

# **RPC Recommendation Implementation Status Update**

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September 18, 2008

# How we got here.... the review

- On March 17, 2007, Secretary Kempthorne appointed an independent seven-member Royalty Policy Subcommittee charged with reviewing mineral revenue collection practices.
- The Subcommittee was co-chaired by former U.S. Senator and Nebraska Governor Bob Kerrey (D) and former U.S. Senator Jake Garn (R).
- On December 17, 2007, the Royalty Policy Subcommittee issued their draft report entitled, *Mineral Revenue Collection from Federal and Indian Lands and the Outer Continental Shelf*, which contained 110 recommendations.

# How we got here.... RPC acceptance and transmittal

- On January 17, 2008, the RPC accepted the Royalty Policy Subcommittee report and transmitted it to the Secretary for his consideration and implementation of the recommendations.



# What's in the report.....

## Areas Addressed by the Report

The Report provided **110 recommendations** covering 5 focus areas:

Focus Area	Number of Recommendations
Collections and Production Accountability (Chapter 3)	36
Audits, Compliance, and Enforcement (Chapter 4)	27
Coordination, Communication, and Information Sharing among MMS, BLM, and BIA (Chapter 5)	10
The Royalty in Kind Program (Chapter 6)	31
OCS Royalty Relief (Chapter 7)	6

Responsible Bureau	Number of Recommendations
Cross-Bureau Coordination	23
Minerals Management Service (MMS)	70
Bureau of Land Management (BLM)	16
Office of the Solicitor (SOL)	1

# Focus Area: Collections & Production Accountability (Chapter 3)

## 36 Recommendations

### Subcommittee Charge:

To review “the extent to which existing procedures and processes for reporting and accounting for Federal and Indian mineral revenues are sufficient to ensure that MMS receives the correct amount.”

### Issues Addressed:

- Accurate Reporting of **BTU Values**
- Collections Complexities under the Royalty Simplification and Fairness Act of 1996
- **Electronic Data** Submittals, Data Exchange, and Accounting Tools
- **Gas Plant Efficiency**
- Policy and Guidance for **Production Accountability** Activities
- **BLM Staffing** for Production Accountability Activities
- **MMS Staffing** for Revenue Collection Activities



# Focus Area: Audits, Compliance, and Enforcement (Chapter 4)



## 27 Recommendations

### Subcommittee Charge:

To review “the audit, compliance and enforcement procedures and processes of the Minerals Management Service to determine if they are adequate to ensure that mineral companies are complying with existing statutes, lease terms, and regulations as they pertain to payment of royalties.”

### Issues Addressed:

- Reallocation of Compliance Resources & Establishment of **Systematic Compliance Strategy**
- Establishment of **Risk-based Compliance Process**
- **Performance Measures**
- **Data reliability** issues due to compliance information systems that duplicate information
- **Clarification of rules** for onshore gas and transportation deductions and for solid minerals

# Focus Area: Coordination, Communication, and Information Sharing among MMS, BLM, and BIA (Chapter 5)

## 10 Recommendations

### Subcommittee Charge:

To clarify the respective roles of MMS, BLM and BIA with respect to the Interior's responsibilities associated with the extraction of onshore mineral resources on Federal and Indian lands in order to determine the level of integration of each bureaus' activities and sharing of information.

### Issues Addressed:

- **Notification to MMS and BLM** of the issuance of Indian Mineral Leases
- Improvements to **Interagency Coordination** and **Information Sharing**



# Focus Area: The Royalty in Kind Program

## (Chapter 6)

### 31 Recommendations

#### Subcommittee Charge:

To review “the operations of the Royalty in Kind program to ensure that adequate policies, procedures and controls are in place to ensure that decisions to take Federal oil and gas royalties in kind result in net benefits to the American people.”

#### Issues Addressed:

- **Growth of the RIK program**
- **Market Position, Organizational Structure, and Incentives**
- **Crude Oil Program:** Maintaining sufficient volumes for **viable onshore RIK program**
  - Low participation in the **small refiner** program
  - Requirement to fill **SPR** as a commercial transaction within the RIK program
- **RIK Personnel** Breadth and Depth
- **Performance Measures**
- **RIK Auction Procedures**



# Focus Area: OCS Royalty Relief: Lack of Price Thresholds in Offshore Oil and Gas Leases (Chapter 7)

## 6 Recommendations

### Subcommittee Charge:

In light of the controversy over the issue of oil and gas leases from 1998 and 1999 sales which were granted royalty relief without price thresholds, the Assistant Secretary – Land and Minerals Management asked the Subcommittee to comment on the offshore lease issuance procedures.

### Issues Addressed:

- The **1998 and 1999 leases** without price thresholds
- Offshore **lease issuance procedures**



# Implementation

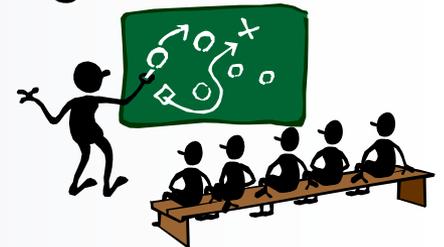
- On January 15, 2008, Secretary Kempthorne directed Interior officials to:
  - Begin implementing the Subcommittee recommendations as soon as the RPC approved the report, and
  - Begin developing an action plan.



# Strategy for success

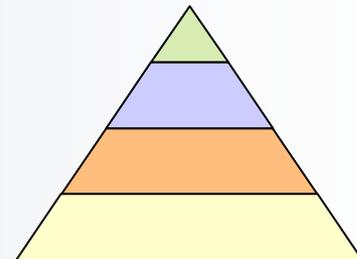
The Department is very engaged in implementing the recommendations of the Subcommittee and has taken many steps to ensure that implementation is fully supported:

- Our Strategy includes:
  - Senior Executive Involvement
  - Sound Planning and Routine Reporting
  - Rigorous Monitoring and Tracking



# Executive Involvement

- Assistant Secretary for Land and Minerals Management
- Bureau Directors
- Associate Directors in each Bureau
- Key Program Managers



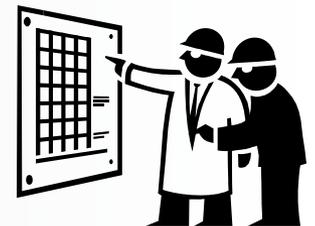
# Planning and Reporting

- Developed an Implementation Plan
  - Milestones
  - Target timeframes
  - Identified Leads
- Quarterly Reports to ASLM

Rec	Task	Recommendation	Agency(s)	Leader	Target	Status	Comments
		<b>Action Plan to Implement Royalty Policy Committee Subcommittee recommendations</b> <a href="#">Complete list of Recommendations</a>					* Timeframe Key: Short Term < 6 months Medium Term < 1 year Long Term > 1 year
<b>DRAFT - For Internal Use Only</b>							
6-19		MMS should secure dedicated legal support for the RIK program, ideally stationed within the program in Denver, Colorado, or otherwise in the Regional or Washington, DC Office of the Solicitor. Securing dedicated legal support should improve the ability of RIK personnel to interact with their industry counterparts and with industry lawyers.	SOL	John Kunz	Apr-08	Short Term Completed	MMS is funding a position in the Solicitor's Office for an attorney who will be dedicated to representing the RIK program. This attorney will be stationed in Denver, CO. The vacancy announcement for the position closed on January 15, 2008.
	6-19.1	Advertise Position			Jan-08	Completed	
	6-19.2	Review and interview candidates from qualified candidates list.			Mar-08	Completed	
	6-19.3	Selection of candidate.			Apr-08	Completed	4/28/08 Offer letter circulating within SOL; SOL notified MMS of attorney acceptance on 06/05.

# Monitoring and Tracking

- Established Implementation Steering Committee to ensure all RPC recommendations are adequately and timely addressed
- Established Production Coordination Committee to coordinate the implementation of cross cutting recommendations



# RPC Recommendation Implementation Steering Committee

The Implementation Steering Committee (ISC) consists of representatives from ASLM, MMS, BLM, and BIA, and is responsible for overseeing implementation of the Report recommendations.

## ISC Accomplishments to Date

- Reviewed each recommendation to determine which bureau/division would lead and which bureaus should participate
- Established approximate timeframes for each recommendation
- Developed a detailed Action Plan to track and manage implementation



# Production Coordinating Committee

The Production Coordinating Committee (PCC) is chaired by Michael Olsen, Deputy Assistant Secretary – Land and Minerals Management, with senior management level representatives from MMS, BLM, and BIA.

It provides high-level oversight and policy guidance

- To improve internal coordination and communication,
- To strengthen processes and procedures with Interior's bureaus related to operations and production accountability, and
- To address multi-bureau issues beyond the RPC recommendations.

## PCC Accomplishments to Date

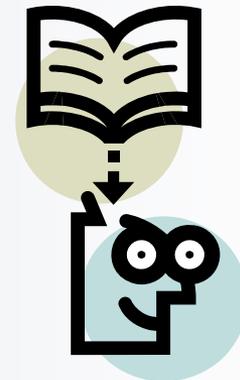
- Established by Charter
- 2 face-to-face meetings – one in DC (May), one in Denver (September)
- 1 Teleconference meeting (July)
- Formation of Sub-Teams



# PCC Sub-teams

The PCC established 5 sub-teams, comprised primarily of field experts, to coordinate and facilitate the implementation of certain recommendations:

- PCC Enterprise Architecture Team
- Fluids Team (oil, natural gas, and geothermal)
- Solid Minerals Team (coal, salines and other hard rock leasables)
- Production Accountability Team
- Gas and Oil Measurement Team



# Implementation Sub-Team: PCC Enterprise Architecture Team

## Team Responsibility:

Responsible for defining the processes, information requirements, and supporting automation related to insuring the proper collection of mineral royalties from federal and Indian resources. Focus is on BLM and cross-agency processes.

**Number of Associated Recommendations:** 19

## Key Activities:

- Define high level Enterprise Architecture
- Implement BLM Production Accountability program
- Improve information sharing between BLM, MMS, and BIA
- Update regulations and internal guidance.
- Update policy for publication of geospatial data

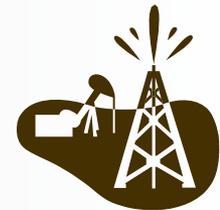


# Implementation Sub-Team: Fluids Team

## Team Responsibility:

Responsible for implementing RPC recommendations dealing with the technical aspects of gas and oil measurement.

**Number of Associated Recommendations:** 11



## Key Activities:

- Complete a study on Btu/gravity variability to determine appropriate sampling frequencies
- Develop interim guidance on Btu reporting and verification
- Participate in the revision of API 14.1 (Gas Sampling)
- Begin the revision of Onshore Orders 3, 4, 5, and 9 and 30 CFR 250.1203
- Begin implementation of the RDAWP pilot project
- Evaluate MMS LVS and GVS systems for onshore operations

# Implementation Sub-Team: Solid Minerals Team

## The Solid Minerals Team Responsibility:

Responsible for implementing RPC recommendations dealing with solid minerals, including:

- updating Solid Minerals' Inspection, Enforcement (I&E) and Production Accountability (PA) Guidance;
- Issuing policy regarding who should be completing and reviewing I&E and PA reports;
- Holding annual workshops for developing and sharing I&E and PA best practices, issues, concerns, and problem resolution;
- Certifying I&E and PA Inspectors and developing training courses; and
- Assuring BLM inspectors are equipped with appropriate technology.

**Number of Associated Recommendations: 6**



## Key Activities:

- Assess education, training, and experience levels for BLM Inspectors
- Determine skills and knowledge criteria required for certified BLM Inspectors
- Develop classes to maintain the skills and knowledge to perform I&E, PA, and mine design approval to obtain Maximum Economic Recovery
- Revise the MOU between BLM, BIA and MMS

# Implementation Sub-Team: Production Accountability Team

## Team Responsibility:

Responsible for the design of a comprehensive BLM production accounting process that begins with field inspections and follows through to MMS for royalty collection. The interagency goal is to determine the accuracy of reported production and royalty collections for a set percentage of overall production.

Recommendations address:

- Interagency communication and feedback,
- Tracking performance
- Staffing needs,
- Functional duties, and
- Training



**Number of Associated Recommendations:** 9

## Key Accomplishments:

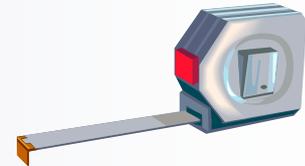
- Recommending new staff field office positions as a critical beginning point
- Identifying requirements for information sharing relative to PA
- Developing guidelines for managing Production Accountability Technicians

# Implementation Sub-Team: Gas and Oil Measurement Team

## Team Responsibility:

The Gas and Oil Measurement Team is responsible for analyzing new measurement technology, developing guidance on measurement issues, providing assistance and training to Field Offices as requested, and representing BLM at industry standards development organizations (API, AGA, GPA...).

**Number of Associated Recommendations: 1**



## Key Activities:

- Review data on flow conditioners and Wafer V-Cone meters and provide guidance
- Develop next version of the uncertainty calculator

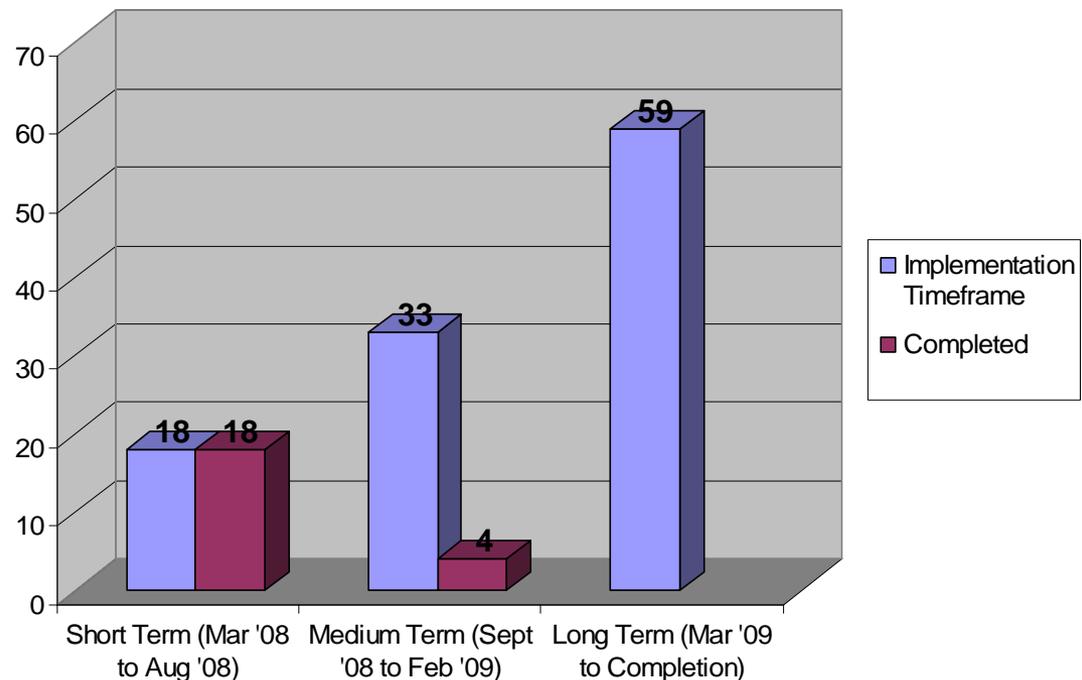
# Where we are...

## Recommendation Status

### As of August 2008:

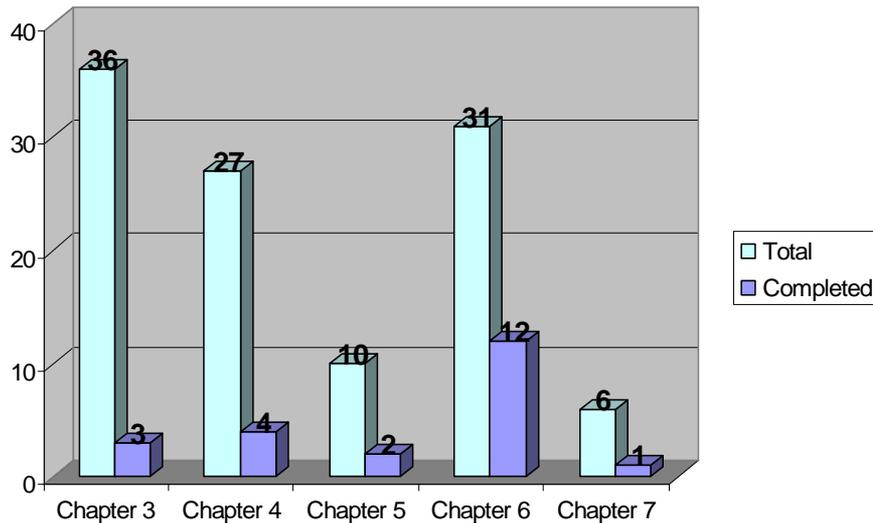
- **22** of the 110 recommendations have been completed
- All Short Term (< 6 months) Recommendations completed
- **29** additional recommendations to be completed by February 2009 (All Medium Term)
- All recommendations to be completed by December 2011

Recommendations by Implementation Timeframe

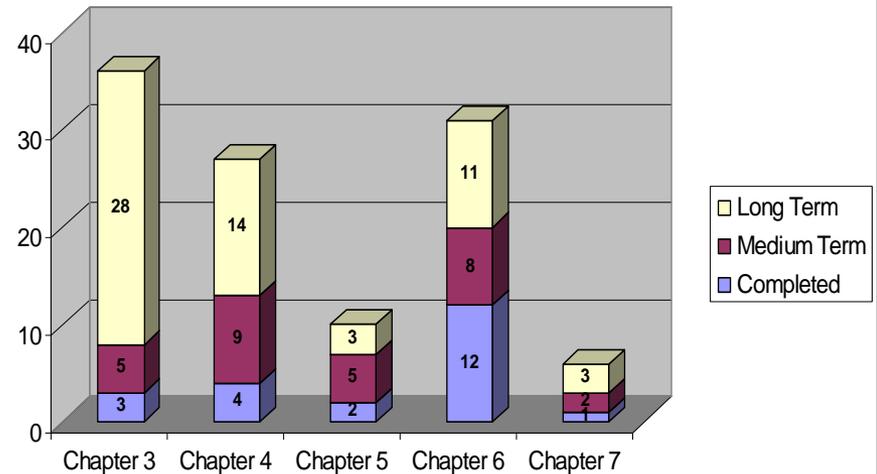


# RPC Recommendation Implementation Status by Focus Area

Recommendations by Chapter



Recommendations by Chapter and Expected Implementation Timeframe



Focus Area	Number of Recommendations	Number Completed
Collections and Production Accountability (Chapter 3)	36	3
Audits, Compliance, and Enforcement (Chapter 4)	27	4
Coordination, Communication, and Information Sharing among MMS, BLM, and BIA (Chapter 5)	10	2
The Royalty in Kind Program (Chapter 6)	31	12
OCS Royalty Relief (Chapter 7)	6	1

**Medium Term:**  
September 2008  
to February 2009  
**Long Term:**  
March 2009 to  
December 2011

# Completed Recommendations

**Recommendation 3-20:** MMS should provide BLM an updated MMS personnel contact list for production accountability issues, by operator.

**Outcome:** MRM's personnel contact list for production has been distributed to BLM field offices staff.

**Recommendation 3-27:** MMS should prioritize work resolving Oil and Gas Operations Report errors and enforcing compliance via written orders and civil penalties.

**Outcome:** In order to give greater priority to eliminating backlog, **additional resources have been added**. Plan is to eliminate all missing and rejected reports older than 90 days by 12/31/2008.

**Recommendation 3-28:** MMS should replace retirees with qualified contractors or trained non-permanent or seasonal employees.

**Outcome:** MMS has replaced many retirees with Defense Finance and Accounting Service employees in the Lakewood, CO area and with professional intern program candidates, and it will continue to look for other replacement opportunities.

# Completed Recommendations

**Recommendation 4-15:** MMS should evaluate performance measures used by other entities – specifically, the IRS “Balanced Measures” performance system.

**Outcome:** MMS held series of meetings with the IRS and OMB to discuss performance measures.

**Recommendation 4-16:** MMS should place a high priority on improving the processes and procedures associated with calculating interest on royalty payments.

**Outcome:** Interest process and interest calculations are now current.

**Recommendation 4-24:** MMS should finalize the “technical changes” Indian Oil Valuation rule immediately and forward to OMB.

**Outcome:** The **Indian Oil Valuation rule was issued December 17, 2007**, with an effective date of February 1, 2008.

**Recommendation 4-25:** MMS should propose an Indian oil rule by June 2008 to change the methodology for valuing Indian oil from a posted price method to a market index methodology.

**Outcome:** The Indian Oil Valuation rule – issued December 17, 2007 – removed the reliance on the posted price method to gross proceeds received by the lessor under arms-length conditions.

# Completed Recommendations

**Recommendation 5-3:** DOI should work to reconnect the systems containing Indian data after appropriate security measures are in place.

**Outcome:** Indian databases were repopulated into the Automated Fluid Mineral Support System (AFMSS) in July 2008.

**Recommendation 5-4:** MMS should revise the database management software password requirements to make passwords good for 90 days rather than 60 and to remind users to change passwords before the 90 days expire.

**Outcome:** DOI and MMS passwords now have a 90 day expiration policy.

**Recommendation 6-1:** MMS should establish an RIK subcommittee to the RPC to address performance benchmarks, volume verification and market positioning.

**Outcome:** RIK Subcommittee was established January 17, 2008 by the RPC.

# Completed Recommendations

**Recommendation 6-2:** The RPC RIK Subcommittee should provide appropriate and visible oversight of the RIK programs by conducting periodic reviews of the RIK program, both comprehensive and targeted, according to a fixed schedule.

**Outcome:** The **RPC RIK Subcommittee can perform reviews of the RIK program in an advisory capacity** and provide recommendations for consideration by the RPC and the Department. However, it was determined that the DOI Inspector General and the Government Accounting Office are the organizations responsible for oversight of the RIK program.

**Recommendation 6-6:** MMS should explore the feasibility of establishing a “trust fund” within Treasury, the interest from which could be used to fund DOI activities, particularly those related to royalty management.

**Outcome:** A concept paper was provided to the Department for consideration.

**Recommendation 6-11:** MMS should discontinue its onshore RIK crude oil program until it can be determined to be in the best financial interest of the government.

**Outcome:** The **onshore RIK oil program has been discontinued**. The last production was taken in March 2006.

# Completed Recommendations

**Recommendation 6-12:** MMS should prepare a decision document for RIK program executives, evaluating the conditions under which onshore oil sales should be taken.

**Outcome:** MMS does not have immediate plans to restart an onshore RIK oil program. Therefore this recommendation will not be pursued unless circumstances change. If circumstances change, then a complete study will precede any decisions.

**Recommendation 6-13:** Small Refiners' Program should be discontinued.

**Outcome:** MMS published a request for interest July 30, 2008 in the Federal Register for comment. Based on comments submitted by small refiners currently participating in the program, **MMS determined that the small refiners' program was necessary and has decided to continue it.**

**Recommendation 6-14:** MMS should amend its MOU with the Department of Energy to include reimbursement for administrative and contract costs incurred in transferring RIK oil to the Strategic Petroleum Reserve.

**Outcome:** It was determined that modification of the MOU is not necessary because RIK does not account for transportation costs in its sales for oil or gas. It is seen as the price of doing business. The costs incurred in transferring RIK oil to the SPR do not impact the MMS/RIK budget.

# Completed Recommendations

**Recommendation 6-15:** MMS should recognize and annually report on the opportunity costs associated with transfers of oil to the SPR using the performance measures established for the RIK program.

**Outcome:** The RIK SPR fill initiative was suspended by Congress as of June 30, 2008. Therefore, this recommendation is no longer applicable. Should the initiative be reinstated, MMS will establish such performance measures.

**Recommendation 6-19:** MMS should secure dedicated legal support for the RIK program.

**Outcome:** A **dedicated RIK solicitor was hired** in the Solicitor's Office as of June 5, 2008.

**Recommendation 6-20:** MMS should ensure that RIK personnel maintain their market expertise.

**Outcome:** MMS ensures expertise through participation in widely-attended and approved industry functions and outreach sessions to obtain information and also through monitoring intelligence publications such as Gas Daily, Inside FERC, and the Rockies Observer.

# Completed Recommendations

**Recommendation 6-25:** Performance measure calculations should be centralized in the RIK Economic Analysis Office.

**Outcome:** As of January 2008, these functions are now housed in the Economic Analysis Office.

**Recommendation 6-29:** MMS should codify the currently ad hoc approach of considering unsolicited bids in auctions to provide certainty for bidders and the RIK program about the auction procedures to follow.

**Outcome:** MMS has reviewed this issue and found that we have processes already in place that require all bidders to be prequalified in order for them to participate in the bidding process. MRM does not accept unsolicited bids from unqualified companies. Therefore, codification will not be pursued.

**Recommendation 7-3:** MMS and the Office of the Solicitor should coordinate to develop new procedures and guidelines, or revise any existing procedures and guidelines to ensure that the Secretary's February 15, 2007, memorandum is effectively implemented.

**Outcome:** OMM issued an Interim Policy Directive dated 09/07 supplementing Standard Operating Procedures for the lease sale process and post sale lease document preparation and tracking milestones as integral parts of the Leasing Process Handbook.

# Conclusion

The Department of the Interior is making great strides towards implementing these recommendations and anticipates completion of all of them by December 2011.

Thank you for your attention.

Questions?

