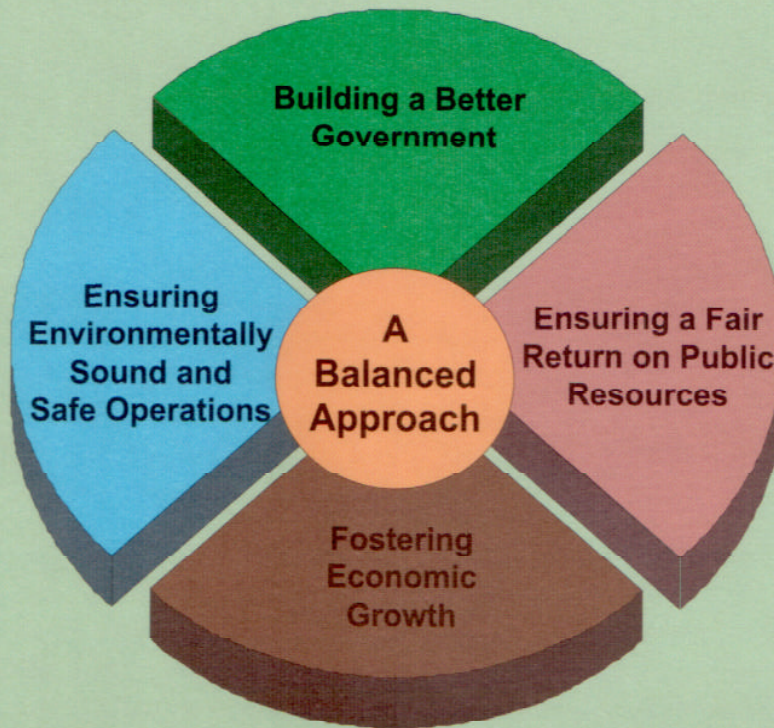




U.S. Department of the Interior Land and Minerals Management



Oil and Gas Program





United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

A BALANCED APPROACH TO MANAGING OIL AND GAS RESOURCES

I am pleased to present this overview of the Department of the Interior's initiatives for managing oil and natural gas activities on public lands. The document describes several recently completed major initiatives, as well as others we plan to undertake during the remainder of 1998. We are committed to sharing information widely about our activities and providing every opportunity for stakeholders and others to participate in building a comprehensive, balanced and efficient oil and gas program. This announcement is one more step in fulfilling that commitment.

Oil and natural gas from the Nation's onshore and offshore public and Indian lands are critical components of a strong United States economy. Each year, under the supervision of the Department of the Interior's Bureau of Land Management (BLM) and the Minerals Management Service (MMS), private companies produce about 1.5 billion barrels of oil and nearly 7 trillion cubic feet of natural gas from these lands. That's more than one-third of our total domestic natural gas production and about one-fourth of our oil production. The availability of these domestically produced resources means that more Americans have jobs, pay less for goods they consume and services they use, and generally enjoy a higher standard of living.

Last year, companies paid more than \$6.2 billion for the right to explore for and produce oil and natural gas from Federal and Indian lands, revenues that are distributed to the Federal Treasury, States, Tribes, and Indian allottees. Over \$600 million was disbursed to States, where the money will be used for schools, roads, and other public works. Additionally, over \$1 billion in revenues are deposited each year into the Land and Water Conservation and National Historic Preservation Funds to acquire, restore, and create parks, rivers, wildlife preserves, wilderness areas, and recreation facilities, and to restore and preserve national historic sites for future generations.

We already have taken significant strides in our efforts to ensure the continued production of oil and natural gas from public lands at reasonable prices. Recent evaluations of our onshore stripper well royalty rate relief showed its success after five years of implementation in promoting additional oil production. We are looking forward to seeing similar results from our heavy oil royalty rate relief to be evaluated soon. We recently finalized rulemakings to provide royalty relief for certain new and existing leases in the deep waters of the Gulf of Mexico. Royalty relief granted under earlier interim rules has contributed significantly to record-setting offshore lease sales and has made the Gulf of Mexico America's new energy frontier.

At the same time, we are taking steps to ensure that companies operating on Federal and Indian lands pay the monies they owe fully and accurately. We are revising valuation regulations for Federal and Indian oil and gas to simplify royalty payments, make

valuation methods reflective of modern market conditions and ensure the public receives fair value for its mineral resources.

We listen carefully to our customers--States, Tribes, local governments, the oil and gas industry, environmental groups, public interest organizations and the general public--to build on this record of accomplishment. To resolve their diverse and often conflicting views and implement minerals policies in the national interest, we have established four overarching goals.

Ensuring Environmentally Sound and Safe Activities - Our number one priority is to establish and enforce standards that protect the environment, ensure the safety of oil and natural gas activities on public lands, and conserve resources for future generations. Accidents that cause pollution or injuries or damage ultimate resource recovery undermine public confidence in a program that generates significant energy and economic benefits. Our policies must encourage safety and environmentally responsible performance while denying access to operators who fail to meet reasonable standards.

Fostering Economic Growth - Another important priority is to facilitate energy production that strengthens the U.S. economy. Production of oil and natural gas from public lands creates thousands of well-paying jobs and stimulates economic development nationwide. Domestic production reduces U.S. demand for foreign oil and moderates price fluctuations in international oil markets. In general, affordable energy gives all sectors of the economy a better opportunity to develop and expand.

Ensuring a Fair Return on Resources - We will ensure that the American people get fair value for their resources. Private companies paid about \$6 billion last year for the right to explore for and produce oil and natural gas from publicly-owned lands. Our job is to make sure that all such monies are paid and disbursed accurately and on time.

Building A Better Government - Finally, we will create a more efficient, customer-oriented oil and natural gas program. When regulations are required, we will make sure they are written in plain English, do not duplicate other existing requirements and do not impose unnecessary compliance and paperwork burdens. The Vice President's challenge for us to create a government that works better and costs less is not just a slogan for us; it's the way we do business.

Let me emphasize that these goals are interrelated. Progress in achieving one goal will not come at the expense of another. Rather, taken together, the goals constitute a comprehensive, balanced approach to managing Federal oil and natural gas resources. Similarly, the initiatives we will propose should not be considered in isolation but rather, the collective means by which we can transform our goals into actual operating practices.

As we proceed with these initiatives during the coming months, we always welcome your comments and recommendations.



Bob Armstrong
Assistant Secretary
Land and Minerals Management

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A BALANCED APPROACH TO MANAGING OIL & GAS RESOURCES

U.S. Department of the Interior

Bureau of Land Management

Minerals Management Service

OIL & NATURAL GAS STATISTICS 1996

	Onshore	Offshore	Total
Leases	46,000	6,500	52,500
Acres Leased	32 million	33 million	65 million
Production:			
Oil (barrels)	122 million	438 million	560 million
Natural Gas (cubic feet)	1,900 billion	5,000 billion	6,900 billion
Share of Total U.S. Production:			
Oil	5%	18%	23%
Natural Gas	10%	27%	37%
Bonus, Royalty and Rent Collections	\$800 million	\$5 billion	\$5.8 billion
Payments to States from Receipts	\$500 million	\$116 million	\$616 million

Department of the Interior Oil and Gas Initiatives — Timeline

Italics denote the Department's major initiatives.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Enhanced Oil and Gas Production Verification Efforts on Federal and Indian Lands (BLM)

PURPOSE: BLM offices continually discover discrepancies in the volumes of production reported by operators while conducting production records reviews. To ensure accurate royalties for oil and gas production on lands under BLM's supervision, the agency is implementing plans to re-emphasize and improve its production verification program.

STATUS: BLM State Offices recently reviewed their current verification practices and provided Washington a general plan on how they will conduct production records reviews. State funding allocations are being provided to finance a review-type position for each inspection office with a significant oil and gas program, for a total of 30 positions. The Director requested a report evaluating State Office results after 6 months of implementation.

HIGHLIGHTS & BENEFITS:

Ensuring a Fair Return on Public Resources:

- BLM is committed to ensuring that all production from Federal and Indian lands is reported accurately, so that proper royalties can be collected.

Building a Better Government:

- It is critical to ensure accurate production reporting without deterring from other equally important responsibilities such as the protection of the environment.
- Operations on supervised lands are conducted in accordance with the regulations.
- This effort will make better use of information already collected from industry.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Expanded Inspection Capability -- New Gulf of Mexico District Office, Supplemental Budget Request (MMS)

PURPOSE: The MMS requested funding for an additional 12 positions to expand the Lake Charles, Louisiana subdistrict to a full District office. The staffing will increase from 6 to 18 employees. The formation of a fifth full District office will more evenly balance the large workload at the field level and allow better safety and environmental oversight of operator companies and complex oil and gas facilities.

STATUS: The Administration submitted the supplemental budget request to Congress in March, 1998. The reorganization and shifting of boundaries is tentatively scheduled for Spring 1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- The additional staff and realignment of the District boundaries will alleviate the current workload strain caused by the rapid build-up in exploration and production activities over the last two years.

Environmentally Sound and Safe Activities:

- Safety on the OCS is MMS's number one priority. The increase in the number of inspectors will help MMS ensure that inspections and approvals are accomplished in a timely manner.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Federal Oil Valuation Rulemaking (MMS)

PURPOSE: This rulemaking amends Federal oil valuation regulations to reduce reliance on posted prices and increase use of index prices for valuation under non-arm's-length oil sales.

STATUS: Second proposed rulemaking published in the *Federal Register* on February 6, 1998. Comment period ends March 25, 1998.

HIGHLIGHTS & BENEFITS

Ensuring a Fair Return on Public Resources:

- Maintains gross proceeds as value for arm's-length contracts (includes arm's-length resales by affiliates)
- Non-arm's-length contracts: value standards differ for unique marketing areas of the country (adjusted for location & quality):
 - **CA & AK:** value based on AK North Slope (ANS) spot prices;
 - **Rocky Mountains:** value on MMS-approved tendering program; weighted average of arm's-length sales; or NYMEX prices; and
 - **Gulf of Mexico and Rest of Country:** closest spot price.
- Location, quality, and transportation adjustments based on actual costs or MMS published rates. (MMS would publish rates using information collected from industry on Form MMS-4415.)
- Marketing costs would not be deductible. (MMS would not dictate where lessees must market for mutual benefit of lessee & lessor.)
- Using index prices over posted prices: increase revenues to Treasury by \$66 million.

Building a Better Government:

- Workshops to discuss the rule and gather comments are scheduled in Houston, TX, on 2/18; in Washington, DC, on 2/25; in Lakewood, CO, on 3/2; and in Bakersfield, CA, and Casper, WY, on 3/12.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Indian Oil Valuation Rulemaking (MMS)

PURPOSE: Proposed rule will amend Indian oil valuation regulations by reducing reliance on posted prices and increasing use of index prices for proper valuation.

STATUS: Proposed rulemaking published on February 12, 1998, in the *Federal Register*. Comment period ends April 13, 1998.

HIGHLIGHTS AND BENEFITS:

Ensuring a Fair Return on Public Resources:

- Requires value on the highest of three methods :
 - (1) ARM'S-LENGTH GROSS PROCEEDS;
 - (2) AVERAGE OF FIVE HIGHEST NYMEX PRICES FOR THE MONTH, ADJUSTED FOR LOCATION AND QUALITY; AND
 - (3) MAJOR PORTION VALUE CALCULATED AND PUBLISHED BY MMS.
- Major portion value would be at the 75th percentile as opposed to the 50th percentile under current regulations. Current regulations require value based on the higher of only two methods: arm's-length gross proceeds (or benchmarks for non-arm's-length); or a major portion value.
- Location, quality, and transportation adjustments would be on actual costs or MMS published rates. MMS would publish rates using information collected from industry on new Form MMS-4416.
- Using the 75th percentile and using five highest NYMEX prices are advocated as being truer representations of what the lease terms require, i.e., the "highest price paid for a major portion of production."
- Expected revenue increases to Indians would be about \$3.6 million.

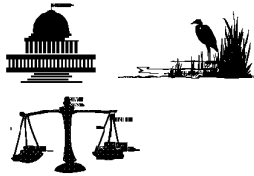
Building a Better Government:

- Planning to have public meetings on March 26, 1998, in New Mexico, and April 1, 1998, in Colorado, concerning the rulemaking.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Oil and Gas Comprehensive Rule (BLM)

PURPOSE: This proposed rule will simplify and streamline oil and gas processes, institute performance standards, and increase certain minimum bond amounts. It is part of the Department of the Interior reinventing government initiative and would revise the current BLM Federal oil and gas leasing and operation regulations. It would also revise and replace current BLM unitization regulations with a more flexible unit agreement process.

STATUS: Proposed rule package is undergoing intensive review within the Department by the Solicitor's Office and BLM. Proposed rule may be ready for publication Summer, 1998.

HIGHLIGHTS & BENEFITS:

Ensuring Environmentally Sound and Safe Activities:

- The proposed rule will help ensure healthy environments by increasing minimum bond amounts.

Ensuring a Fair Return on Public Resources and Ensuring Environmentally Sound and Safe Activities:

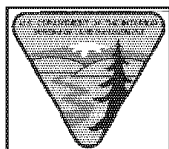
- Performance standards allow more flexibility for operators and at the same time ensure protection of the environment and Federal royalty interests.

Building a Better Government:

- The rule will streamline many application and reporting processes required of operators.
- Compliance with requirements will be easier because of easy-to-understand regulations.
- The proposal incorporates widely accepted industry standards.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Partnerships with States (BLM)

PURPOSE: The purpose of these programs is to improve the BLM's management of its oil and gas program. Specifically, Industry Environmental Partnerships will provide incentives to industry to undertake environmental projects benefitting public lands; the Star Program is designed to encourage excellence by operators on Federal lands by offering incentives for continued operations in an environmentally responsible manner and serves as an example for all operators in terms of compliance and reporting activities; and the Public Routes that Feature Energy Development would provide BLM with an opportunity to designate certain tours for the public as important to the development of energy while protecting the environment.

STATUS: The draft Concept Paper is under review. There are no plans for release until legalities and processes are cleared.

HIGHLIGHTS & BENEFITS:

Ensuring Environmentally Sound and Safe Activities:

- Partnerships would encourage industry to continue providing environmental work beyond that required for development. This initiative includes financial, regulatory, and public relations incentives. It would include national leaders from Federal and state government, industry, and the environmental community.
- The Star Operator Program would designate operators who are environmentally responsible. These operators would then be eligible for incentives not offered to less environmentally responsible operators.
- In the Public Routes that Feature Energy Development Program, the BLM would designate public routes that feature important examples of the contributions to history and the local economies from environmentally responsible energy development.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Royalty-In-Kind (RIK) Pilots (MMS)

PURPOSE: To assess the effectiveness of taking Federal oil and gas royalties “in-kind.” Federal government would take oil and gas royalties as a share of production rather than a cash payment based on its realized value.

STATUS: MMS is currently developing three RIK pilot programs: 1) onshore oil from Federal leases in Wyoming, 2) natural gas from leases in the 8(g) section of the coast of Texas, and 3) natural gas from Outer Continental Shelf leases in the Gulf of Mexico. The first 2 pilots are expected to begin taking oil and gas “in-kind” on October 1, 1998, while the larger OCS gas RIK pilot will begin on October 1, 1999. MMS is working with the States of Wyoming and Texas on the pilots where they have an interest .

HIGHLIGHTS & BENEFITS

Building a Better Government:

- The RIK pilots will tell us not only if RIK is an effective royalty collection method, but how, when, and where it makes sense to exercise the RIK option.
- MMS is using outreach meetings to obtain input on revenue impacts, transportation arrangements, competitive bidding procedures, bidding packages, timing of bids, reporting, auditing, and other administrative functions.

Ensuring a Fair Return on Public Resources:

- The option to take royalties in kind is a feature of both the Mineral Leasing Act and the Outer Continental Shelf Lands Act. Any election to take a lease’s royalty in kind would be based solely on its ability to better deliver full and fair value to the taxpayer. This is a difficult standard since under RIK, the government bears marketing costs that are not deducted from traditional “in-value” royalty collection. Accordingly, RIK has not been used as a substitute to “in-value” royalties, rather, only as a method to provide a secure supply of oil to small refiners.
- In some limited cases, MMS may realize, through RIK management, some increased value which could offset some of RIK’s higher cost. RIK may also reduce some of the administrative burden for both government and industry.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Stripper Property Royalty Rate Reduction Evaluation (BLM)

PURPOSE: In 1992, the BLM issued regulations which granted a royalty rate reduction for producers of onshore Federal oil stripper properties (properties that produced, on average, less than 15 barrels of oil a day per well). The regulations were intended to encourage operators of stripper properties to put marginal or uneconomic wells back into production. The lower oil royalty rate was also intended to encourage operators to undertake new oil-recovery projects that will increase domestic oil production. The regulations required that the BLM evaluate the effectiveness of these regulations by the end of FY 1997.

STATUS: Extension of this royalty rate reduction was approved by the Assistant Secretary and the decision announced with New Mexico Senator Bingaman in Roswell February 1998. BLM and MMS recently evaluated this program. This review included a public comment period, reviews of existing properties by both BLM and MMS, and computer modeling of properties in New Mexico to simulate what would have happened without the program. Based on this review, the BLM recommended in February that the program should continue.

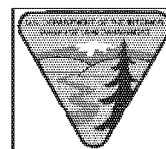
HIGHLIGHTS & BENEFITS:

Fostering Economic Growth, Building a Better Government:

- The program promotes additional oil production from marginal properties at a small cost in reduced Federal and State royalties. Royalty decreases were offset by revenue from the additional production, taxes, and indirect benefits.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Supplemental \$4 Million Budget Request for Deepwater Environmental Studies (MMS)

PURPOSE: The MMS is asking for \$4 million in additional funds to support new environmental and socioeconomic studies to address issues resulting from industry's increased activities in water depths greater than 1000 feet. MMS is committed to ensuring that development occurs in an environmentally sound and safe manner. There is a lack of deepwater environmental information for MMS to use in its decision making process. In addition, the high level of shore based activity has already impacted and taxed the existing infrastructure. The MMS has received requests from both state and local governments for assistance in resolving these difficulties. The socioeconomic studies required to address these issues are far more complex and comprehensive than have been previously conducted by MMS.

STATUS: The Administration submitted its request for supplemental funds to Congress in March, 1998. In the meantime, MMS is using what limited funds are available and is pursuing cooperative efforts with industry and the States to initiate a limited number of deepwater environmental and socioeconomic studies.

HIGHLIGHTS AND BENEFITS

Environmentally Sound and Safe Activities:

- Safety is MMS's highest priority on the OCS. These additional funds are vital to MMS to ensure that the best information is available to make decisions regarding deepwater development.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Deepwater Royalty Relief (MMS)

PURPOSE: In January, 1998, MMS issued guidelines and a Final Rule implementing the provisions of the Outer Continental Shelf Deep Water Royalty Relief Act. The Act mandated royalty suspension volumes for new fields that are discovered as a result of leases from sales held in 1996 through November 2000 in water depth of 200 meters or more in specified area of the Gulf of Mexico. In addition, the Act allowed lessees to apply for a royalty suspension for existing deep water leases. MMS at the same time formalized its royalty relief program for producing leases nearing the end of their productive lives.

STATUS: Final Rule issued in January, 1998. MMS anticipates 10 - 15 applications for royalty relief over the next year.

HIGHLIGHTS & BENEFITS

Fostering Economic Growth, Ensuring a Fair Return on Public Resources:

- Deep Water Royalty Relief has contributed to the large increase in leasing activity in the Gulf of Mexico. The number of deep water tracts bid on increased from under 80/year in 1993-94 to almost 900 in 1996 and almost 1,300 in 1997.
- Deep Water Royalty Relief has helped to spur the tremendous growth in deep water exploration and development. From 1993 to 1997, the number of Exploration and Development Plans filed in the Gulf of Mexico Regional Office increased by 43%, from 592 to 849.
- End of Life Royalty Relief enables lessees to continue to produce and pay associated royalties for leases nearing the end of their productive life. This reduces energy imports as well as maintaining the appropriate royalty payments.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Marginal Gas Royalty Relief (BLM)

PURPOSE: The BLM has decided not to grant a royalty rate reduction for marginal gas wells because such economic relief for producers would not be revenue neutral for taxpayers.

STATUS: A proposal to reduce royalty rates for producers of Federal marginal gas properties has been under study by the BLM. The primary criteria for the decision on the proposal was that any reduction in royalty rates should be revenue neutral for taxpayers. In March 1996, the BLM requested comments on the need for such a royalty rate reduction and suggestions for how such a program might work. Based on comments, the BLM prepared a proposed royalty rate reduction program and requested the Department of Energy to determine its possible results and consequences.

The final results of DOE's models were not encouraging in terms of the magnitude of relief possible for marginal gas properties while maintaining revenue neutrality. Extensive additional modeling was necessary in order to determine if "targeting" certain production ranges would increase the overall benefits to industry, the states and the public.

Before additional modeling was done, the BLM re-approached industry to discuss the implications of the latest DOE modeling. The meeting was held in Denver, Colorado, in April 1997. Based on the results of this meeting, which included a number of industry-recommended enhancements to the model and database, DOE re-ran the marginal gas proposal. Although there was some improvement, the results were still far from revenue neutral.

The BLM requested that DOE run the model one more time to determine the average natural gas price at which the proposal is revenue neutral. DOE completed the modeling and the results indicate that the reduction is not revenue neutral under any reasonable scenarios. Thus, the decision was made that the marginal gas royalty rate reduction program is no longer under consideration.

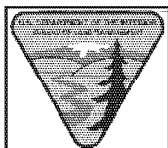
HIGHLIGHTS & BENEFITS:

Building a Better Government:

- The BLM found that a lower royalty rate for marginal gas wells would not stimulate sufficient tax-generating gas production to offset the Federal government's loss of royalty revenues. In fulfillment of our agency's responsibility to America's taxpayers, the BLM has decided it cannot reduce the royalty rate for marginal gas wells.

CONTACT

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Post-Lease Operations (Subpart A Rule) (MMS)

PURPOSE: MMS has issued a proposed rule which updates and clarifies our existing regulations regarding post-lease operations on the OCS, and places an emphasis on performing safe offshore natural gas and oil operations. Under the proposed rule MMS will have the authority to disqualify operators from acquiring additional leases if they have repeated poor safety performance, and in extreme cases, MMS could revoke a company's status as a designed operator. The rule also requires operators to provide MMS with written accident reports. These reports will help MMS to better understand the various factors causing accidents and to prevent similar types of accidents from happening.

STATUS: The proposed rule was published in the Federal Register on February 13, 1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- The proposed rule is written in plain English, and streamlines the Subpart A regulations and provides numerous tables to present previously hard-to-read text.

Environmentally Sound and Safe Activities:

- Safety is MMS's highest priority for offshore operations, and this regulation will strengthen our effort to make certain that our standards are as high as possible.

CONTACT

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Year of the Ocean Involvement and Coordination (MMS)

PURPOSE: The United Nations has declared 1998 as the International Year of the Ocean (YOTO). YOTO is an opportunity for governments, organizations and individuals to raise public awareness of the ocean's role in our lives. YOTO will focus the attention of the public, governments, and decision makers on the importance of the ocean and marine environment and highlight effective marine resource management. In recognition of MMS's major role as an ocean research and resource management agency, MMS Director Cynthia Quarterman was asked to serve as one of the three Federal representatives on the YOTO Steering Committee.

STATUS: Activities are scheduled throughout the year.

HIGHLIGHTS & BENEFITS

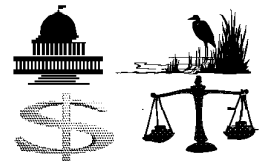
Environmentally Sound and Safe Operations:

- It is natural that MMS should have a shared responsibility on the ocean management component of the U.S. YOTO effort. MMS will highlight YOTO objectives and goals in its education and outreach efforts, and work with the other stakeholders on YOTO issues of national and international importance.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Alaska Development and Production Plans (MMS)

PURPOSE: Two Development and Production Plans have been filed for the Alaskan Beaufort Sea: The Northstar Unit and the Liberty project. MMS is working closely with other federal agencies, the State of Alaska and the North Slope Borough to ensure that development activities are based on careful environmental analysis, involving public input throughout the process.

STATUS: The Northstar EIS is scheduled to be published in the Spring of 1998. The EIS process for the Liberty project began in February, 1998. Production for both the Northstar and Liberty projects could occur as early as late in the year 2000.

HIGHLIGHTS AND BENEFITS

Building a Better Government:

- MMS is pleased to be working with the State of Alaska and other federal agencies to review the Development and Production Plans and conduct the environmental analysis. By working together we are eliminating redundancies in the process and utilizing the skills of all the participants -- improving the service to our customers.

Fostering Economic Growth:

- Production from both the Northstar and Liberty projects will increase domestic production helping to reduce the amount of oil imported into the U.S.

Ensuring a Fair Return on Public Resources:

- The U.S. Treasury and the State of Alaska will both receive royalties from these projects — the first from the Alaskan OCS. Royalty potential to the U.S. Treasury is estimated to be on the order of \$300 million.

Environmentally Sound and Safe Activities:

- Safety is MMS's highest priority on the OCS. The MMS is carefully analyzing the Development and Production Plans and the environmental studies being done for both of these projects to ensure that development takes place only when it can be done in an environmentally sound and safe manner.

CONTACT

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Amendments to Regulations Governing Suspension of Orders or Decisions Pending Appeal (“Self-bonding” Rulemaking) (MMS)

PURPOSE: This rulemaking will provide for “self-bonding” by allowing a company to substitute a determination of financial solvency for the current requirement that a surety be posted for each demand appealed. The rule retains the requirement that surety be posted for demands for payments on Indian leases. This rule will allow “self-bonding” for all appeals of demands for payments on Federal oil and gas, geothermal, and solid mineral leases.

STATUS: The proposed rule has been drafted. This rule may be merged with changes to the administrative appeals process rulemaking as the same sections of the CFR are impacted. If this rule is merged with the appeals rule, a projected date for publication in the *Federal Register* is late spring 1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- Implements provisions of RSFA for lessees or designees.
- RSFA requires MMS to allow companies to “self-bond” if they are financially solvent.
- Clarifies standard for financial solvency.
- Clarifies who must bond (or self-bond) under liability.

CONTACT

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: ALMRS, Automated Land and Mineral Record System (BLM)

PURPOSE: The ALMRS will link, for the first time, maps and case files onto a single desktop system which will enable BLM to answer questions about resources faster and more easily. Oil and gas industry will be one of ALMRS' main users. The state-of-the-art information system combines more than 200 years of history and more than one billion individual land and mineral records. It will enable the public to access data from all BLM States from a public room and to obtain information from the Internet.

STATUS: A Director top priority. Internal deployment occurred January 27, 1998, in New Mexico. External deployment expected April 1998 in New Mexico, followed by remaining States throughout 1998. ALMRS demonstrations are ongoing for BLM, Congressional, industry, and external groups.

HIGHLIGHTS & BENEFITS:

Ensuring a Fair Return on Public Resources:

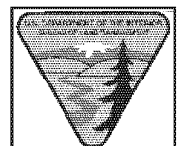
- Better information on land availability will improve industry's ability to lease and develop public resources.

Building a Better Government:

- Accurate, up-to-date, and easily accessible information will increase BLM's efficiency and ability to respond to oil and gas customer needs.

CONTACT

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Cooperative Efforts With States (BLM)

PURPOSE: To expand the long-established cooperative working relationships that BLM has with the various State oil and gas regulatory agencies.

STATUS: The effort to expand the working relationships is being diligently pursued and will be ongoing indefinitely. Memoranda of Understanding (MOU) or Cooperative Agreements for oil and gas activities are in effect in California, Colorado, Montana, New Mexico and Wyoming. Also, there is an MOU with the Arizona Geological Survey regarding coordination of the mineral resources. In addition, BLM has suggested to both North Dakota and Utah that a joint BLM/State MOU be developed. Michigan has requested discussions regarding training efforts and participation in the BLM Inspection and Enforcement Certification program.

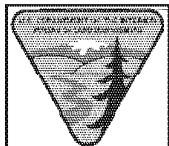
HIGHLIGHTS & BENEFITS:

Building a Better Government:

- BLM/State governments working closer on streamlining, resulting in overall savings. For example, in California operators submit only one permit and receive inspections from one agency for any given activity in the State.
- REGO II was the catalyst that resulted in sharing more information on a local level. For example, Colorado BLM entered into a resources sharing agreement with the State to more efficiently use inspection resources.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Dear Payor Letter Requiring Payors to Report Quality Measurement Data on Report of Sales and Royalty Remittance, Form MMS-2014 (MMS)

PURPOSE: Quality measurement is required for the correct calculation of Federal and Indian royalties and is used in major portion valuation determinations for Indian leases. Currently, the field on the Form MMS-2014 is requested but not required.

STATUS: We are currently issuing individual letters to companies that continue to improperly report quality measurement. We are attempting to reduce the number of lines that will reject when we increase the severity of the edit on this line. There are over 2,000 lines that reject monthly as a result of improper quality measurement reporting. Many companies are complying with our requests voluntarily. The actual change should occur by May 1998.

HIGHLIGHTS AND BENEFITS

Ensuring a Fair Return on Public Resources:

- Using the quality measurement data to determine if value for oil and gas is correct.
- Reducing delays in distribution of royalties to States and Tribes.

Building a Better Government:

- Reducing the number of lines that reject from the system.
- Major portion price determinations for Indian leases should be more accurate.
- Will be needed when new valuation regulations are finalized.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Electronic Reporting Rulemaking (Proposed regulation to require electronic royalty and production reporting by all companies.) (MMS)

PURPOSE: This proposed rule will amend MMS's regulations to require reporters to submit royalty and production reports electronically. The rule will reduce the costs and error rates associated with paper reporting. Currently over 80% of royalty and nearly 60% of production report lines are submitted electronically. The statistics show that electronic reporting reduces the number of errors due to transcription, key entry, etc. Although most major companies report electronically, there are still many companies that submit paper reports.

STATUS: The proposed rule will be issued in spring 1998. MMS is preparing companies by targeting higher volume and new reporters to convert to electronic reporting now. Also our outreach/training sessions with industry have a specific module on electronic reporting and the impending requirement.

HIGHLIGHTS AND BENEFITS

Ensuring a Fair Return on Public Resources:

- Substantial savings in data entry costs.

Building a Better Government:

- MMS had numerous options for electronic reporting.
- Rule should assist in prioritizing the electronic conversion efforts for companies.
- Companies submitting production reports electronically receive an additional 10 days to submit their reports. MMS will have sufficient time to process the reports and provide the data to States, Tribes, and other Federal agencies.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: High Energy Seismic Surveys (MMS)

PURPOSE: In 1998 the MMS, in coordination with the California State Lands Commission, will conduct a NEPA review of high energy seismic surveys on marine mammals and take steps to monitor and mitigate any potential harmful effects of seismic surveys conducted for prelease investigations or exploration or development on leases in southern California.

STATUS: The EIS/Environmental Impact Report process will begin in Spring 1998.

HIGHLIGHTS AND BENEFITS

Building a Better Government:

- MMS is coordinating with other federal agencies, the State of California, environmental groups, and the seismic industry to pool resources, minimize conflicts and make the best use of available expertise.

Environmentally Sound and Safe Activities:

- The MMS is committed to ensuring that exploration and development are conducted in an environmentally sound and safe manner. This study will help MMS assess the effects of High Energy Seismic Surveys on marine mammals and develop measures to mitigate any harmful effects.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Leasing Terms and Conditions Workshop (MMS)

PURPOSE: MMS plans to hold a workshop with Industry to discuss Leasing Terms and Conditions. Specifically the workshop will help MMS gather additional information in order to ensure that the lease terms and conditions specified for sales in the Gulf of Mexico are appropriate. MMS identifies specific terms and conditions for every Outer Continental Shelf gas and oil lease sale in the Final Notice of Sale. The Deepwater Royalty Relief Act of 1995 mandates royalty suspension volumes for new fields that are discovered as a result of leases from sales held in 1996 through November 2000 in water depth of 200 meters or more in a specified area of the Gulf of Mexico. The workshop will discuss the relationship between the advance in technology and decrease in costs for deepwater with specific lease terms and conditions. The information gathered through the workshop and other sources is vital to help MMS ensure that the American public receives a fair return for its resources.

STATUS: A *Federal Register* notice is being drafted that will notify MMS customers about the proposed workshop.

HIGHLIGHTS & BENEFITS

Ensuring a Fair Return on Public Resources:

- The information gathered through the workshop will assist MMS in determining if royalty relief for new leases should be extended beyond the year 2000.
- MMS is charged, through the Outer Continental Shelf Lands Act, with assuring the American people receive a fair return for their resources.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Resolution of the “Western Gap” Area (MMS)

PURPOSE: On October 22, 1997, the U.S. Senate ratified the 1978 U.S. Maritime Boundary Treaty which delineated the GOM and Pacific Ocean boundaries up to 200 nautical miles. The “Western Gap” is an area within the Gulf of Mexico beyond the 200 nautical miles over which the U.S. and Mexico may have overlapping claims. There may be significant oil and gas resources within the Western Gap. Resolution of the Western Gap boundary will provide certainty to the U.S. oil and gas leasing and development program.

STATUS: Formal negotiations between the U.S. and Mexico, to resolve the Western Gap area and establish a boundary, are scheduled to begin in March, 1998 in Washington, DC.

HIGHLIGHTS & BENEFITS

Fostering Economic Growth:

- Establishing a boundary which delineates the extent of each country’s continental margin will provide an opportunity for industry to lease and develop oil and gas resources in the U.S. portion of the Gap. Development and production of domestic oil and gas resources contributes economic and energy benefits to the Nation.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: OCS Lease Sales - Western and Central Gulf of Mexico, Alaska Beaufort Sea (MMS)

PURPOSE: MMS will conduct three OCS lease sales in 1998. These sales will occur in the Western and Central Gulf of Mexico and in the Beaufort Sea in Alaska. The production from leases issued as a result of these sales will contribute substantially to domestic oil and gas production and will provide bonuses, rentals and associated royalties to both the U.S. Treasury and bordering states.

STATUS: Central Gulf of Mexico Sale 169 - March 18, 1998.
Western Gulf of Mexico Sale 171 - August, 1998
Beaufort Sea Sale 170 - August, 1998

HIGHLIGHTS & BENEFITS

Fostering Economic Growth:

- Production from leases issued as a result of these sales will substantially contribute to domestic oil and gas production. Investments in and production of OCS oil and gas generate billions of dollars annually in bonuses, royalties, and taxes and create thousands of well paying jobs throughout the American economy.

Ensuring a Fair Return on Public Resources:

- MMS conducts bid adequacy reviews on bids submitted for OCS leases to ensure that the American people receive a fair return for their resources.

Environmentally Sound and Safe Activities:

- Production of offshore resources under proper environmental safeguards poses less risk of an oil spill than does importing foreign oil in tankers.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Oil and Gas Production Measurement (MMS)

PURPOSE: MMS will issue a Final Rule updating production measurement and surface commingling requirements. The regulations provide the basis for a gas verification system (GVS). The GVS will give regulators the means to request statements to check and support the volume and quality of gas sales and royalty payments. In addition, MMS will be able to collect data for gas that is not sold or is used on the leases. The regulations will also update and clarify the standards applicable to installing, operating and maintaining meters.

STATUS: The Final Rule will be issued Spring, 1998.

HIGHLIGHTS & BENEFITS

Ensuring a Fair Return on Public Resources:

- This rule is needed to help ensure that natural gas produced on the OCS is accurately measured and reported. Most of the production in the OCS is natural gas, and even a one percent measurement or reporting uncertainty could result in royalty revenue variations of \$15 million per year.
- The complexity in pipeline operating systems and the increasing use and value of natural gas makes the accuracy and reliability of meters even more important to ensuring product accountability and fiscal responsibility.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Oil Spill Financial Responsibility (OSFR) (MMS)

PURPOSE: MMS will issue a Final Rule to implement the financial responsibility requirements mandated by the Oil Pollution Act (OPA) of 1990. The rule sets forth the new requirements for persons responsible for oil and gas facilities located in the OCS and certain State coastal waters to demonstrate the ability to pay claims for cleanup and damages caused by facility-related oil spills. MMS is pleased with the changes Congress made to the oil spill financial responsibility provisions of OPA and takes its responsibility to manage OCS mineral resources in an environmentally sound and safe manner very seriously. These regulations will help MMS continue to protect the environment by ensuring that the party responsible for damage caused by spills from OCS and State coastal water facilities will be financially able to pay for the cost of cleanup.

STATUS: Final Rule will be published April, 1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- These regulations will enable MMS to protect the public interest without putting excessive economic burdens on affected businesses.

Environmentally Sound and Safe Activities:

- Helps MMS continue to protect the environment by ensuring that industry can pay for oil spill clean up and damages.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Submitting Bids at OCS Lease Sales via Electronic Funds Transfer (EFT) (MMS)

PURPOSE: After considering a number of alternatives, the MMS decided to offer bidders in Sale 168, Western Gulf of Mexico held in August 1997, the option of submitting the 1/5 cash bonus bid, required to be submitted with each bid on an OCS block, by electronic funds transfer (EFT). As the Nation moves into the twenty-first century, we have an opportunity to use advances in information technology to modernize the current bidding procedures for OCS lease sales with an electronic bidding process. True efficiencies and cost savings might be achieved. Current bid submission procedures require that the 1/5 cash bonus bid be submitted with the bid in cash, cashier's check, bank draft, or certified check.

STATUS: MMS is proposing to encourage the expanded optional use of 1/5 bonus bid submission by EFT for the March 18, 1998, Central Gulf of Mexico Sale 169. We are proposing to suspend, for bidders who use EFT and meet certain bonding conditions, the requirement to secure their EFT payment with a lump sum check.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- Submitting bids via EFT reduces costs, decreases industry's bid preparation workload, decreases paperwork, and ensures more accurate, quicker deposit of bid amounts.

Ensuring a Fair Return on Public Resources:

- EFT reduces government costs, allows bids to be deposited to the U.S. Treasury more quickly enabling more interest to be earned on deposits.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Valuation of Gas Production from Indian Leases (MMS)

PURPOSE: This rulemaking will ensure that Indian mineral lessors receive the maximum revenues from mineral resources on their land consistent with the Secretary's trust responsibility and lease terms. The rule will develop flexible valuation methodologies for Indian production that will provide accuracy for royalty valuation, and will improve major portion analysis and dual accounting procedures. The framework for this rulemaking was the product of an Indian Gas Valuation Negotiated Rulemaking Committee.

STATUS: This rulemaking is expected to be published in the *Federal Register* by spring 1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- Planning to conduct training sessions for industry to explain the rule and new reporting procedures in latter half of 1998.
- Payors do not have to file allowances forms in arm's-length situations for non-index areas or if they are in an index zone.

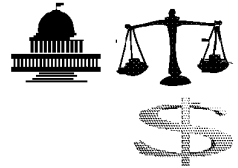
Ensuring a Fair Return on Public Resources:

- Lessees in an index zone will value gas based on an index formula using posted prices.
- Rulemaking provides for an alternative methodology for dual accounting for Indian gas.
- For leases not in an Index zone, the major portion percentage is increased .

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Accounting Relief for Marginal Properties (MMS)

PURPOSE: This proposed rulemaking allows royalty reporters to seek accounting, reporting, and auditing relief for their marginal properties in accordance with the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA). The rulemaking would explain to lessees and their designees how to obtain royalty accounting and auditing relief for their marginal properties. The stated purpose of this rulemaking is to promote production, reduce administrative costs, and increase net receipts to the United States and the States.

STATUS: The proposed rulemaking is expected to be published in the *Federal Register* by July 1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- The proposed rule specifies production requirements for marginal property status for accounting relief purposes and provides for six relief options. These relief options are: cumulative royalty reports and payments relief, net adjustments reporting relief, rolled-up reporting relief, alternate valuation relief, audit relief, and other relief.
- Rulemaking outlines processes involved for accounting relief for the lessee, the State concerned, and MMS.
- Rulemaking provides that the lessee must either notify MMS in advance or request approval depending on the relief option sought.

Fostering Economic Growth:

- Rulemaking will reduce the lessee's costs providing the lessee with more resources to keep marginal properties in production longer.

Ensuring a Fair Return on Public Resources:

- Rulemaking will reduce administrative costs to lessees and to MMS, and increase net receipts to the United States and States.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Coastal Marine Institutes -- Joint Research with States (MMS)

PURPOSE: The Coastal Marine Institute (CMI) program was developed by MMS to build partnerships with States experiencing OCS activities. Through the CMI, MMS and State institutions reach consensus on key offshore oil and gas and marine mining research issues. Research includes studies which answer questions about potential impacts from oil and gas activities such as environmental studies on the continental shelf and nearshore, and social and economic studies onshore. Through the CMI's, increasing numbers of students and faculty are engaging in OCS related research, developing new skills, and developing new information and approaches to solving management issues.

STATUS: The first Coastal Marine Institute was established in 1992 with the State of Louisiana. Subsequently CMI's have been established in Alaska and California. The cooperative agreements with Louisiana and Alaska will expire soon and discussions are underway to renew them for another 5 years. MMS anticipates these renewed agreements will be in place by late-1998.

HIGHLIGHTS & BENEFITS

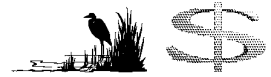
Building a Better Government:

- Equal cost-sharing Partnership with the States to conduct environmental and socioeconomic research on OCS oil and gas and marine mineral issues. CMI initiative combines research dollars thus allowing more studies to be funded than would otherwise be possible through the individual efforts of either MMS or the State.
- Strengthen relationships with States where OCS oil and gas activities take place, and improve the information flow to the States and the public.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Deepwater Environmental Assessment (MMS)

PURPOSE: The MMS is preparing an Environmental Assessment (EA) to identify and evaluate the significance of impacts from OCS deepwater activities; to identify deepwater activities/impacts that are the same as those on the shelf and those that are different; to identify appropriate mitigation measures; to focus subsequent NEPA documents; and to provide a summary of deepwater technologies, activities, and impacts.

STATUS: The Deepwater EA will be completed in July/August 1998.

HIGHLIGHTS & BENEFITS:

Fostering Economic Growth:

- Western Gulf of Mexico Sale 168 in 1997 was the largest ultra-deepwater (greater than 800 meters) lease sale in the history of the OCS Program.

Environmentally Sound and Safe Activities:

- The Deepwater EA will be used to identify and evaluate the significance of impacts from OCS deepwater activities and to focus subsequent NEPA documents.
- The Deepwater EA is just one component of an overall MMS Deepwater Strategy, which includes focusing Environmental Studies Program and Technical Assessment and Research projects on deepwater issues.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Designation of Royalty Payment Responsibility (MMS)

PURPOSE: The MMS will implement provisions of the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA) by authorizing the collection of information from lessees and payors concerning designations of other persons to make royalty and other payments on the lessee's behalf. RSFA provided that lessees, including operating rights and record title owners, who wish to have another person pay royalties on their behalf, must designate that person in writing.

Prior to enactment of RSFA, MMS allowed any person to pay royalties and other payments on a Federal oil and gas lease by declaring itself a "payor" for the lease and filing a Payor Information Form (PIF).

STATUS: On August 5, 1997, MMS published an Interim Final rulemaking that provides a mechanism to make the match between lessees and the persons they designate to make royalty and other payments on their behalf. In the summer of 1998, MMS will determine whether to publish another Final rulemaking, after receiving input from MMS's Royalty Policy Committee. MMS began the process of collecting payment designation information, and requested that lessees/payors provide information on whose behalf they are paying.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- RSFA resolved statutorily which parties are liable for royalty and other payments on Federal oil and gas leases for production after September 1, 1996.
- In 1999, MMS plans to publish two liability rulemakings: one for non-RSFA (solid minerals and Indian) leases and one for RSFA (Federal oil and gas) leases.

Ensuring a Fair Return on Public Resources:

- MMS has developed a Lessee Payor Update Database (LPUD) to track responsible parties and is entering designation data as it is received.
- The database is intended to assist MMS's Debt Collection personnel and other MMS employees in determining and invoicing the liable party for monies due MMS.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: National Petroleum Reserve Alaska (NPRA) Integrated Activity Plan (IAP) (BLM)

PURPOSE: The Integrated Activity Plan is being prepared to decide appropriate land uses, including identification of lands suitable for oil and gas leasing under appropriate conditions, and resource protections to be applied to the surface resources of the area. The BLM and the MMS are pooling resources, expertise, and personnel to cooperatively prepare the IAP/EIS; conduct an oil and gas mineral evaluation; and, if the decision process indicates, carry out the necessary lease sale planning actions in preparation for a lease sale.

STATUS: BLM, with assistance from MMS, has conducted outreach meetings and asked for public comments on the proposed IAP/EIS, including the various options, which range from leasing the entire area to not leasing any of the planning area. Comment period closed March 12, 1998.

HIGHLIGHTS & BENEFITS:

Ensuring Environmentally Sound and Safe Activities:

- Careful study of this issue will help ensure a healthy environment in the NPRA.

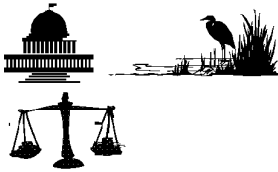
Building a Better Government:

- Careful study of this issue will result in a balanced approach to resource management and development in the NPRA. The pooling of resources among BLM and MMS allows expertise to be shared, enabling the process to proceed more quickly.
- Extensive outreach will ensure all interested publics will have a say in how their public resources are managed.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Proposed Rule on Oil and Gas Drainage (BLM)

PURPOSE: This proposed rule clarifies lessee responsibilities for protecting Federal oil and gas from drainage by wells on adjacent lands.

STATUS: Proposed rule was published January 13, 1998. At the request of industry, BLM is extending the comment period to May 15, 1998.

HIGHLIGHTS & BENEFITS:

Ensuring Environmentally Sound and Safe Activities:

- The rule clarifies obligations for environmental remediation.

Ensuring a Fair Return on Public Resources:

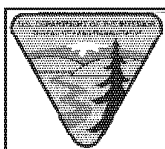
- This rule would help ensure that proper revenues are returned to the U.S. Treasury.

Building a Better Government:

- This effort responds to an Inspector General report and clarifies lessee responsibilities for protecting Federal oil and gas from drainage by wells producing on adjacent or nearby lands, when that responsibility begins and ends, and what actions are necessary to ensure that all obligations are met.
- The rule would lead to more efficient use of staff resources.
- The rule clarifies language that will likely reduce the number of appeals from industry that result from misunderstandings and imprecise language in the existing regulations.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Payment of Interest on Overpayment and Underpayments; Recoupments and Refunds (Interest Rulemaking) (MMS)

PURPOSE: This rulemaking implements specific provisions of the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA). These provisions require the MMS to pay interest on overpayments of royalties made on or after February 13, 1997, for oil and gas produced after September 1, 1996, under Federal oil and gas leases. This rule will not apply to Indian leases, Federal solid mineral leases, Federal geothermal leases, or to royalty payments for oil and gas produced from Federal leases before September 1, 1996.

STATUS: Rulemaking is expected to be published in the *Federal Register* by August 1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- Allows MMS to pay interest on royalty overpayments to payors.
- Allows those who pay royalty on Federal leases to calculate interest on both under- and overpayments and to report these amounts on the Form MMS-2014, Report of Sales and Royalty Remittance, to MMS.

Ensuring a Fair Return on Public Resources:

- Establishes MMS requirements for payors calculating and reporting interest on the Form MMS-2014.
- MMS will not pay interest on excessive overpayments to payors.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Performance-Based Training of OCS Lessee and Contractor Employees (MMS)

PURPOSE: A performance-based training regulation will help MMS ensure that OCS lessee and contractor employees are properly trained with the skills needed to perform their jobs in a safe manner. MMS believes the current school-based training regulation needs to be changed because companies are focusing on an employee's completion of a course rather than on ensuring their employees have the ability and skills necessary to perform their job. Safety is always MMS's primary objective. By focusing on **results** rather than on the **process** used to acquire job skills companies will be able to tailor their programs to the specific areas where their employees need training the most. MMS will reward companies which develop and implement an effective program by spending less time evaluating their training activities.

STATUS: A notice of proposed rulemaking requesting comments on this approach to training will be published in the Federal Register in mid-1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- Provides flexibility to industry to design their own training programs.
- Allows companies the opportunity to develop alternative training programs.
- Focuses on results rather than the process used to acquire job skills.

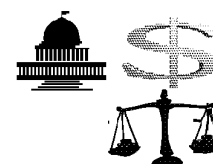
Environmentally Sound and Safe Activities:

- Helps MMS ensure OCS employees have appropriate job skills.
- Allows MMS to spend more time monitoring poor performers.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Amending Appeals & Hearing Procedures (BLM)

PURPOSE: The BLM is proposing to amend its regulations for administrative review procedures, including modification of State Director Review, to provide more consistency for review of BLM decisions. The proposed rule clarifies when and how BLM decisions go into effect and whether an appeal will stay the effectiveness of a BLM decision.

STATUS: The proposed rule was published on October 17, 1996. Based on significant BLM field office and public comment, it may be re-proposed in 1998.

HIGHLIGHTS & BENEFITS:

Ensuring Environmentally Sound and Safe Activities:

- The amendment provides for more timely resolution of environmental concerns and issues related to the approval of permits and authorizations.

Building a Better Government, Fostering Economic Growth:

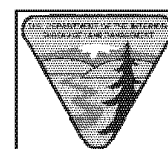
- This change would help reduce the backlog of formal protests and appeals, save BLM customers from costly delays, and foster better relations between BLM and its customers.

Building a Better Government:

- The amendment gives people who hold certain permits and authorizations and are cited for violating their authorization a way to potentially resolve disputes without filing a formal appeal.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Cost Recovery (BLM)

PURPOSE: This proposed rule would create or increase fees to cover the costs incurred by BLM to process many of the applications for permitting and reporting activities related to Federal oil and gas leases. Some fees will be based on average processing costs where those costs are predictable. Fees for more variable costs will be determined on a case-by-case basis. Increases in these fees have been recommended by the Interior Office of the Inspector General.

STATUS: The draft rule is under review and is scheduled to be released as proposed in late 1998.

HIGHLIGHTS & BENEFITS:

Ensuring a Fair Return on Public Resources:

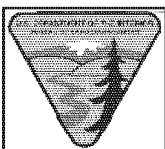
- BLM would be reimbursed for the costs it incurs to process some of the industry-generated permit applications and approvals. Costs would be paid by those entities who receive the most benefit.

Building a Better Government:

- Fee reimbursement will allow improvements in BLM's permitting processes by expediting application processing and allowing for greater accountability to applicants.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Destin Dome Environmental Impact Statement (MMS)

PURPOSE: Chevron has filed a Development and Production Plan for its Destin Dome discovery, approximately 25 miles offshore Pensacola, Florida. In its plan, Chevron proposes to drill as many as 21 wells and install 3 production platforms. In keeping with our mission to manage the resources on the OCS in an environmentally sound and safe manner, MMS began the Environmental Impact Statement (EIS) process on the Destin Dome development project in August, 1997. MMS has worked closely with the States of Mississippi, Alabama and Florida, and the affected coastal communities in developing the EIS for Destin Dome.

STATUS: The draft EIS will be made available to the public in late November 1998. Public Hearings will be held in the early part of 1999. The MMS approval of the plan, if appropriate, will not occur until late 1999.

HIGHLIGHTS & BENEFITS

Environmentally Sound and Safe Activities:

- MMS is committed to ensuring that development only occurs when it can be conducted in an environmentally sound and safe manner. MMS will consider fully all comments received during the EIS process.

Fostering Economic Growth:

- Consideration, and approval, if appropriate, of Chevron's proposal to develop the Destin Dome prospect may contribute substantial resources to total domestic production, as well as providing royalties to the Treasury.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Eligible Refiner Royalty-in-Kind (RIK) Oil Pilot Study (MMS)

PURPOSE: Royalty Management Program, MMS, is conducting a pilot study to explore more efficient alternatives for reporting and paying for Federal oil sold to eligible RIK refiners. This pilot will focus on using delivered RIK oil volumes for reporting and paying purposes rather than under our current procedure of using entitled volumes for billing small RIK refiners.

STATUS: This pilot study began in January 1998 and will run for 6 months. A report and recommendations will be submitted to the Director, MMS, in December 1998.

HIGHLIGHTS & BENEFITS

Building a Better Government:

- Significantly streamlines & re-engineers the eligible refiner oil RIK program.
- Cost savings to the government, small refiners, and operators/lessees.
- Operators/Lessees will not have to report RIK oil volumes on Form MMS-2014.

Ensuring a Fair Return on Public Resources:

- Brings RIK oil price certainty to the small refiner.
- Small refiners will be billed on delivered RIK oil volumes.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Exploration and Development Plans (MMS)

PURPOSE: The MMS is rewriting the regulations regarding Exploration and Development Plans to streamline and consolidate the extensive information requirements. The regulations will update requirements to reflect current procedures.

STATUS: The proposed rule will be issued in late 1998.

HIGHLIGHTS AND BENEFITS

Building a Better Government:

- The regulations will be streamlined and written in “Plain English” to be easier to understand.

Environmentally Sound and Safe Activities:

- The MMS is committed to ensuring that exploration and development is conducted in a safe manner. These regulations will update MMS requirements to reflect changes in procedures and the current state of technology.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Lease Decommissioning (MMS)

PURPOSE: MMS is updating the decommissioning regulations. We are gathering information on explosive versus non-explosive technologies, and site clearance concerns. More than 50 percent of the world's platforms are in the OCS. Furthermore, more than a quarter of the 3,800 platforms are more than 25 years old. As industry decommissions platforms and pipelines, it is important that the relevant technologies, policies, and regulations be in place to address the concerns of the public and industry.

STATUS: A draft rule updating the decommissioning regulations will be issued in late 1998.

HIGHLIGHTS AND BENEFITS

Building a Better Government:

- The regulations will be written in "Plain English" to be easier to understand and will be flexible enough to accommodate the complex issues without compromising environmental concerns.

Environmentally Sound and Safe Activities:

- Safety is MMS's highest priority on the OCS. The regulations will help MMS ensure that decommissioning is conducted in an environmentally sound and safe manner.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: North Carolina Exploration Plan (MMS)

PURPOSE: Chevron proposes to drill one exploratory well for oil and gas in the Manteo Prospect in mid-2000. The Manteo prospect is located approximately 40 miles east of Cape Hatteras, North Carolina. MMS and North Carolina held a workshop to discuss exploration drilling issues on February 4 and 5, 1998. MMS believes it has all the environmental information necessary to consider whether or not to grant Chevron a permit to drill this well. After an exploratory well is drilled, we will assess with North Carolina the need for any additional information.

STATUS: Chevron plans to file with MMS to go forward with the well in 1998. MMS will continue to work closely with the State of North Carolina as Chevron's proposal unfolds.

HIGHLIGHTS & BENEFITS

Environmentally Sound and Safe Activities:

- MMS is committed to ensuring that development only occur when it can be conducted in an environmentally sound and safe manner. MMS will consider fully all comments received during the EIS process.

Fostering Economic Growth:

- If Chevron makes a discovery on the Manteo prospect, and MMS deems environmentally sound and safe development is possible, the Manteo unit may contribute substantial resources to total domestic production, as well as providing royalties to the Treasury.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Oil and Gas Drilling Operations (MMS)

PURPOSE: MMS is updating the drilling regulations, found at 30 CFR 250, Subpart D to rewrite the requirements in “Plain English” and reflect current drilling technology. These regulations address drilling programs, well control systems, well casing and cementing, and drilling fluid programs. The regulations also contain information on how to apply for drilling permits and recordkeeping requirements.

STATUS: The proposed rule will be published in late 1998 .

HIGHLIGHTS AND BENEFITS

Building a Better Government:

- The regulations will be streamlined and written in “Plain English” to be easier to understand. It will also remove some overly prescriptive requirements.

Environmentally Sound and Safe Activities:

- The MMS is committed to ensuring drilling operations be conducted in a safe manner. These regulations will update MMS requirements to reflect changes in methodology and the current state of technology.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Rights-of-Way (BLM)

PURPOSE: The BLM is proposing to implement customer service standards and appropriate fees for applications of grants and right-of-way use on public lands. This initiative would reorganize existing regulations, increase cost recovery fees, and provide for improved customer standards.

STATUS: The proposal is currently under review by the Solicitor's Office. If published as is, industry reaction will be mixed—we expect opposition to fee increases, and favorable response to improved customer service and reduction of processing time/backlog. Scheduled for publication in Fall 1998.

HIGHLIGHTS & BENEFITS:

Ensuring a Fair Return on Public Resources:

- Revises rent and cost recovery procedures and policies to reflect changes in costs since the current regulations became effective in July 1987 and
- Eliminates automatic exemptions from cost recovery for Federal agencies except for those agencies and projects exempted by statute.

Building a Better Government:

- Clarifies how BLM will apply rent schedules for communication site rights-of-way and broadens the conditions for which BLM will require advance payment of rent.
- Improves usage efficiency by a short-term right-of-way instead of a temporary use permit for rights-of-way issued under the Federal Land Policy and Management Act of 1976.
- Reorganized regulatory material reflects the sequence in which BLM takes action on applications and makes decisions which will make the requirements easier to understand by industry.

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A Balanced Approach DOI Oil and Gas Initiatives

ISSUE: Safety and Environmental Management Program (SEMP) (MMS)

PURPOSE: MMS is working with industry to promote the voluntary adoption of SEMF by all OCS operators. The SEMF concept is designed for use by offshore operators to reduce the risk of accidents and pollution events associated with their operations by establishing clear safety goals and management tools for achieving them. The SEMF concept is currently embodied by the American Petroleum Institute's Recommended Practice 75 (RP75). Our current efforts under SEMF entail working cooperatively with industry to develop widely-used, commonly-defined measures of safety and environmental performance and to obtain data from OCS operators on these measures. This data will be reported back to industry and can be used by both the industry and the MMS to better focus our resources where they can be most effective. This approach was confirmed in a related Federal Register notice in August 1997.

STATUS: MMS will conduct a best management practices workshop in late 1998 to allow industry to share information on their SEMF programs.

HIGHLIGHTS & BENEFITS

Environmentally Sound and Safe Activities:

- The SEMF initiative is focused solely on enhancing industry efforts to protect both their people and facilities, as well as the marine environment.
- Our SEMF initiative is the backbone of many companies' safety management systems.
- We have worked collaboratively with every major trade organization and many company representatives to develop and improve this model, as well as to promote its adoption.

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