacy issues. MMS may reevaluate environmental impact analyses and develop new lease stipulations and operating conditions as the alternative uses on the OCS expand. MMS expects to increase its coordination and consultation efforts to ensure that the DOI/MMS mineral resource domain remains accessible, that MMS-granted energy and non-energy mineral rights are protected, and that OCS related activities continue to be conducted in a safe and environmentally sound manner.

Maintaining Current Operations
MMS's FY 2006 Offshore Minerals Management budget contains three funding requests to meet current needs – Deep Water Helicopter Safety, MONTCAR Evaluation Model, and Geological Interpretive Technologies Support.

Deep Water Helicopter Safety
MMS inspectors visit offshore oil and gas facilities in order to conduct mandatory inspections and ensure compliance with MMS regulations. The Gulf of Mexico Region leases 14 single-engine helicopters that are suitable to reach the approximately 8,000 leases, 4,000 producing facilities, and 900 drilling sites in the GOMR annually. Helicopter contracts are negotiated by the Office of Aircraft Services and cover a period of five years. The current contract expires at the end of FY 2006. Since the current contract was negotiated, offshore operations have continued and will continue to move further offshore into deep and ultra deep regions of the OCS.

Typically, ultra-deep water areas are 100 to 200 miles offshore. Single engine helicopters, such as those currently contracted by MMS, have a range of 125 miles from base that allows enough fuel to return to the shoreline with an acceptable safety margin without refueling. Offshore fueling stations have allowed MMS to perform its mandated safety inspections. However, the current budgetary funding for fuel and helicopters is inadequate to meet the demands brought about by the increasing movement to ultra-deep water. The more frequent and longer flying distances to these facilities have increased the fuel costs and can potentially require larger helicopters to reach isolated locations. In order to address these needs, MMS is requesting $1,605,000 in FY 2006. Without this funding, MMS will be unable to achieve its inspection goals of conducting annual inspections for each production facility and monthly inspections for deep water drilling platforms. Inspections ensure safety, compliance, and environmental protection.

MONTCAR Evaluation Model

The MONTCAR evaluation model is maintained by OMM program headquarters staff and used by OCS regional personnel to develop the fair market value estimate on which MMS's bid acceptance/rejection decisions are based. It is a proprietary mission-critical program first developed in 1973 and has since undergone many updates and improvements. It has a number of advanced features and capabilities and currently fulfills program needs. However, as the model has evolved, it has become very complex. As a result, it is difficult to modify, requiring comprehensive testing of the entire model even for what seem to be minor changes. Increasingly longer lead times are required to institute necessary changes. The model is written in FORTRAN and is not up to modern programming standards, making it difficult to document.

It has evolved to the point where it would be easier and less costly to develop a new model rather than continuing to modify or attempting to convert the existing model. The $500,000 *MONTCAR Evaluation Model* initiative will fund a contracting effort to develop a new evaluation model. Deferring implementation of a new model beyond FY 2006 will result in a continuation of documentation and maintenance problems, slower response times, increased exposure to the risk of introducing errors during model revisions, and continued reliance on an experienced but aging workforce. Failure to expeditiously replace the existing MONTCAR model may ultimately result in delaying lease sales and/or jeopardizing our ability to determine and ensure receipt of fair market value, potentially leading to a significant loss in bonus receipts to the government.

Interpretive Technologies Support

Interpretive technologies improve the MMS's ability to assess and evaluate resources on the OCS. The effective evaluation of OCS resources is critical to assuring that the Treasury and the public receive fair market value for the resources over which MMS holds stewardship and to ensure that resource conservation issues are appropriately addressed in development decisions. Uninformed or inadequately informed decisions on the sale and development of offshore leases can potentially cost the Treasury and the public millions of dollars in lost revenues and decreases in domestic oil and gas production. The interpretive technology enhancements will allow MMS evaluators to maintain their technological competence and ensure the accuracy of our processes for reservoir analysis and tract evaluation.

The *Interpretive Technologies Support* initiative will fund additional geophysical data acquisition ($270,000), an additional data management contractor ($120,000), technical training to maintain credibility and expertise ($60,000), and a cooperative development program for geologists and engineers ($50,000). Without these tools, MMS will be compromised in its ability to maintain technological competence, improve the quality of its analysis and interpretations, and ensure optimal value for America's mineral assets.

Funding Offsets

Offsets to the FY 2006 OCS Lands funding request include savings resulting from the completion of the 3D Visualization Room (-$.610 million); the closure of the Pacific OCS

Region's Santa Maria District Office (-$.364 million, -2 FTE); and removal of funding for FY 2005 Congressional earmarks (-$3.4 million).

Minerals Revenue Management Program Achievements

Royalty-in-Kind (RIK) Program

The MMS has also been transforming its royalty collection processes through the Royalty-In-Kind (RIK) program, which has become an integral part of the agency's approach to managing mineral royalties. The commercial RIK program incorporates proven industry business practices and new management information systems to take royalties in-kind, rather than in-value, when it is revenue neutral and cost effective for Government and industry.

The RIK Five-Year Business Plan aims to enhance the RIK business model by optimizing transportation and processing returns, expanding MMS's customer base, diversifying contracting mechanisms, and transporting RIK volumes to market centers. The RIK program efforts return fair value on the public's royalty assets, reduce regulatory costs and reporting requirements, shorten the compliance cycle, and improve overall business efficiencies. In addition, taking royalties in-kind simplifies audits, reduces the number of audits performed, and decreases the likelihood of disputes and litigation when compared to taking royalty-in-value cash payments. Through the RIK program, MRM administers oil and gas production with an annual commodity value of over $3 billion.

The MMS implemented new RIK support systems in FY 2003, which are now fully integrated with other MRM systems. The three new RIK applications – Gas Management, Liquids Management, and Risk and Performance Management – provide information-management support tools and internal controls to manage MMS's commercial energy commodity portfolio successfully. The integrated compliance and asset management systems support MMS's ability to make asset management decisions regarding whether to take royalty in-kind or in-value, and ensure that optimal value is received for America's mineral resources.

Federal and Indian Compliance Assurance

The MMS compliance assurance activities represent a large and critical part of the operational strategy, ensuring that the Government is realizing fair market value, and that companies are in compliance with applicable laws, regulations, and lease terms. Through the Compliance and Asset Management (CAM) process, MMS ensures that the Nation's Federal and Indian mineral revenues, whether received through in-kind or in-value royalties, are accurately reported and paid in compliance with laws, regulations, and lease terms. This activity plans and conducts targeted and random audits and special reviews of mineral lessees and payors to detect and collect royalty underpayments. Primary CAM activities include enforcing industry compliance with lease terms and regulations, issuing enforcement orders, and supporting the mineral revenue litigation and appeals processes.

FY 2004 accomplishments included:

- Development of an Audit Quality Improvement Plan - of the 39 action items, 29 are completed and 10 are ongoing through May 2005;
- Implementation of the automated Compliance Information Management System, which was created to track audit and compliance cases and collections; and
- Implementation of MMS's revised Audit Manual, which reflects the revised Generally Accepted Government Auditing Standards that were issued in June 2003.

As part of its compliance assurance activities, MMS administers delegated and cooperative audit agreements with eleven state governments and eight Indian tribes. The newest delegated agreement was established in 2004 between MMS and the State of Alaska. In FY 2005, MMS will enter into a new cooperative agreement with the Chippewa Cree Tribe, increasing the total number of tribes to nine. The states and tribes are working partners and an integral aspect of the overall onshore compliance effort.

The MMS compliance activities have yielded significant additional revenues to states, tribes, individual Indian mineral owners, and the Federal Treasury. Since 1982, MMS's additional collections of royalties and interest, attributable to its compliance activities, totaled over $2.5 billion.

Indian Trust Responsibilities

The MMS places high emphasis on fulfilling its Indian Trust responsibilities. The Minerals Revenue Management Program annually expends more than 20 percent of its resources toward managing revenues from Indian lands. MMS continues to provide the highest possible Indian trust service in collecting and disbursing royalties from Indian lands to 41 tribes and to an estimated 30,000 individual Indian mineral owners (IIMOs).

MMS serves as an advocate for the interests of IIMOs. MRM operates in field offices that work closely with other Federal agencies to resolve Indian mineral issues and respond to the needs of IIMOs. These offices also administer special outreach and cooperative programs to educate and empower Indian mineral owners and engage them in the mineral revenue management process. In 2004, MMS resolved over 4,000 inquiries and conducted more than 50 outreach sessions.

Revised Valuation Regulations

Amendments to the Federal Oil Valuation Rule, published in 2004, will reduce litigation, assure more timely compliance, reduce administrative costs to both lessors and lessees, and make Federal leases more attractive for development and leasing. The final rule, effective August 1, 2004, addresses primarily which published market prices are most appropriate to value crude oil not sold at arm's-length and specifies which costs are allowable and not allowable as part of transportation deductions.

The Accounting and Auditing Relief for Marginal Properties, effective October 1, 2004, provides reporting relief and other request-based relief on low producing properties. The relief granted reduces administrative costs, promotes production and increases net receipts to the United States and States.

Minerals Revenue Management Program Challenges

Since MMS's formation in 1982, the energy industry has undergone significant changes. Over the years, MMS has successfully adapted to industry changes and become more operationally efficient. In addition to the continuation of MRM's core business processes, Compliance and Asset Management and Financial Management activities, MMS's FY 2006 budget contains three key initiatives for the MRM program.

Royalty-In-Kind (RIK) Program

In 2004, MMS released the Five Year RIK Business Plan for FY 2005-2009, which is designed to develop and deploy full business capabilities to actively manage the Federal oil and gas royalty asset stream in a manner that optimizes returns for the taxpayer, while at the same time, reducing administrative costs of this management activity. In FY 2006, MMS will continue to develop the strategies and business capabilities in the Five-Year Plan. Along with the RIK Business Plan, MMS has targeted a cumulative RIK incremental net revenue enhancement of $50 million over five years, based on oil and gas volume projections for the 5-year period and on historic RIK margins.

Through the end of FY 2004, MMS had taken 87.5 million barrels of Gulf of Mexico Federal royalty-in-kind oil and made deliveries to the Department of Energy for the Strategic Petroleum Reserve (SPR), nearly three quarters of the approximately 120 million barrels required to fill the SPR. When full in 2005, the SPR will contain approximately 700 million barrels of oil, providing a key link in the Nation's security network.

The 2005 MMS appropriation language provides authorization to use RIK receipts to offset transportation, processing, and administrative costs associated with filling the SPR. The SPR is expected to reach full capacity by the end of FY 2005. At that point, MMS will shift all viable SPR volumes to the commercial RIK program. Therefore, in FY 2006, $4 million is being added to ROMM Appropriations to offset costs that had been drawn directly from RIK revenue receipts.

Indian Compliance Assurance

The MMS places high emphasis on fulfilling our Indian Trust responsibilities. In FY 2006, MMS's continuing objective is to provide the highest possible Indian trust service in collecting and disbursing royalties from Indian lands. In FY 2006, the Hopi Tribe representative will have completed the IPA program and the Tribe has expressed interest in entering into a tribal cooperative audit agreement and assuming responsibility for compliance and audit workloads associated with a large coal operation on its tribal lands. Entering into the tribal cooperative agreement with the Hopi Tribe will increase to 92% the total amount of tribal royalties audited by tribes in FY 2006.

Implications of a recent judicial decision in relation to the Department's Indian Trust responsibility (*Shoshone and Arapahoe Indian Tribes of the Wind River Reservation v. the United States*) require MMS to further increase its oversight role with regards to tribes involved in cooperative audit agreements. To comply with this judicial decision, MMS requires funding to provide the additional oversight. Funding for and implementation of these initiatives will allow the Department to fulfill the Federal Government's Indian Trust responsibilities and its commitment to provide opportunities for Indian self-determination.

Records Management Improvement
The volume of reporting data MRM collects and maintains to ensure that mineral revenues are reported and disbursed accurately requires MMS to maintain extensive paper and electronic data warehouses to store information on leases, agreements, and production and reporting data. As an indication of the quantity of records MRM maintains, it recently inventoried a total of 13,718 cubic feet of paper records alone.

Management and maintenance of these records are instrumental to ensuring proper accounting, documentation, financial reporting, and protection of the Indian trust. In response to this identified need, in FY 2004, MRM initiated a multi-year Records Management Improvement Project (RMIP) to inventory records, update retention schedules, and develop and implement records management practices throughout MRM. This project ensures compliance with MMS, DOI, and National Archives and Records Administration (NARA) regulations. In FY 2006, MMS has requested funding that will enhance preservation, access, and storage of paper and electronic records.

Benefits of funding this request include:

- Improvement in the overall management of MMS records;
- Greater security and protection of documents and official records;
- Improved access due to electronic search techniques, which increases productivity and reduces the time spent searching for and obtaining documents and records;
- Simultaneous read-only use would be available to multiple individuals in multiple locations;
- Increased customer service through faster and more comprehensive responses to litigation discovery and FOIA requests; and
- Enhanced data access to state and tribal auditors, MMS staff in geographic areas other than the Denver metropolitan area, and potential BLM availability.

MMS's FY 2006 Budget Request

Highlights
The FY 2006 MMS budget request is $290.2 million in current appropriations and offsetting receipts, a $12.6 million increase over 2005. Offsetting receipts are estimated to be $122.7 million, an increase of $19.0 million over the FY 2005 enacted level. The request for direct appropriations is $167.4 million, a decrease of $6.4 million from the FY 2005 enacted level. The $12.6 million increase in overall funding will enable MMS to provide inspections in the frontier areas of the OCS; implement a records management

improvement project; update Gulf of Mexico resource evaluation technologies to keep pace with the private sector; continue the Royalty-In-Kind program; and allow MMS to continue improvements in areas of Indian trust. Within the additional funding is $3.5 million for fixed costs.

Increases in Offsetting Collection

The MMS is projecting additional revenues. The revenues are generated from a new permit-processing fee; upward adjustments in rental rates, which have not been updated or reflect inflation since 1996 for Gulf of Mexico sales; and user fees that were proposed in 2005. In total, in FY 2006 MMS proposes to collect $19.0 million in additional revenues from these sources. These revenues would be added to offsetting collections, for a total of $122.7 million, allowing for the reduction of annual appropriations by $19.0 million.

The FY 2006 Request includes the following increases and decreases in funding:

- An increase of $1.6 million for a Deep Water Helicopter Safety Initiative. Larger helicopters, capable of reaching platforms further from shore, are needed to ensure that MMS can safely meet the growing regulatory inspection requirements that result from increased deep water activity.

- An increase of $4.0 million for the Strategic Petroleum Reserve (SPR) to Royalty-in-Kind (RIK) Conversion. Once the SPR is filled (end of FY 2005), MMS will shift SPR volumes to the commercial RIK program as appropriate. The increase covers administrative costs associated with this RIK program increase.

- An increase of $1.2 million for a Records Management Improvement Initiative. The MMS collects millions of mineral leasing records annually. This project will enhance the preservation, access, and storage of records and electronic records management.

- An increase of $0.6 million for an Indian Compliance Assurance Initiative. The initiative draws upon the success of MMS's existing Indian cooperative audit (202) agreements. It is designed to allow individual tribes to assume more responsibility in the areas of compliance and auditing.

- An increase of $0.5 million for the MONTCAR Evaluation Model. This model, developed in 1973, is used by OCS personnel to develop fair market value estimates on which MMS' bid acceptance/rejection decisions are made. The model is badly in need of updating, and this effort will develop a new evaluation model.

- An increase of $0.5 million for Interpretive Technologies Support . Interpretive technologies improve MMS's ability to assess and evaluate resources on the OCS. This effort will fund additional geophysical data acquisition, an additional data management contractor, and technical training.

- A decrease of $1.4 million through administrative efficiencies. These reductions include the closure of the Jefferson, Louisiana Audit Office and the Santa Maria, California District Office. Also includes a reduction is administrative costs of $637,000 that will be achieved through operational efficiencies.

- A decrease of $1.1 million that will result from the completion of several FY 2005 initiatives. Funding is no longer necessary for the 3-D Visualization Room (-$0.6 million) and the Safeguarding Indian Records (-$0.5 million) initiative because they will be completed in FY 2005.

- A decrease of $3.4 million in funding for Congressional earmarks that were included in the FY 2005 Interior and Related Agencies Appropriations bill. This proposed decrease removes the funding for the following Congressional earmarks from the FY 2006 budget request: Center for Marine Resources and Environmental Technology (-$0.9 million), Marine Minerals Technology Center (-$0.9 million), Offshore Technology Research Center (-$0.6 million) and Hurricane Ivan Studies (-$1.0 million).

Revenue Sources

FY 2006 MMS Budget Summary *(dollars in thousands)*				
	FY 2004 Actual (Enacted)	FY 2005 Estimate (Enacted)	FY 2006 President's Request	Change from FY 2005 to FY 2006
ROMM Appropriation				
Offshore Minerals Management	139,288	148,278	148,341	+63
Minerals Revenue Management	79,732	75,417	87,329	+11,912
General Administration	44,489	46,855	47,476	+621
ROMM Subtotal	**263,509**	**270,550**	**283,146**	**+12,596**
OSR Appropriation	7,017	7,006	7,006	0
Total MMS Funding	**270,526**	**277,556**	**290,152**	**+12,596**
Offsetting Collections	-100,230	-103,730	-122,730	-19,000
Net Appropriated Funding	**170,296**	**173,826**	**167,422**	**-6,404**

The MMS receives funding for operations from three sources: the Royalty and Offshore Minerals Management (ROMM) appropriation, Oil Spill Research (OSR) appropriation and Offsetting Collections (primarily from rental rate receipts from offshore leases). In addition to appropriations for operations, MMS receives appropriations for distribution of the States' share of onshore mineral receipts. In FY 2006, MMS estimates that the States' share of these onshore mineral receipts will be approximately $1.8 billion. This amount is slightly lower than our FY 2005 estimate of $1.83 billion.

FY 2006 Proposed Permanent Appropriations (dollars in thousands)	
Mineral Leasing Associated Payments *(MLAP)*	1,788,141
National Forest Fund Payments to States *(Forest Fund)*	7,804
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	2,122
Total	**$1,798,067**

Conclusion

In 2006, MMS programs will collect an estimated $10.8 billion in revenues from minerals produced from offshore and onshore Federal and Indian lands. This income contributes to the funding of numerous 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 cover over $880 million in previously appropriated activities, releasing the equivalent amount of limited discretionary budget authority to address other Federal high priority programs. The FY 2006 MMS budget request will add another $122.7 million to that total.

Mr. Chairman that concludes my statement. Please allow me to express my sincere appreciation for the continued support that this committee has provided MMS. It would be my pleasure to answer any questions you or other Members of the Subcommittee may have at this time.