



U.S. Department of the Interior

Office of Natural Resources Revenue



Overview of the Office of
Natural Resources Revenue



Industry Compliance



Accountability



Professionalism & Integrity



History of Office of Natural Resources Revenue

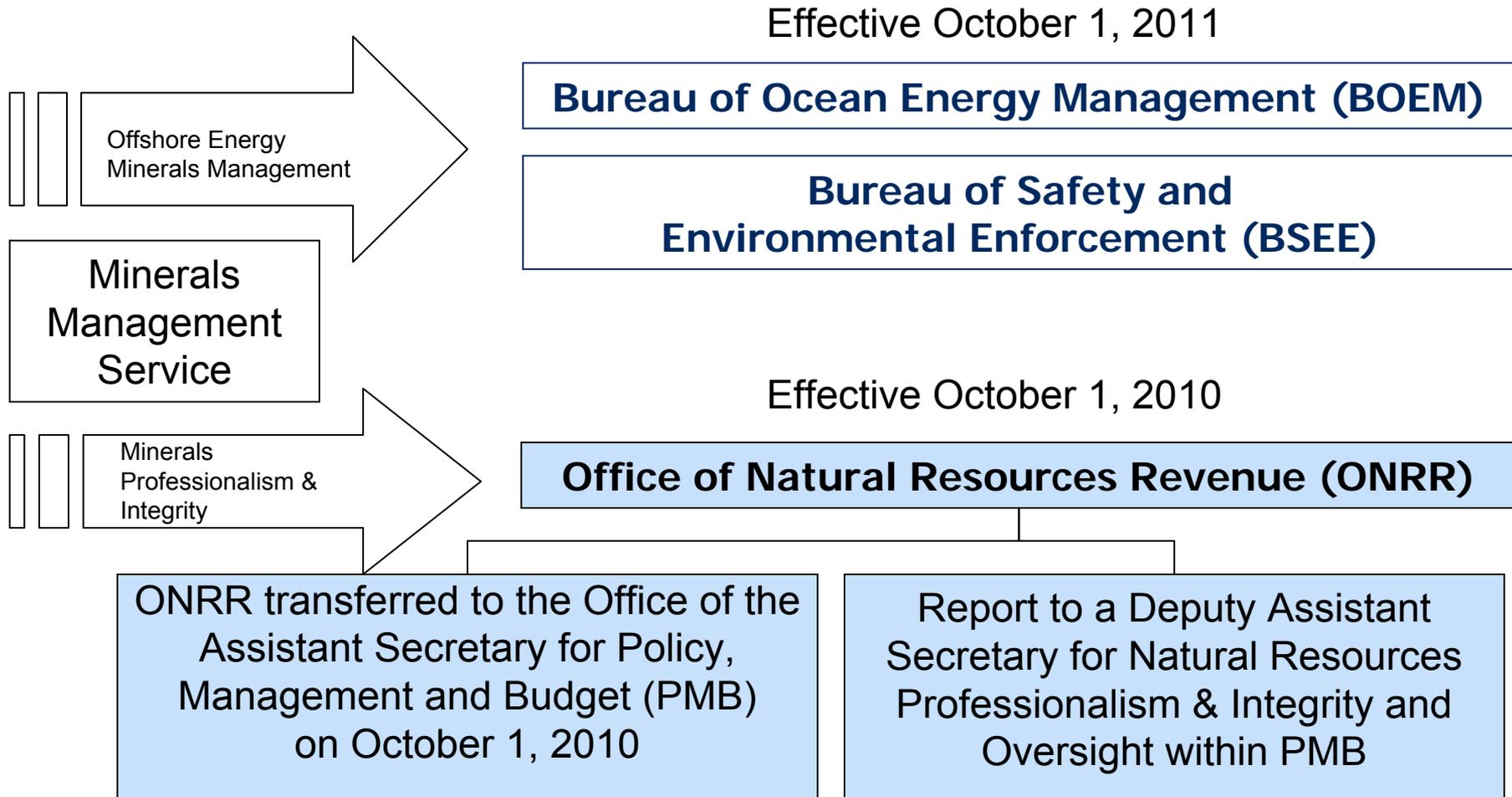
In the 1800's, DOI managed lands....

- U.S. Geological Survey (USGS) Regulations of 1936
Provided that the Secretary had the discretion to determine value for royalty purposes.
- In June 1981, President Reagan authorized the creation of a Presidential Commission, the “Linowes Commission”, to examine the fiscal accountability of the nation’s energy resource.
- In 1982, Minerals Management Service (MMS) was created within the Department of the Interior from the Conservation Division of the USGS to improve management of Federal leasing revenues.
- In October 2010, Interior Secretary issued Secretarial Order No. 3299 separating the MMS responsibilities into three distinct organizations, one of which was ONRR. Effective October 1, 2010, the functions of MRM officially transferred to ONRR, reporting to the Assistant Secretary for Policy, Management and Budget.





ONRR Transition from MMS – May 19, 2010 Secretarial Order





Reorganization of MMS

By Order dated May 19, 2010, Secretary Salazar restructured the Minerals Management Service into three new bureaus/offices:

Bureau of Ocean Energy Management (BOEM): A new bureau under the Assistant Secretary for Land and Minerals Management (ASLM) responsible for the sustainable development of the Outer Continental Shelf's conventional and renewable energy resources, including resource evaluation, planning, and other activities related to **leasing**.

Bureau of Safety and Environmental Enforcement (BSEE): A new bureau under ASLM responsible for ensuring comprehensive **oversight, safety, and environmental protection** in all offshore energy activities.

Office of Natural Resources Revenue (ONRR): A new office under the Assistant Secretary for Policy, Management, and Budget, responsible for the **royalty and revenue management** function including the collection and distribution of revenue, auditing and compliance, and asset management





Benefits of Restructuring

As DOI's newest organization, ONRR can:

Demonstrate its aspiration to be recognized as a world-class Professionalism & Integrity agency

Establish independence from leasing and inspection activities

Create greater transparency and mission focus as a stand-alone entity

Engage in a new level of cross-agency collaboration

Model specific improvements as a test case for broader DOI application

"The reorganization, has taken place as planned and without disruption, thus eliminating all prior conflicts, mitigating the risks of organizational change, and allowing greater focus on specific opportunities for improvement."

-- ONRR Director Greg Gould



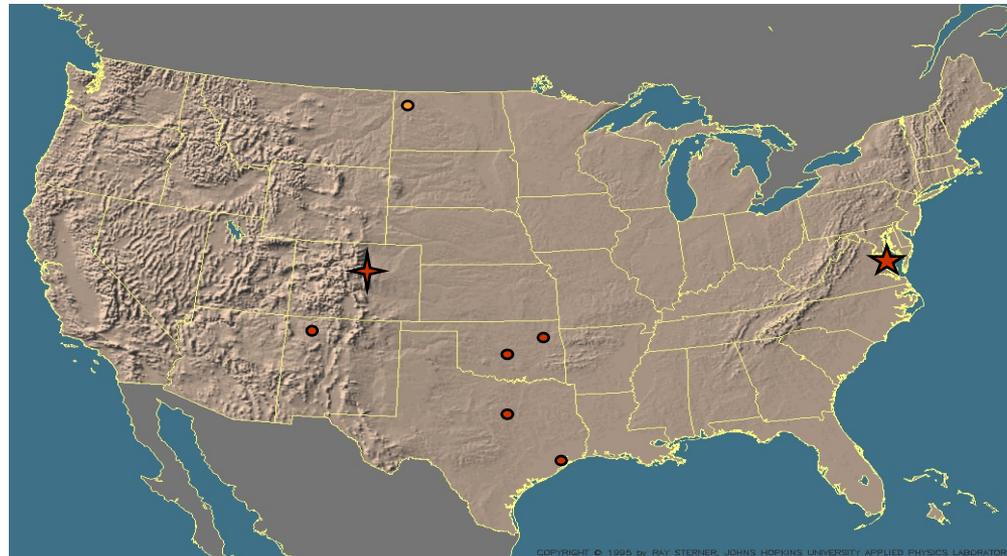


ONRR: Locations

Mission Statement:

To ensure the full and fair return to the American people of federal and Indian royalties and other monies owed for the utilization of public resources in the production of oil and gas, renewable energy and mineral resources located onshore and offshore.

Our office is with the Office of Assistant Secretary for Policy, Mgmt and Budget within the Department of Interior



Dallas
Denver
Farmington
Ft. Berthold

Houston
Oklahoma City
Tulsa
Washington D.C.





ONRR Program Areas

Financial and Program
Management



Coordination and Enforcement
Management

Audit and Compliance
Management





ONRR Functional Areas



Asset Valuation:

- Issue valuation guidance and determinations
- Review and respond to transportation and processing allowance requests
- Published two recent Advanced Notice of Proposed Rulemakings

Financial Management:

- Collect, verify, distribute all rents, royalties and bonuses
- Receive, process and verify industry submitted production & royalty reports

Audit & Compliance:

- Ensure that Federal and Indian mineral revenues are accurately reported and paid
- Conduct audits in accordance with Generally Accepted Government Auditing Standards

Office of Enforcement:

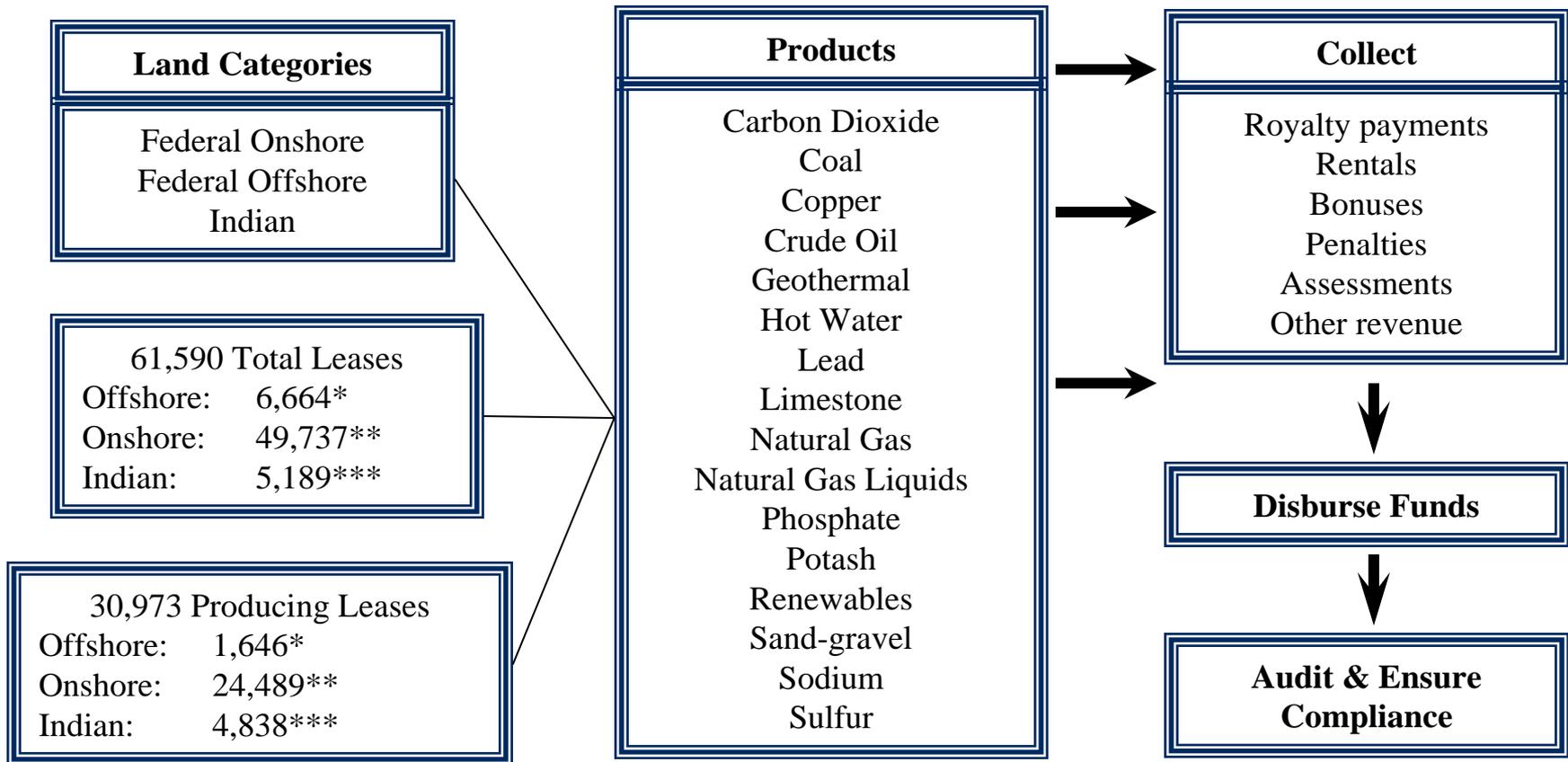
- Assist the program in securing industry compliance with regulations and orders

State and Indian Coordination

- Administer cooperative and delegated audit agreements with ten States and seven Tribes
- Conduct Outreach with Indian Tribes and Alottees



Current Leasing Activities



*Administered by BOEMRE

**Administered by BLM

***Administered by BIA



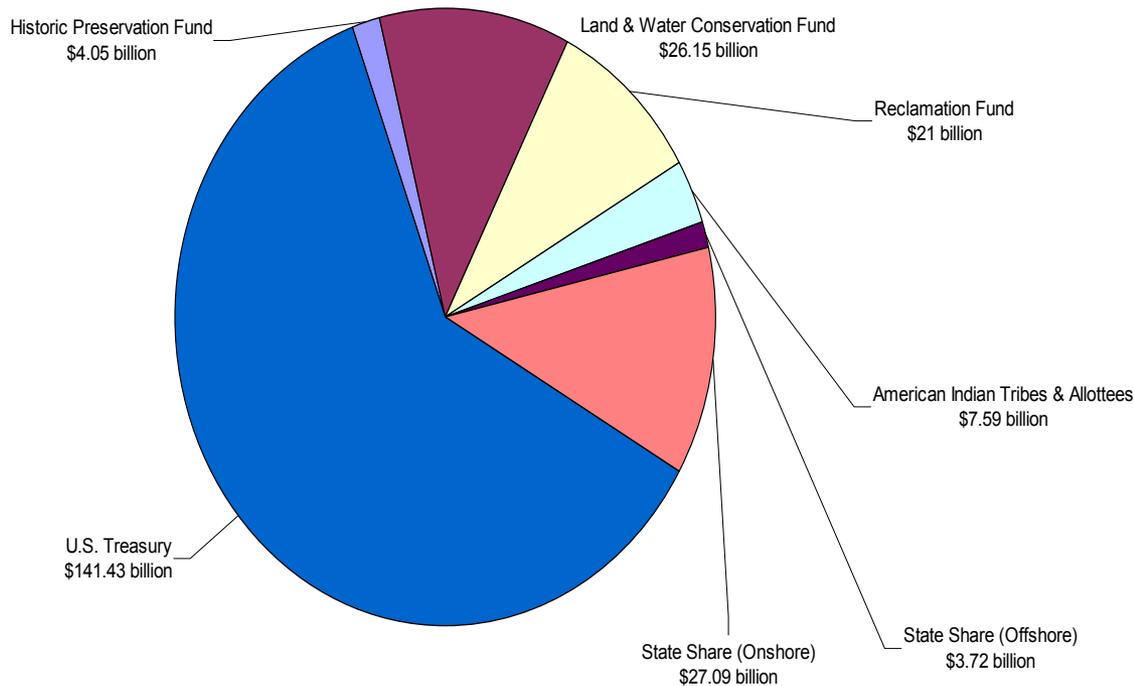
Mineral Revenue Sources

- **Bonuses**
 - **Cash consideration paid to United States by the successful bidder for a mineral lease**
- **Rent**
 - **Periodic payments made (until lease produces in paying quantities) by holder of a lease, during the primary lease term, for right to use the land or resources for purposes established in the lease**
- **Royalties**
 - **Based on Landowner's share of the value of the minerals produced and sold**
 - **Payment of a stated proportionate interest in production from mineral deposits by the lessees to the lessor**
 - **Royalty rate is set in the lease document**





FY 1982- 2011 Cumulative Mineral Lease Revenue Disbursement ~ \$231.03 Billion



- Since 1982, ONRR has distributed \$231.03 billion in revenues from onshore and offshore lands to the Nation, states, and American Indians
- The ONRR distribution to the U.S. Treasury is one of the Federal government's greatest sources of non-tax income

Note: Rounding may affect totals





Contributing to the Nation's Economy

FY 2011 Disbursements -- \$11.16 Billion

- \$ 6.05 Billion to the U.S. Treasury
- \$ 892 Million to the Land & Water Conservation Fund
- \$ 150 Million to the Historic Preservation Fund
- \$ 1.53 Billion to the Reclamation Fund
- \$ 2 Billion to 37 States
- \$ 538 Million on behalf of 34 Indian tribes and approximately 30,000 individual Indians





The ONRR Connection: Funded by ONRR Revenue Receipts

U.S. Treasury



The American
Public

Historic Preservation Fund



National Park
Service

Land & Water Conservation Fund



Bureau of Land Management
Fish & Wildlife Service
National Park Service

Reclamation Fund



Bureau of Reclamation





Special Trust Funds

Land and Water Conservation Fund

- Enacted in 1964 thru Land and Water Conservation Fund Act.
- Funding source for both Federal, as well as grants to State and local governments, to help them acquire, develop, and improve outdoor recreation areas.
- Amounts transferred from ONRR to the NPS, the majority from royalties from Outer Continental Shelf oil deposits.



Historic Preservation Fund

- Enacted in 1966 thru the National Historic Preservation Act.
- Funding grants serve as a catalyst and “seed money” to preserve and protect our Nation’s irreplaceable heritage for current and future generations.
- Amounts transferred from ONRR to the NPS, the majority from royalties from Outer Continental Shelf oil deposits.





Special Trust Funds

Reclamation Fund

- Enacted in 1902 thru the Reclamation Act.
- A restricted, unavailable receipt fund of deposits from a substantial portion of Reclamation's revenues and receipts from other Federal agencies.
- No expenditures are made directly from the Fund, however, funds are transferred pursuant to congressional appropriation acts to invest and reinvest in the reclamation of arid lands in the Western United States.



Coastal Impact

Assistance Program (CIAP)

- Authorized funds to be distributed to Outer Continental Shelf (OCS) oil and gas producing States to mitigate the impacts of OCS oil and gas activities.
- The Secretary was authorized to distribute to producing States and coastal political subdivisions (CPSs) \$250 million for each of the fiscal years 2007 through 2010.
- Money was shared among six states and allocated to each producing State and eligible CPS based upon allocation formulas prescribed by the Act.



The ONRR Connection: Coordination with Land Management Agencies

The Bureau of Ocean Energy Management

- Interdependent missions and knowledge sharing for management of Federal offshore natural resource leases
- Facilitate the regulation, allocation, and disbursement of qualified revenues under the Gulf of Mexico Energy Security Act of 2006.



Bureau of Land Management

- Interdependent missions and knowledge sharing for management of Federal and Indian natural resource leases
- Fulfill trust and fiduciary responsibilities to Indian beneficiaries



The ONRR Connection: Coordination on Indian Trust Responsibilities

Bureau of Indian Affairs:

- Distribution of monies to American Indian Tribes & Alotees
- Improve delivery of energy-related services to beneficiaries
- Helps prepare tribes to assume a greater role in managing their mineral resources



Office of the Special Trustee for American Indians:

- Management of resources that generate income into Individual Indian Money accounts and tribal trust funds



State and Tribal Support

10 States

Alaska

California

Colorado

Montana

New Mexico

North Dakota

Oklahoma

Texas

Utah

Wyoming

- **FOGRMA Sections 202 and 205 authorize ONRR to contract with States and Tribes to conduct audits of leases within their State/Reservation.**
- **States and Tribes are fully reimbursed for their costs; \$9.4 million in FY 2010 and an estimated \$9.7 million in FY 2011.**
- **ONRR works in partnership with the States and Tribes to meet compliance goals and provide support and guidance in their audit programs.**
- **In FY 2011, the State and Tribal audit program completed 244 audits and 171 compliance reviews.**
- **Historically, for every dollar spent for the delegated and cooperative audit program, approximately an additional \$4.97 in compliance collections was received.**
- **In FY 2011, ONRR will rely on these States and Tribes to perform compliance activities on \$3.9 billion of royalty payments.**

7 Tribes

Blackfeet

Jicarilla Apache

Navajo Nation

Shoshone/Arapaho

Southern Ute

Ute

Ute Mountain Ute



Revenue Sharing with States

Onshore

❖ **Mineral Leasing Act** – provides that states receive 50 percent of revenues resulting from the leasing of mineral resources on federal public domain lands within their borders.

Offshore

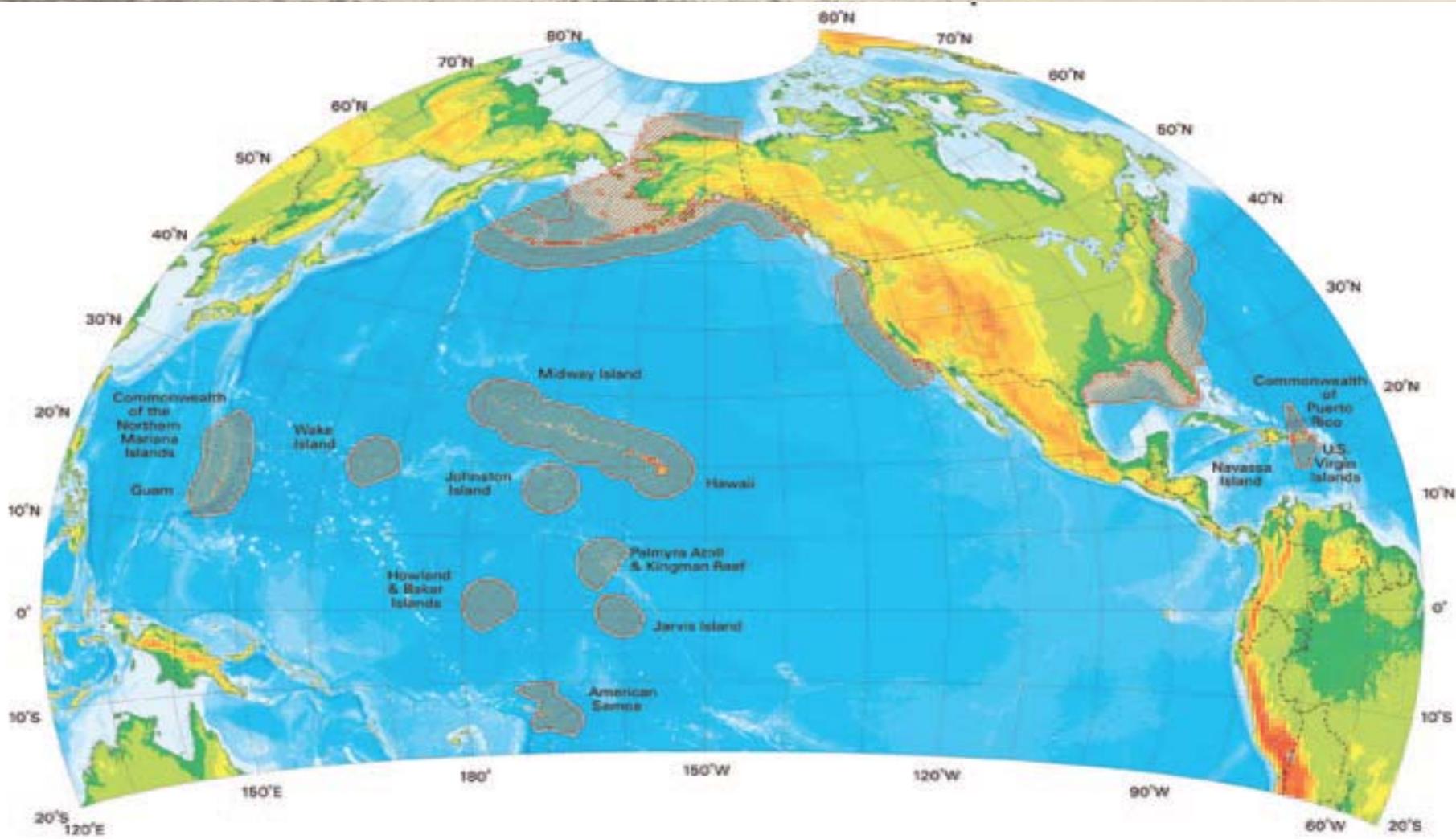
❖ **GOMESA** – provides that 37.5 percent of all qualified OCS revenues be shared among four States and their coastal political subdivisions. Additionally, 12.5 percent of revenues are allocated to the Land and Water Conservation Fund (LWCF).

❖ **Outer Continental Shelf Lands Act (OCSLA)** - provides that coastal states receive 27 percent of OCSA collections within the 8(g) zone, which is approximately three miles seaward from the State/Federal boundary.





OCS Leasing Boundaries



Industry Compliance



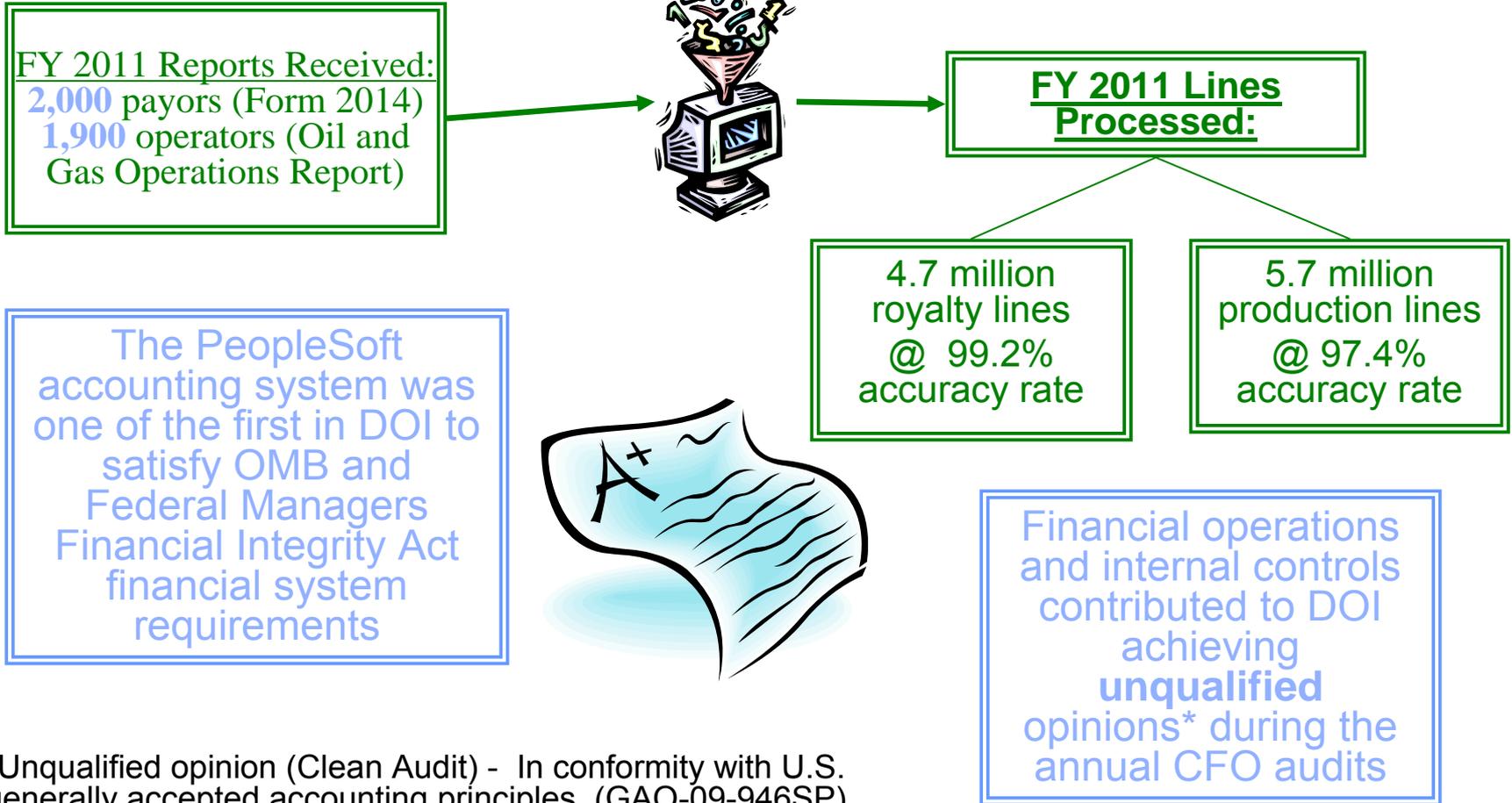
Accountability



Professionalism & Integrity



Financial Management Accomplishments





Audit and Compliance Management

All audits performed according to Generally Accepted Government Auditing Standards

A 3-year cycle to review and/or audit revenues was established

Compliance reviews are an analysis that determines the reasonableness of reported revenues



Properties and companies are selected for review or audit using a risk assessment across the entire universe of properties and companies

Audit and Compliance ensures that Federal and Indian mineral revenues are accurately reported and paid





Audit and Compliance Accomplishments

Since 1982, audit and compliance activities have collected \$3.9 billion

Received unqualified opinion on 2008 Peer Review of our audit activities

In FY 2011 completed 311 audits and 1,059 compliance reviews



For every dollar spent in 2010, ONRR returned approximately \$5.00 back to taxpayers

FY 2011 Peer Review Underway





Office of Enforcement

Alternative Dispute Resolution

- Compliance
- Negotiated Agreements

Litigation

- Discovery
- Bankruptcy
- Bonds
- Debt Referral

Enforcement Operations

- Investigations
- Notices of Non-Compliance (NONC)
- Civil Penalty Notices





Coordination and Enforcement Management Accomplishments

- ❖ Total Fina S.A. and its affiliates have agreed to pay the United States **\$14.6 million** plus interest to resolve claims that the companies violated the False Claims Act by knowingly under-reporting and under-paying royalties owed on natural gas produced from Federal and American Indian leases.
- ❖ Office of Natural Resources Revenue (ONRR) collected **\$25 million** from Shell Offshore Inc. in a settlement to resolve claims that the company underpaid royalties owed on oil and gas produced from federal leases.
- ❖ Interior's ONRR collects **\$136,000** civil penalty from Energy Resources Technology, Inc for knowing failure to permit an audit.
- ❖ ONRR collects **\$1.1 million** civil penalty from Chevron U.S.A. for improperly claiming transportation deductions on certain leases it holds in the Gulf of Mexico.
- ❖ Anadarko Petroleum Corporation Kerr-McGee Corporation and their affiliates have agreed to pay the United States **\$16.375 million** plus interest to resolve claims that the companies violated the False Claims Act by knowingly underpaying royalties owed on natural gas produced from federal and American Indian leases, and numerous additional administrative claims.
- ❖ Shell Oil Company, Shell Offshore Inc., Shell Frontier Oil & Gas Inc., and Shell Western Exploration and Production (Shell Defendants) have agreed to pay the United States **\$2.2 million** plus interest to resolve claims that the companies violated the False Claims Act by knowingly underpaying royalties owed on natural gas produced from Federal leases.
- ❖ Occidental Petroleum Corporation, Occidental Oil and Gas Corporation, and OXY USA Inc. have agreed to pay the United States **\$2.05 million** plus interest to resolve claims that the companies violated the False Claims Act by knowingly underpaying royalties owed on natural gas produced from federal leases. Occidental Petroleum Corporation is an international oil and gas exploration and production company headquartered in Los Angeles.





Three Outcomes Define ONRR's Success

1 Companies timely comply with laws, regulations, and lease terms and pay every dollar due

2 States, Tribes, Indian mineral owners, US Treasury, and other entities receive timely, accurate revenues and data

3 The public trusts ONRR's professionalism, integrity, efficiency, and quality





Best Practices

Implementation workgroups (IWGs)

Mentoring

Job rotations

Becoming a GWA reporter

Becoming a full TRS user

Group sharing – cross training

Restructuring into three separate organizations

Ecommerce – Mar 2011





The Strategic Review Process

ONRR's Employee-Driven Strategic Review had Three Steps:

1

Identifying Opportunities for Improvement

- Conducted focus groups and interviews in every field office and have talked to ~200 employees
- Reviewed survey data and comments from over 430 employees that responded to the employee survey
- Conducted 6 “all hands” meetings in every field office

2

Developing Initiatives to Address Opportunities

- Three full-time teams formed from throughout the organization to investigate opportunities

Clarifying Strategic Objectives and Assessing Existing Initiatives

- Senior Leadership convened to define outcomes and strategic objectives, and assess existing initiatives

3

Prioritizing and Planning for Implementation

- New and existing initiatives prioritized and integrated
- Timing, accountability, and management plan created for implementation
- Internal and external communications plans developed





Implementing Strategic Priorities

Several Implementation Work Groups are now actively implementing ONRR's Strategic Priority Initiatives focused on

- Enhancing our understanding of risk, companies, and the market
- Integrating and enhancing efforts to drive compliance
- Improving efficiency, expanding automation, and increasing effectiveness of core processes
- Simplifying, clarifying, and strengthening regulations
- Increasing alignment with partner agencies
- Providing accountability for performance
- Maximizing talent and knowledge development
- Improving support services





Achieving Three Strategic Outcomes

(Industry Compliance, Accurate Revenues & Data, Professionalism & Integrity)

- ✓ **Increased Industry Education:**
 - ▶ Targeted Reporting Training
 - ▶ “Light Touch” compliance initiatives
- ✓ **New Enforcement Strategy Emphasizing:**
 - ▶ Deterrence
 - ▶ **Appropriate Enforcement Actions**
 - ▶ **Communication**
 - ▶ Continuous Improvement focused on company compliance
- ✓ **Required more information from reporters:**
 - ▶ Meter Identification Number required on production reports
- ✓ **Initiated royalty reform efforts:**
 - ▶ Simplify and add certainty to valuation
 - ▶ Published Advanced Notices of Proposed Rulemaking and help public workshops





Achieving Three Strategic Outcomes

(Industry Compliance, Accurate Revenues & Data, Professionalism & Integrity)

✓ New data mining business processes:

- ▶ Monitor adjustments outside 6-year statute of limitations
- ▶ Volume comparison between royalty and production reports

✓ Established a Meter Inspection Team:

- ▶ Joint partnership with Bureau of Safety and Environmental Enforcement
- ▶ New production measurement inspectors
- ▶ Feasibility study of automatic production metering



✓ Large Independent Producer Integrated Work Plan Approach Pilot:

- ▶ High-risk, high-dollar reporter – Apache
- ▶ Integrated cross-organizational approach to compliance





Early Successes with Data Accuracy and Quality

The **Data Mining** IWG brainstormed over 100 reporting problems which were then categorized, prioritized, and solutions identified to improve reporting accuracy.



The solutions involve the development and implementation of approximately:

- 14 edits as quick as the December 2011 release,
- 11 edits in the next E-commerce phase II Task Order (early FY 2012),
- 9 edits requiring additional study for future releases, and
- 35 new Business Intelligence dashboards and data mining opportunities to prioritize over the next couple years.

The **Data Mining** IWG presented results to the Compliance Strategy Council on August 10.



Early Successes with Employee Communication

The **Communications IWG** hosted a "**CommuniQuest**" Expo and Open House in Denver with Gallery Walks in the Field Offices.

Resulted in:

- Employee Enthusiasm,
- Direct Interaction with Strategic Review Teams, and
- Positive Feedback on the Future of ONRR.

Other Employee Outreach efforts:

- A poster campaign emphasizing communication
- An electronic Suggestion Box
- A video of the CommuniQuest Expo
- The Strategic Review Pipeline web page





Other Early Successes

- ◆ Align Operational Goals of WASC/ONRR Team developed process flow diagrams for key actions in Human Resources and Procurement
- ◆ Communication/Data Sharing Team identified opportunities to automate and streamline data exchanges

- ◆ ONRR institutionalized the Strategic Review as an annual priority initiative and adopted a new Continuous Improvement Manager Role

- ◆ Company Analytics IWG calculated an initial gap between expected and collected revenues and started analyzing the key components which make up the compliance gap
- ◆ The Collaboration Culture with BOEMRE Team drafted three charters and an over-arching Memo of Understanding between ONRR, BOEM, and BSEE



The Future of ONRR

ONRR is an organization that is...

- Proactive in establishing direction and revisiting priorities
- Holding itself and its employees accountable for performance
- Working cross functionally and integrating all functions and skills to achieve its goals
- Led by a management team focused on what is best for ONRR and supportive of employee ideas, suggestions and involvement
- Constantly improving communication and collaboration

ONRR expects to achieve...

- Timely compliance from companies and payment of every dollar due
- Timely, accurate revenues and data distributed to recipients
- Trust in ONRR's professionalism, integrity, efficiency and quality





Office of Natural Resources Revenue

QUESTIONS????

