FY 2008 BUDGET FOR THE MINERALS MANAGEMENT SERVICE, BUREAU OF LAND MANAGEMENT, ENERGY AND MINERALS PROGRAMS, OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT, MINERALS AND GEOLOGY PROGRAM OF THE FOREST SERVICE, AND U.S. GEOLOGICAL SURVEY

OVERSIGHT HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES

OF THE

COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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February 27, 2007
U.S. House of Representatives
Subcommittee on Energy and Mineral Resources
Committee on Natural Resources
Washington, D.C.

The Subcommittee met, pursuant to call, at 2:05 p.m. in Room 1324, Longworth House Office Building, Hon. Jim Costa [Chairman of the Subcommittee] presiding.

Present: Representatives Costa, Gohmert, Holt, and Pearce.

STATEMENT OF THE HONORABLE JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. COSTA. The hearing of the Energy and Mineral Resources Subcommittee will now come to order. I want to welcome you to the first Subcommittee hearing in the 110th Congress.

Today's hearing will focus on the Interior's budget for Fiscal Year 2008 in energy and mineral programs. But let me begin by saying that we are going to touch the surface today, no pun intended, because obviously in the next two hours in which the hearing will be held, we will only be able to begin to focus on what I think is important oversight that Subcommittee members will want to pursue over the course of the next year.

And so, as I told those who are testifying this afternoon, we are going to get to know each other better, and this will not be your first visit before the Subcommittee. But we do hope to do a better job in which I think all of us aspire to who serve in government, whether it is in the elective level or in the appointed level; and that is, to ensure that there is accountability and transparency. Those are, I think, the essence of what representative democracy is all about. And I will do my best, as the Chairman of this Subcommittee, to ensure that that transparency and that accountability takes place on behalf of all the interests that come under the jurisdiction of this Subcommittee.

I am pleased to acknowledge our panel witnesses this afternoon. First, Johnnie Burton, the Director of the Minerals Management Service; followed by Brent Wahlquist, the Acting Director of the Office of Mining and Reclamation and Enforcement. Mark Myers, the Director of the U.S. Geological Survey. Mr. Jim Hughes, who is the Acting Director of the Bureau of Land Management. And Mr. Frederick Norbury, who is Associate Deputy Chief for the United States Forest Service, as I understand it.

Under Rule 4[g], the Chairman and the Ranking Member have the opportunity to make opening statements. If other members of the Subcommittee have statements, they will be included in the record, by unanimous consent.

Additionally, under Committee Rule 4[g], additional material for the record should be submitted by members of this Subcommittee or witnesses within 10 days of the hearing. And I would like to ask all of those who desire, Subcommittee members or witnesses, we would really appreciate your cooperation in responding to any questions submitted to you in writing, because members, as you know, come and go; they have multiple committee assignments. Oftentimes they are not able to ask their questions. So it is part of our job, as the Subcommittee, to ensure that those questions get forwarded to you, and prompt responses are then provided. I know when I am not able to make other committees, I do appreciate getting responses back to my question, even if I don't like the responses.

So let me explain to you in general terms what our agenda is going to be this year. And let me also caution, for those of you in the audience and those listening, that as I have conversed with our Ranking Member, Congressman Pearce from New Mexico, this is a work-in-progress. So we are in that process.

Besides with the oversight that will be developed throughout the year, it is the Subcommittee's intent, by the direction of the Chairman, Chairman Rahall, and Speaker Pelosi, to attempt to make our recommendations that are under the purview of this Subcommittee by June 1 on what we hope will be a bipartisan energy package that will come before the Congress in July.

Now, there is a lot of overlapping jurisdictions there, and this is an effort that is going to take a lot of cooperation. But we intend to try to do our part.

In addition to that, Chairman Rahall, and I suspect this will be probably the focus of the Subcommittee in the latter half of this year, but don't hold me to those timelines please, on hard rock mining reform. The hard rock mining law, as I have learned, has not changed since it was instituted and signed into law by President Ulysses Grant in 1872. That is a few years ago.

And so we will take Chairman Rahall's recommendations, and then do our due diligence to try to produce meaningful changes that are in the best interest of all concerned, through the latter half of this year.

This afternoon, though, the Subcommittee will begin the review of the proposed Fiscal 2008 budget for energy and minerals programs. The Minerals Management Service, and as well the Bureau of Land Management, the Office of Surface Mining and Reclamation and Enforcement, the Forest Service, and the United States Geological Survey, except for activities and programs, under the Water Resource Division, all of which fall within the jurisdiction minus the Water Resource Division in this Subcommittee. Of course the Water Resource Division is in another subcommittee within the Committee on Natural Resources.

Let me say that this hearing is critical, I believe, on the national level. As many of you already know, next to the Internal Revenue Service, the energy and minerals programs that are administered by the witnesses who will testify here this afternoon produce the second-highest source of revenue for the Federal Government. This is why I think we must ensure that oil and natural gas royalty revenues are managed and collected in a fair and honest manner that is transparent, as I said at the outset, and accountable. I think this is no small matter.

These are public resources. Royalties from oil and natural gas production contribute a significant amount to the Treasury, almost $10 billion in the last fiscal year. And some believe, as I do, that it would be more if it were not for the problems that have gone on within the Department of Interior, including a decrease in the number of audits by 22 percent, and the number of auditors by 15 percent since 2000.

The Government Accountability Office estimates that the problems or blunders, or whether you care to call it mismanagement, that have taken place under the Minerals Management Service, that many believe have erroneously allowed lessees off the hook for making royalty payments, could cost the Federal Treasury up to $10 billion in revenue over the next 25 years. These unpaid royalties negatively affect the ability of the government to operate effectively, and they cost American taxpayers important services.

Further, I think this situation undermines the public trust: that their government is receiving what is due from the use of the nation's public resources. And the Minerals Management Service must aggressively pursue the augmentation of auditors and auditing that has been reduced in the recent past. The collection of the royalty revenues owed the U.S. Treasury I think we all believe, while we may have our differences, at the end of the day must be paid.

In addition, I think when we look at the President's proposal, this year's budget offers $20 million for the Healthy Lands Initiative under the Bureau of Land Management and the United States Geological Survey to address the growing conflict between oil and gas development on public lands, and also the need for consistency in improvement for wildlife and habitat conservation.

While this is, I think, an important effort by the Bush Administration, I would like to see an additional effort to enforce oil and gas lease stipulations that assure that proper royalty payments are made, and adequately supporting critical and strategical mineral surveys, ensuring that prompt implementation of the 2006 amendment to the Surface Mining Control and Reclamation Act is performed.

I would also like to commend the Bush Administration for including the repeal of certain provisions of the Energy Policy Act of 2005, within the 2008 budget request. These same provisions have already passed in the House of Representatives as a part of our first hundred hours agenda on the six for six. Those provisions, otherwise known, are contained in Chairman Rahall's portion of H.R. 6, which is referred to as the Clean Energy Act of 2007. It would strike an expansion of the Outer Continental Shelf oil and gas royalty relief in the Gulf of Mexico, and repeal the provision prohibiting the Federal Government from charging companies fees when they apply for drilling permits on Federal lands.

Now, I know that there are those who argue about what aspects of that royalty relief can, in fact, be resolved through the enactment of H.R. 6, and certainly the measure is over in the U.S. Senate. And what may come out of a conference committee remains to be seen, surely.

I don't think any of us want to see a prolonged circumstance in which significant litigation takes place if, in fact, we enact this very important measure. So I would urge all the parties to work together.

Let me say, in closing, that my efforts in the past, from my previous background in the State Legislature, is to develop bipartisan, collaborative, and cooperative efforts to solve problems. Undoubtedly there will be circumstances in which we, as Democrats and Republicans, have to agree to disagree, and we understand that. But how we do that in a civil fashion, how we do that in a cooperative fashion, and how we do that in a problem-solving way, I think is what the citizens of this country expect from us.

And so I want to do everything on my part, as a Subcommittee Chairman, to try to encourage and increase the sort of comity that I think is necessary for the legislative process to work. I am a strong believer in representative democracy, and I believe representative democracy works best when people of both parties come together at the end of the day to solve problems on behalf of our constituents.

I would now like to recognize the Ranking Member of the Subcommittee, the gentleman from New Mexico, Mr. Pearce, for opening remarks that he would like to make.

[The prepared statement of Mr. Costa follows:]

Statement of The Honorable Jim Costa, Chairman, Subcommittee on Energy and Mineral Resources

Welcome to our first subcommittee hearing in the 110th Congress. Today's hearing will focus on "The Interior Budget for Fiscal Year 2008 in the Energy and Mineral Programs".

To that end, I am pleased that our panel of witnesses includes: Johnnie Burton, director of Minerals Management Service; Brent Wahlquist, acting director, Office of Surface Mining; Mark Myers, director, the U.S. Geological Survey; and Jim Hughes, acting director of the Bureau of Land Management.

This afternoon, the Subcommittee will review the proposed Fiscal Year 2008 budgets for the energy and minerals programs of the Minerals Management Service, the Bureau of Land Management, the Office of Surface Mining Reclamation and Enforcement, the Forest Service, and the United States Geological Survey, except for the activities and programs of the Water Resources Division—all of which fall within the jurisdiction of this subcommittee.

This hearing is critical on a national level. As many of you may already know, next to the Internal Revenue Service, the energy and minerals programs that are administered by our witnesses produce the second highest source of revenue for the Federal Government. This is why we must ensure that oil and natural gas royalty revenues are managed and collected in a fair and honest manner. This is no small matter. These are public resources. Royalties from oil and natural gas production contribute a significant amount to the Treasury, nearly $10 billion in the last fiscal year—and it would be more if it were not for all of the mismanagement that has gone on at the Department of Interior——including the decrease in the number of audits by 22% and the number of auditors by 15% since 2000. The Government Accountability Office estimates that the blunders that have taken place at the MMS, which erroneously allowed lessees off the hook for making royalty payments, could cost the Federal Treasury up to $10 billion in revenues over 25 years. These unpaid royalties negatively affect the ability of the government to operate effectively and cost the American taxpayer important services.

Further, this situation undermines the public's trust that their government is receiving what it is due from the use of the Nation's public resources. MMS must be made to aggressively pursue the augmentation of auditors and auditing that it has reduced in the recent past. The collection of royalty revenues owed to the U.S. Treasury must be paid.

In addition, the Bush Administration envisions a $20 million Healthy Lands Initiative under the BLM and the USGS to address the growing conflict between oil and gas development on public lands with needs for wildlife and habitat conservation. While this appears laudable, we would like to see additional funding for aggressively enforcing oil and gas lease stipulations, assuring that proper royalty payments are made, adequately supporting important critical and strategic mineral surveys, and ensuring prompt implementation of the 2006 amendments to the Surface Mining Control and Reclamation Act.

I would, however, like to applaud the Bush Administration for including the repeal of certain provisions of the Energy Policy Act of 2005 within the 2008 budget request. These same provisions have already passed the House of Representatives as part of our first 100 hours agenda.

The provisions, contained in H.R. 6, the Clean Energy Act of 2007, and sponsored by Chairman Rahall, would strike the expansion of Outer Continental Shelf oil and gas royalty relief in the Gulf of Mexico and repeal the provision prohibiting the federal government from charging companies fees when they apply for drilling permits on federal lands.

STATEMENT OF THE HONORABLE STEVAN PEARCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW MEXICO

Mr. PEARCE. Thanks, Mr. Chairman. I appreciate the things you said about working for the business of this nation, because that is what we are here for. Oversight is a key part of that. And I think those people who watched the Parks Subcommittee last year were advised that we were going to be working with you on those oversight opportunities.

As you mentioned, today is our first hearing of the Energy and Mineral Resources Subcommittee, and I am honored to serve as Ranking Member. Honored to serve falls about 30 percent short of satisfied to serve, though.

Mr. Chairman, I want to congratulate you on your chairmanship, and I look forward to working with you in this 110th Congress. I, like you, hope that we will be able to work together and help promote American energy and mineral independence. We have a great deal of work to do to accomplish this goal, but I think that we can see the road that lies ahead of us very clearly.

As you mentioned, this hearing focuses on the Fiscal Year 2008 budget for several of the different services. These important bureaus bring together much of our nation's resource land management.

I especially am looking forward to hearing from Mr. Hughes of the BLM. The BLM is responsible for nearly one eighth of our nation's land mass. In New Mexico we have almost 30 percent, or over 30 percent of our land is in the hands of Federal government agencies.

The BLM has special significance in my home state, as it manages 12.8 million acres of public land in New Mexico. Last year New Mexico's share of mineral revenues from these lands was $574 million. This revenue helps to make New Mexico a stronger state by providing dedicated funds for our education system.

This mineral development also makes the Nation stronger with domestic production of oil, gas, coal, potash, and other minerals. New Mexico is proud to be a cornerstone toward America's energy independence.

I especially look forward to hearing from Ms. Burton of the MMS, the bureau which oversees mineral production in the OCS. The OCS provides 21 percent of the nation's natural gas, and 30 percent of our nation's oil. Among the many painful lessons that we learned from Katrina and Rita was what it would be like if the supply were removed from us. We learned that we must cultivate even more than our domestic oil and gas resources in the OCS.

Every day that we do not is a day that we empower leaders in the world, like Hugo Chavez, whose arms spending is reported to have climbed to more than $4 billion in the past two years, transforming the Nation into Latin America's largest weapons buyer, and placing it ahead of other major purchasers in international arms market, like Pakistan and Iran.

I also look forward to hearing about many of the legislative proposals and programs that accompany the 2008 proposed budget. In particular, I am interested in hearing about BOM's proposal to implement a new model for land management in wildlife energy interface areas, such as the ongoing demonstration in New Mexico. Also, the 2008 budget assumes enactment of legislation opening the Section 1002 area of the coastal plain in ANWR.

In addition to energy issues, I look forward to the further discussion with the Office of Surface Mining and USGS so that we may learn more about the direction your bureau proposes taking toward mineral production and regulation.

Welcome to all of you. Thank you again, Mr. Chairman, for holding this hearing. I look forward to it.

Mr. COSTA. Thank you very much, Congressman Pearce, for your opening statement.

We will now begin with the witnesses' testimony. We will hear from each witness. And following their testimony, when we complete the witness list, we will then move to questions in the normal order of House Rules and tradition.

But let me first say, before I ask the first witness to testify before the Subcommittee, to help us establish the context in which you make your opening testimony, as well as the upcoming oversight for this and future legislative hearings.

If you could please provide the panel at the start of your oral testimony a brief summary of the programs that you administer, and such activities which fall under your jurisdiction. We have a number of new members to this Subcommittee, and often, too often in government, I suspect you, as do I, get a bit frustrated when we assume that everyone clearly understands the jurisdiction and the focus of your particular bureau, or department, and how that relates to this year's budget challenges that you see.

So therefore, if you will do that in your opening statement, I will be a little bit lenient as it relates to the five-minute rule as we move on here.

Our first witness today is Ms. Johnnie Burton, who is the Director of the Minerals Management Service. Welcome to the Subcommittee. Your prepared statement will be entered into the record, and you now may proceed for five minutes.

STATEMENT OF R. M. "JOHNNIE" BURTON, DIRECTOR, MINERALS MANAGEMENT SERVICE, U.S. DEPARTMENT OF THE INTERIOR

Ms. BURTON. Thank you very much, Mr. Chairman and members of the Committee. I am delighted to be here, and would like to give you a brief overview of MMS.

The Minerals Management Service is the agency within the Department of the Interior that is charged with managing two essential programs. One is to manage the production of oil, gas, and some other minerals from the Outer Continental Shelf; and that management goes from leasing the land all the way to supervising production of the minerals.

The other program is to collect royalties due the United States from not only the Outer Continental Shelf, but also Federal and Indian lands onshore. This, in brief, is our mission. That is what we do. And hopefully, that is what we will talk to you about for the next few months, and answer your questions the best we can.

I am here today to testify on the Fiscal Year 2008 budget request of the Minerals Management Service. The Fiscal Year 2008 request is for $161.5 million in direct appropriation, and $135.7 million in offsetting receipt, for a total of $297.2 million, which is—and I am going to compare to two things here—it is $10.2 million increase over the 2007 Joint Resolution, and it is $4.9 million over the President's request for 2007.

With the enactment of the Fiscal Year 2007 Joint Resolution, we now have a full year appropriation of $287 million, not including additional funds that will be provided for 50 percent of the January 2007 pay raises.

Based on direction in the Joint Resolution, we are preparing a detailed operating plan for Fiscal Year 2007. We cannot talk about the details right now until that plan is put together and has been provided to Congress.

The Federal Outer Continental Shelf is a major supplier of oil and natural gas for the domestic market. The approximately 3900 production platforms on the OCS account for almost 30 percent of domestic oil production, and 20 percent of domestic natural gas production.

Since 1982, when MMS was created, OCS production has contributed almost 11 billion barrels of oil, and more than 116 trillion cubic feet of gas for the nation. Also since 1982, OCS leasing has increased by 185 percent; and since 1994, OCS oil production has increased by 34 percent.

Over the next decade we expect an increase in production from technologically challenging areas, such as deep water and deeper depths within the sea floor.

The MMS administers also the rental royalty and other financial terms for over 28,000 producing leases, and 66,000 non-producing leases on Federal onshore, offshore, and Indian lands.

Over the last 10 years MMS revenue collection has increased substantially. In Fiscal Year 2006 MMS collected and accounted for more than $12.6 billion in mineral revenues. Since our inception 25 years ago, MMS has disbursed over $165 billion in mineral royalty, rents, and bonuses to recipient.

In a State of the Union Address, President Bush announced plans to double the capacity of our nation's strategic petroleum reserve to 1.5 billion barrels of oil, and to fill existing petroleum reserve facilities to their current capacity of 727 million barrels. MMS will provide oil from royalty-in-kind starting July 1, 2007, for this order.

The Administration thinks that additional royalty relief for oil and gas development is unwarranted in today's price environment. The Fiscal Year 2008 budget proposes to repeat Section 344 and 345 of the Energy Policy Act of 2005. Section 344 extended existing deep gas incentive, and 345 provides additional mandatory royalty relief for certain deep water oil and gas production.

These two sections are dealt with in your Clean Energy Act of 2007, otherwise known as H.R. 6, and it would repeal those two sections.

The MMS strives to ensure that our existing fiscal resources are distributed in a manner that allows the Agency to maintain current operations, meet future demands, and achieve departmental and bureau-level performance goals. Our budget is based upon the challenges confronting us during the next fiscal year and beyond.

The request includes funding to fulfill MMS requirement for environmental and oversight responsibilities that are associated with a five-year plan on the OCS; and with the alternative energy offshore, we were given this responsibility in the Energy Policy Act of 2005.

It will also include funding to manage the regulatory and inspection requirement associated with expanding ultra-deep water drilling and production. And that ultra-deep is defined for us between 5,000 and 10,000 feet of water, which is really a limit and a frontier. These activities require more complicated environmental assessment, new scientific research, and an increasing level of operation complexity. And we would also enhance compliance and enforcement efforts in the management of mineral revenues through the MMS support system modification that will help us verify closer and better the amount of money that we do collect from the industry.

Through all of our programs, MMS works to ensure that the public receives the maximum benefit from America's OCS resources and Federal mineral revenue. As MMS moves forward in the new century, the importance of facilitating the nation's management of OCS land, and collecting and disbursing mineral revenues, will remain our top priority.

Mr. Chairman, that concludes my remarks. I thank you for allowing me to present this summary, and I would be happy to answer questions when the time comes.

[The prepared statement of Ms. Burton follows:]

Statement of R. M. "Johnnie" Burton, Director, Minerals Management Service, U.S. Department of the Interior

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify today on the Fiscal Year (FY) 2008 budget request for the Minerals Management Service (MMS). We have looked closely at our ongoing operations and responsibilities and this request reflects our best assessment of the funds needed to carry out mission critical MMS activities during FY 2008.

MMS Background

The MMS, a federal agency within the Department of the Interior (DOI), is responsible for managing the Nation's oil, natural gas, and other energy and mineral resources on the Federal Outer Continental Shelf and the mineral revenues from the OCS and onshore Federal and Indian lands. To carry out this mission, the MMS manages two very important programs—the Offshore Minerals Management (OMM) Program and the Minerals Revenue Management (MRM) Program. Collectively, these programs manage activities that generate 30 percent of America's domestic oil production, 20 percent of domestic natural gas production and an average of over $7 billion in annual revenue for the Nation, States, and American Indians. Both of these functions are important to the nation's economic health and are key to meeting the nation's energy needs.

The Federal OCS covers 1.76 billion acres and is a major source of crude oil and natural gas for the domestic market. In fact, according to the Energy Information Administration, if the Federal OCS were treated as a separate country, it would rank among the top five nations in the world in terms of the amount of crude oil, and second in natural gas it supplies for annual U.S. consumption. [1]

Since 1982, MMS has overseen OCS production of 9.6 billion barrels of oil and more than 109 trillion cubic feet of natural gas.

Since 1982, OCS leasing has increased by 200 percent and oil production has increased by 185 percent. According to MMS's calculations, within the next 5 years, offshore production will likely account for more than 40 percent of oil and 20 percent of U.S. natural gas production, primarily due to deep water discoveries in the Gulf of Mexico.

Since its inception twenty-five years ago in 1982, the MMS has distributed approximately $164.9 billion to Federal, State, and Indian accounts and special funds, including approximately:

- $101.1 billion deposited to the General Fund of the U.S. Treasury;
- $20.4 billion disbursed to states;
- $13.2 billion credited to the Reclamation Fund;
- $21.7 billion transferred to the Land and Water Conservation Fund;
- $5.2 billion for American Indian Tribes and Allottees; and
- $3.3 billion for the Natural Historic Preservation Fund.

The receipts I have described above are derived from the accomplishment of the Bureau's two program missions. The FY 2008 MMS Request provides the resources necessary to meet the increasing demands and expanding responsibilities brought on by constantly changing external factors, such as technological and industry innovations on the OCS, litigation, and regulations that affect the collection and distribution of mineral revenues. I would now like to review a few of the MMS's recent achievements and what MMS sees as its challenges for the future.

FY 2008 President's Request

The FY 2008 request is $297.2 million in current appropriations and offsetting receipts.

With the enactment of the FY 2007 Joint Resolution, we now have a full year appropriation of $287.0 million, not including additional funds that will be provided

[1] EIA U.S. Imports by Country of Origin, 12-21-2006.

for 50 percent of the January 2007 pay raise. Based on direction in the Joint Resolution we are preparing a detailed operating plan for FY 2007. We are not at liberty to disclose the details of the operating plans until they are approved and submitted to Congress on March 17. At that time we will be able to provide comparisons at the program level with the 2008 budget request.

The comparisons in our 2008 budget are with the third continuing resolution, which was in effect through February 15. Throughout this testimony the comparisons will be on that basis.

The 2008 Request for direct appropriations is $161.5 million, $3.2 million above the FY 2007 Continuing Resolution level. Offsetting receipts are estimated to be $135.7 million, an increase of $7.0 million over the FY 2007 Continuing Resolution.

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

- Fulfill MMS's environmental and oversight responsibilities associated with the implementation of the Outer Continental Shelf (OCS) 5-Year Oil & Gas Leasing Program (covering 2007-2012) which is a critical component of our nation's overall energy strategy.
- Manage the regulatory and inspection requirements associated with expanding ultra-deepwater oil and gas exploration at depths between 5,000 and 10,000 feet. These activities require more complicated environmental assessments, new scientific research, and an increasing level of operational complexity.
- Enhance compliance and enforcement efforts in the management of mineral revenues through MRM Support System modifications that will improve the MMS's robust audit and compliance program.

Strategic Petroleum Reserve

During the State of the Union Address, President Bush announced plans to double the Nation's Strategic Petroleum Reserve (SPR) to 1.5 billion barrels of oil. Also announced was a directive to fill the SPR to its current capacity of 727 million barrels. The MMS will provide royalty-in-kind oil starting in July 2007 to accomplish this mandate. This policy decision will provide an additional layer of protection for the Nation's energy security.

Deepwater OCS Production Royalty Rates

Deepwater OCS development has increased significantly in recent years as the technologies for accessing oil and gas deposits in deeper and deeper waters have progressed and become almost commonplace within the industry. In the meantime, oil and gas prices have risen dramatically, making OCS operations increasingly profitable. In order to ensure that American taxpayers are fairly compensated for the sale of Federal OCS minerals, the MMS recently announced that it will raise royalty rates from 12.5 percent to 16.67 percent for all new deepwater Gulf of Mexico (GOM) leases beginning in 2007. The MMS estimates that the increased royalty rate of 16.67 percent for new deepwater offshore GOM leases will increase OCS royalty revenues by $4.5 billion over the next twenty years.

Based on current leasing plans, the next lease sale to which such a rate will apply is scheduled for August 2007, and will be announced in the Proposed Notice of Sale in April 2007.

Deep Gas and Deep Water Incentives

The FY 2008 budget proposes to repeal Section 344 of the Energy Policy Act of 2005, which extended existing deep gas incentives in two ways. First, it mandated an increase in the royalty suspension volumes from 25 to 35 billion cubic feet of natural gas in a third drilling depth category (greater than 20,000 feet subsea). Second, it directed that incentives for all three drilling depth categories also be applied to leases in 200-400 meters of water. The FY 2008 budget also proposes to repeal Section 345 of the Energy Policy Act, which mandated additional royalty relief for certain deep water oil and gas production. Additional royalty relief for oil and gas exploration is unwarranted in today's price environment. A legislative proposal will be transmitted to the Congress to repeal Sections 344 and 345.

Net Receipts Sharing

The 2008 President's Budget proposes amending section 35 of the Minerals Leasing Act (MLA) to implement a form of "Net Receipts Sharing" (NRS), whereby two percent will be deducted from the states' share of receipts from Federal leasing activities under the MLA. The two percent defrays a portion of the administrative costs incurred by Federal agencies in the management of onshore leasing activities, and would be deposited into miscellaneous receipts (U.S. Treasury).

Offshore Minerals Management Program Achievements

Providing Energy for America

The Federal OCS is a major supplier of oil and natural gas for the domestic market, contributing more oil and natural gas for U.S. consumption than any single state or country in the world. The U.S. is now in its twelfth year of sustained expansion of domestic oil and gas development in the deep water area of the GOM. The OCS now accounts for almost 30 percent of domestic oil production and about 20 percent of U.S. natural gas production. According to MMS's calculations, within the next 5 years, OCS production will likely account for more than 40 percent of oil and 20 percent of U.S. natural gas production, primarily due to deep water discoveries in the Gulf of Mexico.

Lease Sale Implementation

Interior is continuing OCS oil and gas leasing and approval of exploration and development plans on predictable schedules. In 2005, four successful sales were held, three in the Gulf of Mexico and one in Alaska. In 2006, near record oil and gas prices led to robust bidding in the March 2006 Central GOM sale, where the MMS accepted $581.8 million in high bids on 392 tracts. The August 2006 Western GOM sale garnered $340.9 million in high bids from 62 companies. The one remaining sale in the current 5-year program is the April 2007 Beaufort Sea sale.

Two sales from the current 5-year program have been rescheduled. The Central Gulf of Mexico (CGOM) Sale 201 was scheduled for March 2007; however, the MMS has postponed the sale to August 2007, pursuant to settlement of litigation brought by the State of Louisiana. The Chukchi Sale 193 was scheduled for mid-2007 and has been rescheduled for early in the next OCS 5-Year Oil and Gas Leasing Program because additional presale environmental analysis is required for the area identified of interest.

Safety and Environmental Protection

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

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

The effectiveness of our preparations was demonstrated during the 2005 hurricane season. Hurricanes Katrina and Rita and the impacts they had on the people of the Gulf coast and on the oil and gas infrastructure both onshore and offshore were the most significant challenges for MMS in 2005. We are still working with industry to bring facilities back online. Of the 4,000 Gulf OCS facilities, more than 3,000 were subjected to hurricane force winds and 115 mostly older facilities were destroyed.

Despite being subjected to these severe conditions, which tested the outside limits of facility engineering, there were no casualties or significant environmental incidents associated with offshore oil and gas facilities. All facility shut-in precautions and subsurface well shut-off valves worked as designed. Spills from ruptured pipelines and other containers were limited and validated the MMS environmental and safety regulatory requirements.

In the aftermath of Hurricanes Katrina and Rita the MMS took a number of actions to facilitate the process of resuming operations to provide an uninterrupted supply of energy resources to America, consistent with the need for safety and environmental protection. These measures included expediting review of requests for temporary barging of oil or flaring of small amounts of natural gas and expediting the approval process for pipeline repairs. Industry repairs to the Gulf of Mexico's heavily-damaged oil and gas infrastructure began immediately and continue today.

- Energy production in the Gulf's Federal waters has steadily increased since the 2005 hurricane season. Gulf of Mexico oil and natural gas production have reached over 90 percent of pre-Katrina levels.
- 115 platforms were totally destroyed (less than 3 percent of the Gulf's platforms), 96 were significantly damaged, and 19 rigs were set adrift as a result of Hurricanes Katrina and Rita. The MMS has worked and will continue to

work with industry to ensure that all destroyed wells are properly abandoned and platforms repaired or properly disposed of in order to protect the environment and ensure safety. This will be a long-term activity.

Offshore Minerals Management Program Challenges

Proposed 2007-2012 OCS Oil and Gas Leasing Program

The Proposed Program for 2007-2012 is under development through an extensive consultation process prescribed by the OCS Lands Act (OCSLA). The comment period for the Draft Proposed Program opened on February 10, 2006, and closed on April 11, 2006. On August 25, 2006, a second draft, the Proposed Program and the associated Draft Environmental Impact Statement (DEIS) were released to the public. The comment period for these two documents closed on November 24th and November 22nd, respectively. The remaining schedule is as follows:

- April 2007 Proposed Final Program and Final EIS (60 day waiting period)
- June 2007 Final Program Approval
- July 1, 2007 Current program ends; New Program begins

The Proposed Program includes consideration of 21 sales in seven of the 26 OCS planning areas—two areas in the Gulf of Mexico, one area in the Mid-Atlantic Planning Area, and four areas off Alaska. The total number of scheduled lease sales will be determined when the new OCS program is finalized in the spring of 2007. The MMS estimates the total undiscovered technically recoverable resources (UTRR) are 67.9 billion barrels of oil and 340.4 trillion cubic feet of natural gas from all planning areas where sales are under consideration in the 2007-2012 Proposed Program, though only a portion of some of the planning areas are included in the proposal.

In implementing the mandates of the Gulf of Mexico Energy Security Act, the MMS will offer deep-water acreage in the “181 South” area and in a portion of the Sale 181 area remaining in the Eastern Gulf of Mexico. We have recently begun the process of preparing environmental analyses for those areas.

The 2008 President’s request includes $4.0 million to fulfill the MMS’s environmental and oversight responsibilities under the 2007-2012 Five-Year Oil & Gas Leasing program. Specific components contained within this increase are: $2.5 million for environmental studies and required NEPA analysis in those areas previously included in the Proposed Five-Year Plan, where data either does not exist or is extremely outdated (primarily the North Aleutian Basin), and $1.5 million for workforce needs associated with the new and expanded leasing areas as well as for additional leasing and program support.

Ultra Deep Water: America’s Expanding Frontier

The MMS is witnessing a surge in exploration activity and development in the ultra-deepwater area of the Gulf of Mexico at water depths between 5,000 feet and 10,000 feet. At the end of 2004, there were 2,300 active leases in ultra-deepwater, and in the five-year period 2001-2005, there were a total of 230 wells drilled in these water depths of which 149 were exploratory wells. This activity and the discoveries of oil and gas have now started to translate into development projects. Nine development projects began production in the ultra-deepwater area in 2003-2005. Several significant new ultra-deepwater discoveries also were announced in the GOM in the summer of 2006. The budget includes $1.3 million to acquire the required expertise and resources needed to regulate OCS ultra-deepwater development.

Ensuring the Safety of an Aging Infrastructure

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

The FY 2008 President’s budget also requests $820,000 for a GOM hurricane recovery initiative to address well abandonment, pollution prevention, and to keep pace with structural modifications and repair permit requests. The MMS seeks the capability to address important outstanding issues from the devastation of recent hurricanes and future events.

Energy Policy Act Implementation—Alternative Energy Cost Sharing

The MMS requested $6.5 million in FY 2007 to fulfill requirements under Section 388 (Alternative Energy—Related Uses on the OCS) of the Energy Policy Act of 2005. For the 2008 request, MMS is proposing that parties submitting applications for non-competitive renewable energy projects fund the cost of independent environmental analyses, which would allow for a $3.0 million in savings in appropriated funds for this activity.

Coastal Impact Assistance Program (CIAP)

The Energy Policy Act of 2005 authorized disbursement of $250.0 million from OCS oil and gas revenues in each of the Fiscal Years 2007 through 2010 to producing States (Alabama, Alaska, California, Louisiana, Mississippi, and Texas) and coastal political subdivisions (counties, parishes, or boroughs) for approved coastal restoration and conservation purposes. The CIAP Plan guidelines were published in the Federal Register on September 29, 2006. Under the statute, States must submit plans no later than July 1, 2008. The 2007 President's budget included appropriations language authorizing the MMS to use a share of the receipts to administer the program. Operating under the terms of the three continuing resolutions that were in effect through February 15, 2007, MMS did not have authority to use these funds to administer the program. The 2007 Joint Resolution, which was enacted on February 15, 2007 provides MMS the authority to use CIAP funds for this purpose in 2007 and MMS is now proceeding with implementation of the program. The 2008 President's budget includes language to continue this authority.

Minerals Revenue Management Program Achievements

Financial Management—Clean Audit Opinion

In November 2005, an independent certified public accounting firm issued a clean audit opinion of the MMS's audit program with no material weaknesses, and no reportable conditions. In its opinion, the accounting firm stated:

"In our opinion, the system of quality control for the Federal Audit Function of the MMS in effect for the 2-year period ending December 31, 2004, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the 2-year period ending December 31, 2004, to provide the MMS with reasonable assurance of conforming with applicable auditing standards, policies, and procedures."

Business Planning Initiative

The MRM Strategic Business Planning Initiative was completed in December 2005. This initiative charts the course and direction of the future MRM business through the year 2012. The new initiative focused on identifying and implementing best value services with high quality and integrity. This Plan provides a strategic approach for continuous program improvement through development and implementation of future operational business plans aligned with five MRM strategic mission areas: Compliance, Financial Management, Indian Trust, Resource and Information Management, and Asset Management. Importantly, the business planning initiative will be supportive of, and fully integrated with, Departmental and the MMS strategic planning guidelines and responsive to the Administration's management improvement goals and objectives. Key outcomes include an MRM program-wide strategic plan and business plans that emphasize market-based regulatory guidance, valuation certainty, and improved business processes and systems with effective performance measures and strong internal controls.

Royalty-in-Kind (RIK) Program

The RIK program has demonstrated that under certain circumstances, taking royalties in-kind has many advantages over taking royalties in-value (RIV). These advantages include: revenue enhancement, reduced administrative costs for the MMS and the industry, reduced incidence of reporting disagreements, and earlier receipt of royalty revenues. The Department of the Interior, Environment, and Related Agencies Appropriations Act, 2006, and the Energy Policy Act of 2005 granted the MMS permanent authority to fund transportation and administrative costs for the RIK program through RIK revenue receipts.

As MMS has made progress in optimizing RIK volumes and increasing Treasury revenues, it has examined its business practices and basic organizational structure. Although RIK volumes are expanding, the MMS anticipates that the administrative costs will remain relatively flat. The preliminary 2008 estimate for RIK administrative costs is $19.6 million, an increase of only $600,000 for fixed cost adjustments over the FY 2007 President's request. When compared to RIV, MMS estimates that RIK resulted in administrative cost avoidance of $3.7 million in 2005, primarily due to decreased audit, compliance, and litigation costs. The MMS anticipates similar cost avoidance in future years.

Federal and Indian Compliance Assurance

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

In FY 2006 the MMS reviewed and/or audited 72.5 percent of all 2003 Federal and Indian royalty revenues within three years from the date of receipt of payment, using a system that targets areas of greatest risk—the largest properties and payors.

As part of its compliance assurance activities, the MMS administers delegated and cooperative audit agreements with eleven States and seven Indian Tribes. The States and Tribes are working partners and an integral aspect of the overall onshore compliance efforts. Tribes are now self-empowered to perform audits on tribal mineral royalties within their reservation and the States perform audits on Federal leases within their boundaries. The MMS conducts compliance reviews and audits to provide compliance coverage over properties not covered by the States and Tribes.

Funding for States and Tribes in the Section 205 State Delegated Audit Program and Section 202 Tribal Cooperative Audit Program in FY 2006, was around $9.1 million. For FY 2007 funding for this program remains level. The MMS continues to explore how to best allocate available budget resources for the 202/205 Program. The MRM has analyzed cost, workload, and risk data to apply "best business case" criteria to the funding of this program. The mineral revenues at risk and number of producing leases are used to establish funding allocations among States and Tribes. Other factors, such as program effectiveness and anticipated increases and decreases in revenue activity, are also considered.

Indian Trust Responsibilities

The MMS places high emphasis on fulfilling its Indian Trust responsibilities. The MMS continues to provide the highest possible Indian trust service in collecting and disbursing royalties from Indian lands to 32 Tribes and more than 25,000 individual Indian mineral owners (IIMOs).

The MMS serves as an advocate for the interests of IIMOs. MRM operates in field offices that work closely with other Federal agencies to resolve Indian mineral issues and respond to the needs of IIMOs. These offices also administer special outreach and cooperative programs to educate and empower Indian mineral owners and engage them in the mineral revenue management process. During 2006, MMS held 74 outreach sessions with American Indian constituents and resolved 4,366 royalty related inquiries. The MMS plans to continue these efforts in 2007 and beyond.

Minerals Revenue Management Program Challenges

Compliance Strategy—Office of the Inspector General's (OIG) Report

The OIG conducted an audit at the request of the U.S. Senate Committee on Energy and Natural Resources. The audit, dated December 6, 2006 determined whether compliance reviews are an effective part of the CAM program and whether the MMS is effectively managing the compliance review process.

The OIG audit concluded that compliance reviews can be an effective part of the MMS CAM program, though the audit "disclosed some weaknesses that may prevent MMS from maximizing the benefits of the compliance reviews." In addition, the OIG audit found that while MMS had audited and or reviewed 72.5 percent of all revenues from Federal and Indian leases in FY 2006, this meant that the bureau examined only 9 percent of all properties and 20 percent of all companies. The OIG recommended that the MMS "consider modifying its CAM program strategy to ensure appropriate coverage of properties and companies within a reasonable timeframe even if this results in a reduction of the overall percentage of dollars covered."

In response, on December 28, 2006, MRM formally submitted an "Action Plan to Strengthen Minerals Management Service Compliance Program Operations." The Action Plan documents the improvement actions taken and planned to fully and effectively implement the OIG recommendations:

- MMS will provide reliable data for managing and reporting on CAM program operations; strengthen the compliance review process; and improve performance measures to better reflect CAM program operations.

- The Action Plan requires extensive oversight and frequent implementation status reporting by the MMS CAM managers and senior executives. Each improvement action has a target completion date and a designated MMS official with implementation responsibility.
- MMS will pursue a more dynamic, risk-based approach to compliance and is presently studying how to accomplish this goal most effectively. The number of properties and companies will increase, consistent with OIG recommendations.

MRM Support System Modifications

Since the MMS's formation in 1982, the energy industry has undergone significant changes. Over the years, the MMS has successfully adapted to industry changes and become more operationally efficient. The MRM's primary business of collecting, accounting, and assuring compliance for and disbursement of Federal and Indian mineral revenues is highly dependent on its information technology system, the MRM Support System (MRMSS). In FY 2008, the MMS is proposing $2.4 million in MRMSS system modifications, which will enhance compliance and enforcement efforts. The $940,000 adjustment line monitoring initiative would provide for systems improvements and staff support to ensure that required company adjustments are made only within allowable time frames. It is anticipated this capacity will provide a much larger return to the U.S. Treasury than the initiative will cost. With an increase of $1.5 million for the interactive payment reconciliation and billing initiative, the MMS will automate the interface with its customer base on numerous activities and enhance online reporting and verification capabilities. The funding will address an area of concern in the Bureau's 2006 financial audit, as well as provide a strong return on investment.

MMS's FY 2008 Budget Request

Budget Authority ($000)	2006 Enacted 1/	2007 President's Request	2007 Continuing Resolution 2/	2008 President's Request	2008 Change from 2007 CR
Offshore Minerals Management	148,771	159,365	148,771	159,956	+11,185
Minerals Revenue Management	77,882	79,158	77,882	82,371	+4,489
General Administration	47,468	46,858	47,468	48,451	+983
ROMM Subtotal	**274,121**	**285,381**	**274,121**	**290,778**	**+16,657**
OSR Appropriation	6,903	6,903	6,903	6,403	-500
Total MMS Funding	**281,024**	**292,284**	**281,024**	**297,181**	**+16,157**
Offsetting Collections	-122,730	-128,730	-122,730	-135,730	-13,000
Net Appropriated Funding	**158,294**	**163,554**	**158,294**	**161,451**	**+3,157**

1/ Does not include $31.1 million in supplemental funding for recovery from Hurricanes Katrina and Rita.
2/ Third FY 2007 Continuing resolution, effective through February 15, 2007.

The MMS receives funding for operations from three sources: the Royalty and Offshore Minerals Management (ROMM) appropriation, Oil Spill Research (OSR) appropriation and Offsetting Collections (primarily from rental rate receipts from offshore leases). In addition to appropriations for operations, MMS receives appropriations for distribution of the States' share of onshore mineral receipts. In FY 2008, the MMS estimates that the States' share of these onshore mineral receipts will be approximately $2.0 billion. This amount is slightly above our FY 2007 estimate of $1.9 billion.

FY 2008 Proposed Permanent Appropriations *(dollars in thousands)*	
Mineral Leasing Associated Payments *(MLAP)*	1,994,729
National Forest Fund Payments to States *(Forest Fund)*	6,803
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	2,608
Subtotal, Payments to States [1]	**2,004,140**
Coastal Impact Assistance Program	250,000
Total, Permanent Appropriations	**$2,254,140**

1/ Total includes adjustment as included with the NRS legislative proposal.

Conclusion

As we move forward in the new century, efficient, safe, and productive management of the Nation's OCS lands and mineral revenue collection efforts will remain the MMS's top priority. The MMS will continue to strive for excellence and work for the responsible development of America's energy supplies.

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

Mr. COSTA. Thank you very much, Ms. Burton, and we will have questions for you when the time comes. And I was quite generous with your time. We did go a little long, but I wanted to make sure you completed your statement.

As to the other witnesses, we want to be mindful of the Members' time here and give them an opportunity to ask questions following your statements.

I would now like to recognize Dr. Myers, who is the Director of the United States Geological Survey, for his testimony.

STATEMENT OF MARK D. MYERS, DIRECTOR, U.S. GEOLOGICAL SURVEY, U.S. DEPARTMENT OF THE INTERIOR

Mr. MYERS. Good afternoon, Mr. Chairman, and thank you for this opportunity to testify.

The USGS was created by an Act of Congress in 1879, and has evolved into a premier scientific agency which employs some of the world's finest scientists in biology, geology, hydrology, and geography. Unique is the USGS's ability to integrate and fuse these sciences together to deal with today's pressing, complex challenges.

The USGS serves the Nation by collecting and monitoring, analyzing and providing scientific information, understanding about natural resource conditions, issues, and problems. We provide the Nation with relevant, impartial scientific information to describe and understand the earth, minimize loss of life and property from natural disasters, manage water, biological energy and mineral resources, and enhance and protect the quality of life.

Some key national systems the USGS manages is the Advanced National Seismic System, used for earthquake monitoring and prediction; the Landsat 5 and 7 satellites; and a network of over 7,000 stream gauges.

The value of the USGS to the Nation rests on its ability to carry out studies on the national scale, and sustain long-term monitoring assessment of natural resources. Because it has no regulatory or management mandate, the USGS provides impartial science that directly impacts and positively benefits society.

The 9,000 scientists, technicians, and support staff of the USGS are located in nearly 400 offices in every state and several foreign countries. With a budget of approximately $1 billion a year, the USGS leverages its resources and expertise in partnerships, with more than 2,000 agencies of state, local, and tribal government, the academic community and Federal allies, and non-government organizations, and the private sector.

The Fiscal Year 2008 budget proposal focuses on the USGS research on issues of societal relevance by reflecting the President's commitment to reduce the deficit and balance the Federal budget by 2012. It ensures the USGS maintains its expertise to help address societal and scientific challenges that will arise in the months and years ahead.

The budget proposes a moderate increase to fund an expanded role for the USGS in the Green River Basin of Wyoming, a priority for the Department of Interior's Healthy Lands Initiative. Through the initiative and partnership with the Bureau of Land Management and Fish and Wildlife Service, the USGS will provide essential long-term science to protect and restore the living resources of the Basin, while facilitating necessary and responsible development of energy resources. It includes increases to priorities in the Ocean Actions Plan.

The Coastal and Marine Geology Program will receive additional funds for collaborative efforts with the Federal, regional, state, and local partners to provide coastal resource managers, coastal zone planners, and emergency and public health officials with data and forecasting of changing coastal conditions.

Natural hazards continue to threaten life and property across the U.S. Each year natural disasters in the United States result in hundreds of lives lost, and costs billions of dollars in disaster aid, disrupted commerce, destruction of public and private property.

The 2008 budget request builds on previous investments, and will seek to fill critical gaps of coverage in Southern California, which has one of the nation's highest potential for extreme catastrophic losses due to natural hazards.

Monitoring, responding to, and mitigating these impacts of natural hazards remain a core focus of the USGS scientific research.

A great concern to the Department, the Congress, the Nation are the potential impacts of climate change. USGS conducts national, regional, and local research across the nation, and provides necessary scientific information across multiple scientific disciplines, times, and scales. Because of this, the USGS has an important role in the climate science community that no other public or private science agency can fill.

The 2008 budget continues the base-level funding for research and monitoring related to climate change. USGS will use this funding to monitor, model, and understand ecological and physical responses to our changing climate.

The USGS Energy Resources Program also maintains its base funding, and will continue to provide impartial scientific robust information to advance the understanding of geologically based energy resources to contribute to plans for a secure energy future, and to facilitate evaluation and responsible use of resources.

The Fiscal Year 2008 budget request for the program continues the work called for in the Energy Policy Act of 2005, including the national assessment of geothermal resources, oil and gas resource assessments, to be joined with BLM in the U.S. Forest Service data, with the oil and gas inventory on Federal lands, and unconventional gas research, such as gas hydrates.

Additionally, USGS is a recognized scientific leader, as I said, in gas hydrate research, and will continue its collaborative work as part of major gas hydrate research projects around the world.

I am sure the Committee is aware the 2008 budget proposes a decrease to the minerals resource program. This program conducts basic research in ore deposits, geochemistry, and geophysics and applied research in national and international mineral assessments. The Administration is focusing its efforts in mineral research assessments and research projects that support the needs of the Federal Land Management programs.

The Fiscal Year 2008 budget includes funds to ensure continued availability of earth observation data to government, academic, commercial, and international users. It provides for operations and maintenance of Landsat 5 and 7, as well as a Landsat data continuity mission, to develop a ground data processing and flood operations system in preparation for the next Landsat satellite, scheduled to be launched in 2011. I will note that the funding to begin preparation for LDCM was contained in the continuing resolution.

In the years ahead, our nation must deal with national and global trends that have major natural science implications. The USGS is uniquely suited to address the broad scope of these natural resource, natural science issues facing the nation.

The 2008 budget request will enable the USGS to build on the breadth of expertise and its long tradition of service to provide data and long-term scientific understanding and scientific tools necessary to help the economy remain strong, the environment remain healthy, and the quality of life in the United States remain high now and into the future.

This concludes my statement, Mr. Chairman. I would be pleased to answer any questions you might have, or the questions of other Members.

[The prepared statement of Mr. Myers follows:]

Statement of Mark D. Myers, Director, U.S. Geological Survey, U.S. Department of the Interior

Good morning, Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to present the Administration's proposal for the budget of the U.S. Geological Survey (USGS) for Fiscal Year (FY) 2008. This budget preserves the Survey's scientific excellence in our core areas of biologic, geographic, geologic, and water resources research. The FY 2008 budget request for USGS is $975 million in current appropriations.

With enactment of the FY 2007 Joint Resolution, we now have a full year appropriation of $977.7 million, not including additional funds that will be provided for 50 percent of the January 2007 pay raise. Based on direction in the Joint Resolution we are preparing a detailed operating plan for FY 2007. We are not at liberty to disclose the details of the operating plans until they are approved and submitted to Congress on March 17. At that time we will be able to provide comparisons at the program level with the 2008 budget request.

The comparisons in our 2008 budget are with the third 2007 continuing resolution, which was in effect through February 15. Throughout this testimony the comparisons will be on that basis.

The FY 2008 Administration's budget proposal continues to focus USGS research on issues of societal relevance, while reflecting the President's commitment to reduce the deficit and balance the Federal budget by 2012. It ensures that USGS maintains the expertise to help address the scientific and societal challenges that will arise in the months and years ahead. The budget strengthens USGS efforts in support of key Administration priorities, such as the Healthy Lands Initiative and the Ocean Action Plan, and it maintains strong efforts to ensure continued availability of Earth observation data to government, academic, commercial, and international users, to reduce the human and environmental costs of natural disasters, and to provide the fundamental research and monitoring needed to address increasing concerns about climate change. The budget reflects $16.3 million in program increases and $24.0 million in increases for fixed costs, which are offset by $10.1 million in reductions to lower priority programs.

The budget proposes an increase of $5.0 million to fund an expanded role for USGS in the Green River Basin of Wyoming, a priority site for the Department's Healthy Lands Initiative. Through this Initiative, in partnership with the Bureau of Land Management and the Fish and Wildlife Service, USGS will provide the essential long-term science to help protect and restore the living resources of the basin while facilitating responsible development of the energy resources. The landscape and ecosystems of the Green River Basin include some of the highest quality wildlife habitat in the Intermountain West—but these landscapes are changing rapidly in response to recent energy resource development and increasing population pressures. The sagebrush, mountain shrub, aspen, and riparian habitats of the basin support significant numbers of plants and animals, including species that are candidates for Federal listing under the Endangered Species Act or species that are already listed as threatened or endangered.

The budget increase for the Healthy Lands Initiative builds on past and present scientific studies and assessments, including the recently completed energy assessment of the basin, land use and land cover studies, vegetation mapping, and long-term baseline water monitoring, and will enable USGS to investigate the environmental impacts of natural events and land-use change in the basin. Working with partners, USGS will assess the health of habitats and resources; build the geospatial framework for sharing information; and monitor changes in landscapes to ensure the long-term health and sustainability of the living resources. Our research and monitoring will inform our partners as they develop habitat restoration strategies that benefit species of concern. For example, USGS will integrate landscape-scale species and habitat science with energy assessments for the ecoregional analysis of terrestrial and aquatic ecosystems within the basin, determine the distribution of key species such as sage grouse, assess landscape and habitat conditions, identify unique ecological and critical habitats in relation to energy resources, assess priority conservation targets, and test the response of species to human disturbance. USGS inventories and monitoring of species and habitats, water-resource monitoring, and syntheses of habitat and energy information are critical to inform land- and resource-management decisions and restoration plans that ensure the year-round vitality of the diversity of habitats on which wildlife depends.

The proposed budget includes increases in both geology and water to address priorities in the U.S. Ocean Action Plan. The Coastal and Marine Geology program will receive $1.5 million for collaborative efforts with Federal, regional, State, and local partners to provide coastal resource managers, coastal zone planners, and emergency and public health officials with data and forecasts of changing coastal conditions, enabling them to anticipate and prepare for extreme weather events, natural disasters, and human influences on coastal environments and communities. The work will begin in pilot regions chosen to reflect a range of natural settings and human needs; candidate regions include the northern Gulf of Mexico, Southern California, and the Southeast/Mid-Atlantic. USGS will begin initial efforts in at least three pilot regions in FY 2008.

The budget also includes an increase of $1.5 million in the Hydrologic Networks and Analysis program to implement one of the chief recommendations of the U.S. Commission on Ocean Policy and the President's Ocean Action Plan: the creation of an interagency National Water Quality Monitoring Network. The network will integrate monitoring of watersheds, coastal waters, and oceans to provide regional and national data on the quality of surface and ground water in tributaries, wetlands, coastal waters, the Great Lakes, and coastal beach areas. Although many monitoring networks already exist and will continue, data from different networks may not be comparable. The new network will be unique in its ability to combine multidisciplinary data on water quality from many sources, ranging from upland tributaries to estuarine and offshore waters, and the data will be accessible through a single Web-based portal. The plan for the network was developed cooperatively with 40 different organizations at the Federal, regional, State, and local levels to ensure that it meets the needs of a wide range of users, and it has been approved by members of the Advisory Committee on Water Information and by the Council on Environmental Quality, National Science and Technology Council. In FY 2007, USGS is working with other agencies on pilot studies to inventory existing monitoring assets, identify gaps in data collection, refine the network's observational and data sharing requirements, and identify next steps for network implementation. FY 2008 activities supported by the proposed increase will build on pilot study results to establish demonstration projects that will show the feasibility of the network, refine observational parameters and temporal and geographic sampling frequencies and scales, and develop methods for sharing, summarizing, and reporting the data.

These linked activities will further the broad objectives of the Ocean Action Plan, supporting the development of integrated mapping, observations, visualization techniques, forecast models, and decision-support tools. Within 5 years, USGS and its partners will provide managers and officials in the pilot study areas with decision-support tools to help policy makers anticipate and prepare for coastal ecosystem and community responses to extreme weather events, natural disasters, and human influences.

Natural hazards continue to threaten lives and property across the United States. Each year, natural disasters in the United States result in hundreds of lives lost and cost billions of dollars in disaster aid, disrupted commerce, and the destruction of public and private property. It is the mission of USGS to provide scientific research and analysis to help citizens, emergency managers, and policy makers decide how to prepare for and react to the natural hazards we face. By collecting long-term data and information on past and present hazard events, by providing continuous monitoring and data collection, and by developing tools and products to aid communities in creating emergency preparedness and recovery plans, USGS can mitigate the potential impacts, saving lives and property.

The FY 2007 budget request reflected an increase of $2.2 million to support USGS hazards research and monitoring, supported by an additional $3.5 million from redirection of priorities within hazards-related programs. The FY 2008 budget request builds on last year's request and seeks an additional $1.3 million for the Natural Hazards Initiative. Within the $1.5 million increase for the Ocean Action Plan in the Coastal and Marine Geology program, $1.0 million will address hazard related programs, as discussed above. In addition, the budget seeks an additional $250,000 for two major activities as part of the Natural Hazards Initiative. An increase of $100,000 will be used to fill critical gaps in coverage in Southern California, which has one of the Nation's highest potentials for extreme catastrophic losses due to natural hazards, by installing new streamgages with the ability to transmit data in real time via satellite telemetry. These data are used in flood, landslide, and debris-flow forecasting and warning. An increase of $150,000 will enhance storm-surge monitoring in hurricane-prone areas to provide the National Weather Service and emergency managers with visualization of storm surge for use in conducting emergency response activities during a hurricane. The region bordering the Gulf of Mexico is particularly vulnerable to the impacts of hurricanes, and the Natural Hazards Initiative builds on current USGS activities to improve the ability to forecast and respond to hurricane impacts to this most vulnerable of coastal settings. These impacts include flooding from coastal storm surge and inland rivers; damage to physical features such as barrier islands, mainland beaches, wetlands and estuaries that provide the first line of defense when a hurricane strikes; and, as the hurricane moves inland, catastrophic landslides in mountainous areas. Scientific information and understanding are required to assess the physical, ecological, and socioeconomic vulnerability of these coastal settings; predict the potential impacts of storm events; provide emergency responders with timely and accurate information needed to direct critical resources for activities such as evacuations, search and rescue missions, and damage assessments; assess the effectiveness of post-storm restoration and enhancement activities (including those in response to Hurricanes Katrina and Rita) in reducing future vulnerability; and provide coastal zone managers with rapid and reliable assessments of the impacts of future storms and the resulting changes in coastal vulnerability to future hurricanes.

The potential impacts of climate change are of great concern to the Department, the Congress, and the Nation. With our ability to conduct national, regional and local research across the Nation and our ability to provide necessary science information across multiple scientific disciplines, times, and scales, USGS has an important niche in the climate science community that no other public or private science agency can fill. The FY 2008 budget continues the FY 2007 base funding level of $26 million for research and monitoring related to climate change. USGS will use this funding to monitor, model and understand ecological and physical responses to changing climate, such as—

- Permafrost thawing in the sub-Arctic Yukon Basin and the Arctic regions of Alaska,
- Drought monitoring in arid parts of the western United States;
- Migration of plant communities and proliferation of invasive species in response to climate change;
- Changes in snowpack and stream runoff in mountainous areas;
- Retreat of alpine glaciers;
- Coastal wetlands loss related to subsidence and sea-level rise;
- The interplay between climate and changes in land use and land cover; and
- Wildland fire across landscapes.

These observations and related USGS research are essential components for climate models, especially those that deal with the physical causes of climate change and impacts to the terrestrial, freshwater, and marine ecosystems from changing climate.

The FY 2008 budget proposes $222.1 million for USGS geology activities, which is $4.7 million above the FY 2007 CR level. The proposal includes $1.5 million of the requested $3 million for the Ocean Action Plan initiative, described earlier. It also includes $5.8 million in increases for fixed costs and continues funding for most assessments of geologic hazards, landscapes, and resources as proposed in FY 2007.

The FY 2008 budget proposes a decrease of $2.6 million for the Mineral Resources Program. This program conducts basic research in ore deposits, geochemistry, and geophysics and applied research in national and international mineral assessments that are used by States, local governments, industry, and academia, in addition to many Federal agencies. The Administration is focusing its efforts in mineral resource assessments and research on projects that support the needs of Federal land management programs. The proposed budget will permit the program to conduct one site-specific mineral resource project for Federal land management agencies in the lower 48 States, provide regional-scale geologic data and mineral resource assessments in Alaska, complete collection of national-scale data characterizing earth materials, collect data on production and utilization of 70 to 80 mineral commodities, and manage four national-scale long-term databases.

The FY 2008 budget requests $181.1 million for biological research, which is $8.5 million above the FY 2007 CR level. The proposal reflects $4.5 million in increases for fixed costs and $5 million for increases for the Healthy Lands Initiative in the Green River Basin of Wyoming, as described earlier. Also included in this funding level are decreases of $950,000 for lower priority studies in two programs: the wildlife program ($300,000) and contaminants program ($650,000).

The FY 2008 budget includes $75 million for Geography, demonstrating continued support for the USGS role in land remote sensing and geographic research. The request reflects a net decrease of $1.7 million below the FY 2007 CR level but an increase of roughly $15 million compared to FY 2006 enacted funding. The FY 2008 budget includes funds to ensure continued availability of Earth observation data to government, academic, commercial, and international users. The budget continues to provide for the operations and maintenance of Landsats 5 and 7. In addition, the FY 2008 budget provides $24 million for the Landsat Data Continuity Mission (LDCM) to develop the ground data processing and flight operations systems in preparation for the next Landsat satellite, scheduled for launch in 2011. USGS and NASA are working in partnership to produce an integrated Landsat ground and space system. LDCM will ensure that the United States maintains its global technological and scientific leadership in land imaging operations and preserves the Nation's commitment to continuous observation and analysis of our dynamic planet. Decreases to the Geography budget include $2.0 million in the Priority Ecosystem Science program and $850,000 for further development of the Commercial Remote Sensing Space Policy Imagery-Derived Requirements.

The FY 2008 budget for the USGS water resources discipline proposes $212.5 million to continue work on issues related to water availability, water quality, and flood and drought hazards. This budget proposal includes an increase of $1.4 million for streamgaging activities through the National Streamflow Information Program (NSIP), allowing USGS to reactivate real-time streamgages and continue operating streamgages at high-priority sites that might otherwise be lost through lack of partner funding. The increase will also enable USGS to invest in technological improvements that will make the entire network more cost-efficient in the long term. USGS currently operates a network of about 7,400 streamgages nationwide. The network provides near-real-time data to other Federal agencies, States, and local communities for activities such as protecting life and property from floods; water resources assessment, planning, and management; habitat protection; recreation safety and enjoyment; and engineering design for planning our Nation's infrastructure. The FY 2008 budget also includes increases of $1.5 million for the Ocean Action Plan and $250,000 for the hazards initiative, as described earlier.

The FY 2008 budget proposes a decrease of $2.2 million in cooperative water studies that will result in 13 fewer interpretive studies to be conducted in FY 2008 than in FY 2006. Like the FY 2007 CR level and FY 2007 budget request, the FY 2008 budget does not include $6.4 million for the 54 State Water Resources Research Institutes.

The FY 2008 budget requests $284.3 million for science support, enterprise information, and facilities, which is $10.3 million above the FY 2007 request. This funding level includes an increase of $4.7 million for critical health and safety repairs and rehabilitation of facilities at the Patuxent Wildlife Research Center, a facility that is shared with the Fish and Wildlife Service (FWS) at the Patuxent Research Refuge. The USGS and FWS funds will, in combination, be used to replace and repair the water, sewer, and electrical utility infrastructure and associate sub-systems at Patuxent. The facility is a nationally recognized center for research on endangered whooping cranes and other biological issues. The increase will enable USGS, working in cooperation with the Fish and Wildlife Service, to replace outdated utility systems. The budget request also reflects a decrease for enterprise information of $1.5 million achieved through economies of IT centralization, consolidation of software and hardware purchases, and workforce planning.

In the years ahead, our Nation must deal with national and global trends that have major natural-science implications. USGS, with its worldwide reputation for excellent, objective, unbiased science, is uniquely suited to address the broad scope of natural-resource and natural-science issues facing the Nation, employing scientific tools at scales ranging from microscopic to global. The FY 2008 budget request will enable USGS to build on its breadth of expertise and its long tradition of service to provide the data, long-term scientific understanding, and scientific tools needed to help the economy remain strong, the environment remain healthy, and the quality of life in the United States remain high now and into the future.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to testify.

Mr. COSTA. Thank you very much, Dr. Myers. I would now like to recognize Mr. Hughes, who is the Acting Director of the Bureau of Land Management.

Mr. Hughes.

STATEMENT OF JIM HUGHES, ACTING DIRECTOR, BUREAU OF LAND MANAGEMENT, U.S. DEPARTMENT OF THE INTERIOR

Mr. HUGHES. Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the Bureau of Land Management's Fiscal Year 2008 budget request.

The Bureau of Land Management manages more land, 258 million surface acres, than any other Federal agency. Most of this public land is located in 12 western states, including Alaska. The Bureau also administers 700 million acres of subsurface mineral estate throughout the nation.

The BLM's multiple-use mission is to sustain the health and productivity of the public lands for the use and enjoyment of present and future generations. The Bureau accomplishes this by managing such activities as outdoor recreation, including hunting and fishing; livestock grazing; mineral development; and energy production; and by preserving natural, historical, and cultural resources on public lands.

The BLM is dedicated to ensuring the American people, regardless of where they live, benefit from the Agency's multiple-use mission. Rapid population growth in the West has led to an increasing pressure to meet complex and sometimes competing demands for public land resources.

These challenges in the BLM's larger role as steward of 258 million-plus acres of public lands are reflected in our Fiscal Year 2008 budget request, which serves to advance the Agency's top priorities. These include restoring the health of the land and enhancing important fish and wildlife habitat; providing the Nation with dependable and affordable energy that is developed in an environmentally sound manner; and capturing efficiencies by improving the Agency's operational and administrative functions.

The BLM continues to do its part to contribute to domestic energy production through implementation of the President's National Energy Policy, and the Energy Policy Act of 2005, which the Congress passed.

Among our actions to date, we have made oil and gas permitting more efficient by streamlining the process of applications for permits to drill in the seven pilot offices that were identified in the Energy Policy Act. We are also in the process of preparing a programmatic environmental impact statement for oil shale and tar sands, and to date have issued five research development and demonstration oil shale leases in Colorado.

The BLM's land use planning process seeks to ensure that domestic oil and gas production on public lands is done in a way that protects the environment, and involves locals in land use planning.

For example, our recently completed resource management plan for Otero and Sierra Counties in New Mexico is one of the most restrictive plans ever developed for oil and gas leasing on Federal lands. It strictly limits, regulates, and monitors all surface disturbance activities, and ensures that important habitat for endangered species and other special areas are preserved.

The BLM is proposing an increase of $3.1 million in its 2008 budget request, to better ensure that oil and gas operations are conducted in an environmentally sound manner, and that the terms of leasing permits are enforced. This funding increase is necessary so that the BLM's oversight capabilities can match the pace of industry's on-the-ground operations.

While we have made progress in support of traditional forms of energy, we are also focusing our attention on the development of renewable energy sources. Renewable forms of energy have the potential to diversify our energy supply and increase our energy security. The Energy Policy Act of 2005 requires development of renewable energy sources. The BLM is making progress in advancing the development of geothermal, solar, and wind energy on public lands.

The annual electrical needs of 1.2 million homes in the U.S. are generated by 58 geothermal leases on BLM-managed lands. Another one million homes could be powered in coming years by wind energy produced on public lands. When it comes to our own energy consumption, the BLM has installed about 600 photovoltaic solar equipment systems in our facilities to self-generate electricity, and we expect to install more systems this spring. All of these efforts are undertaken in conformance with strict mitigation measures to minimize any impacts on wildlife from habitat fragmentation, ground disturbances, or noise.

The BLM's Fiscal Year 2008 budget request includes a proposed increase of $15 million in support of the Department's Interior Healthy Lands Initiative. Multiple pressures on public land uses affect large landscapes, particularly those in the growing wildlife energy interface. The Healthy Lands Initiative is a new strategy for aggressively meeting these challenges, and focuses on cooperative watershed restoration and ecosystem enhancement at the landscape level. The goals of this initiative are to sustain public lands and wildlife habitat to maintain recreational opportunities, manage landscapes to prevent the listing of species, and stabilize energy production and enhance energy security.

The BLM plans to use the requested increase in funds to begin habitat restoration enhancement projects in six geographic areas that face the greatest challenge in maintaining multiple use. The funds will be used to leverage resources with other Federal agencies and our partners in the state and local levels.

The BLM's Fiscal Year 2008 budget request also proposes a number of reductions, resulting from improving some of the Agency's operational and administrative functions. We are in the process of consolidating and streamlining our information technology functions, implementing changes to our management structure, reducing travel costs. We plan to continue with these cost-saving efforts in 2007.

Mr. Chairman, this concludes my opening remarks. I will be happy to answer questions. Thank you, sir.

[The prepared statement of Mr. Hughes follows:]

Statement of Jim Hughes, Acting Director, Bureau of Land Management, U.S. Department of the Interior

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear here today to discuss the Fiscal Year (FY) 2008 President's Budget Request for the Bureau of Land Management (BLM).

Budget Overview

With enactment of the FY 2007 Joint Resolution, the BLM now has a full year appropriation of $1.76 billion, not including additional funds that will be provided for 50 percent of the January 2007 pay raise. Based on direction in the Joint Resolution we are preparing a detailed operating plan for FY 2007. We are not at liberty to disclose the details of the operating plans until they are approved and submitted to Congress on March 17. At that time we will be able to provide comparisons at the program level with the 2008 budget request.

The comparisons in our FY 2008 budget are with the third 2007 continuing resolution, which was in effect through February 15 of this year. Throughout this testimony the comparisons will be on that basis.

The BLM's FY 2008 Budget request is $1.812 billion for the BLM's major appropriations, including the Management of Lands and Resources, Oregon and California Grant Lands (O&C), Construction, Land Acquisition, Miscellaneous Trust Funds, and the Department of the Interior's Wildland Fire Management Appropriation. This represents an increase of $57.8 million above the 2007 continuing resolution level. When permanent accounts are included, the BLM's total budget request is about $2.012 billion.

The budget proposes several programmatic decreases totaling $36.6 million, which include $3 million for the Cultural Resources Management program; $4.7 million in the Wild Horse and Burro Management program; $3 million for Resource Management Planning program; $4.3 million for Deferred Maintenance program; and, $5 million in the O&C Grant Lands Appropriation. Cost savings totaling nearly $10 million are achieved by consolidating and streamlining BLM's information technology functions, implementing changes in BLM's management structure to improve efficiency, and reducing travel costs. In part, these reductions take into account savings that can be achieved due to past programmatic accomplishments; however, they also reflect the need to shift funding from lower priority activities to higher priorities such as the Healthy Lands Initiative.

Background

The Bureau of Land Management is dedicated to ensuring that the American people—regardless of where they live—benefit from the agency's multiple-use mandate. As stewards of 258 million acres, the BLM manages these public lands in accordance with the 1976 Federal Land Policy and Management Act. These public lands contain myriad resources and provide for a variety of our Nation's needs, including outdoor recreation, domestic energy, wildlife habitat, livestock grazing, timber, and other natural, cultural, and historical resources. With the rapid population growth in the west—from nearly 20 million people in 1950 to more than 60 million today—the pressures to meet complex, and sometimes competing, demands for public land resources also has grown exponentially.

In ever increasing numbers, the American public has turned to BLM-managed public lands for recreation. We also have important responsibilities in managing for critical wildlife habitat, cultural resources, our National Monuments, and wilderness values, to name a few. In providing an appropriate mix of both renewable and conventional energy supplies from the public lands, the BLM contributes to a more secure and reliable energy future for our country.

As one of the Nation's oldest land management agencies, the BLM also delivers value on a daily basis to the American public. Each dollar spent by the taxpayer on BLM activities is an investment, not only in the land, but also in an ongoing revenue stream. The BLM is an important source of revenue to the Treasury. Royalties collected from energy leasing, and fees collected from grazing permits and timber sales, among others, all serve to benefit the taxpayer. In 2008, public lands will generate an estimated $4.5 billion in revenues, mostly from energy development. Approximately 44 percent of these receipts are provided directly to States and counties to support roads, schools, and other community needs.

The President's FY 2008 budget proposal will enable the BLM to fulfill its multiple-use mission in the most effective and efficient way possible. In particular, the President's budget advances the Agency's top priorities in the upcoming fiscal year, which are to:

- Maintain or restore the health of the land and enhance vital habitat;
- Provide the Nation with dependable, affordable energy developed in an environmentally-sound manner; and
- Improve the efficiency of the BLM's operational and administrative functions.

Healthy Lands Initiative

The President's FY 2008 budget proposal includes an increase of $15 million over the FY 2007 Continuing Resolution in support of the Department of the Interior's Healthy Lands Initiative (Initiative). The Initiative represents a new concept for meeting emerging challenges in managing natural resources with flexible, landscape-level approaches for continued multiple-use. Landscapes are land areas composed of diverse habitat types that include winter range and migration corridors.

Land health is being affected by pressures such as community expansion, wildfires, unprecedented demands for energy resources, ever-expanding recreation uses, and weed invasion. These pressures often interact among themselves to affect large landscapes and ecosystems, particularly those in the growing wildlife-energy interface.

A different management approach is urgently needed to meet these challenges. Taking aggressive steps now will help avoid the need for future restrictions on uses of public land that would directly affect the Nation's economy and quality of life.

The goals of the Initiative are to:

- Continue to provide access to energy resources, thereby enhancing energy security;
- Manage landscapes to ensure sustainable habitat for wide-ranging species, such as the sage grouse, and prevent future ESA listings; and
- Sustain public lands and wildlife habitat, and traditional activities on public lands.

The BLM will begin aggressive, landscape-scale habitat enhancement projects in six geographic areas: southwest Wyoming; northwest and southeast New Mexico; south-central Idaho; southwestern Colorado; Utah; and the three-corner area of Idaho, Oregon, and Nevada.

The Bureau will concentrate a large number of treatments in each emphasis area, resulting in significant improvements to habitat in an entire watershed or landscape-wide area within one to three years. The BLM will also utilize $8 million in other BLM funds, as well as leverage funding with other Federal agencies and our partners at the state and local levels.

The Green River Basin in Wyoming

One of the six priority areas of the Healthy Lands Initiative is the Green River Basin in Wyoming. It is representative of areas in the West where landscapes and habitats are undergoing changes in response to pressure from multiple-use. Southwest Wyoming possesses some of the most diverse wildlife habitats in the Intermountain West, which attracts hunters, fishermen, and other outdoor enthusiasts each year. While these interests represent important sources of income for surrounding rural communities, this region, principally the Green River Basin (Basin), is also under pressure from natural gas development. The 15 million-acre Basin, characterized by sagebrush (sage grouse habitat), mountain shrub, aspen, and riparian communities, also has an estimated 83 trillion cubic feet of recoverable natural gas.

The BLM together with the Fish and Wildlife Service and U.S. Geological Survey, are teaming up to protect these important habitats while natural gas production takes place in the Basin through the Wyoming Landscape Conservation Initiative (WLCI). Rather than conducting separate and uncoordinated impact studies and mitigation efforts, these partners will:

- Conduct efficient, science-based species monitoring and habitat enhancement;
- Facilitate best reclamation and mitigation practices for areas affected by current natural gas development;
- Integrate existing data with new knowledge and technologies to forecast future development of energy resources and assist in habitat conservation planning; and
- Conduct habitat enhancement in all habitat types with a special focus on sagebrush, mountain shrub, aspen, and riparian communities.

The partnership, which also includes efforts underway by the National Park Service, Bureau of Reclamation, Forest Service, and Wyoming Game and Fish, will also provide a broader understanding of the valuable Green River Basin ecosystem.

By using this landscape-level approach and using the WLCI partnership, the Bureau expects to be able to leverage funding for key projects that will mitigate the pressures these habitats face from a combination of energy, industrial, and residential development in both the short- and long-terms. In Wyoming, partners have already identified funding priorities including vegetation treatments (sagebrush, aspen trees), water projects such as building or restoring water sources for wildlife, and improving riparian areas. Funding for the WLCI will be long-term and include leveraging funding with other Federal agencies and our partners at the state and local levels.

Energy Initiatives

BLM's FY 2008 Budget will continue to address America's energy needs by facilitating environmentally-sound energy development on public lands. The budget builds upon the significant prior year funding increases to the Energy and Minerals program budget, including those proposed in the FY 2007 President's Budget. These increases will enable the BLM to continue to support implementation of the Energy Policy Act of 2005 and to support the goals of the National Energy Policy for increasing domestic energy supplies.

The FY 2008 President's Budget request includes an increase of $3.1 million to support increased oil and gas inspections and monitoring to better ensure that oil and gas operations are conducted in an environmentally-sensitive manner and that leasing permit terms are enforced. This increase is necessary so that the BLM's oversight capabilities can match the pace of industry's on-the-ground operations. Additionally, the BLM is implementing two innovations that will both increase the efficiency of Inspection and Enforcement (I&E) functions and result in cost savings.

The Remote Data Acquisition for Well Production (RDAWP) Project will provide the BLM up-to-date wellhead production data by way of direct downloads from wellhead flow meters to a secure web-based server. The objective of this project is to provide the BLM with the ability to perform production verification accounting tasks more efficiently, and to reduce the production verification workload. Currently, production verification is time consuming because it is performed using hard copies of production reports. RDAWP will allow "real-time" access to production data collected at specific points within a producing oil and gas lease. In addition, the BLM will have a rapid means of cross-checking production data that has been rectified and provided by the Minerals Management Service (MMS) with the known equipment located at the lease. The initial benefits of RDAWP should be an incremental increase in processed production verification capabilities, and increased accuracy of royalties recovered.

Another innovative inspection tool the BLM is adding to its I&E capabilities is the Automated Fluid Minerals Support System (AFMSS) Handheld Inspection Capability. These handheld data capture units will provide field inspectors access to inspection information and associated agency computing capabilities while in the field, improving inspection efficiency, and productivity.

The BLM's land use planning process seeks to ensure that domestic oil and gas development on public lands is done in a way that protects the environment. For example, the BLM recently issued an innovative Resource Management Plan (RMP) for limited, environmentally-sensitive oil and gas development on public lands in Otero and Sierra Counties in New Mexico. It is one of the most restrictive plans ever developed for oil and gas leasing on Federal lands.

The plan will allow strictly regulated and carefully monitored activity, leading to a maximum surface disturbance of only 1,589 acres from well pads, roads and pipelines—less than one-tenth of one percent of the total surface area of 2 million acres. At most, there will be 141 exploratory wells drilled, resulting in up to 84 producing wells. Almost 36,000 acres of grasslands with the highest potential as habitat for the endangered Aplomado falcon will be closed to leasing and permanently protected. In addition to these measures and overall limits on development, leasing will not be allowed in six existing and eight proposed Areas of Critical Environmental Concern and four Wilderness Study Areas—bringing the total number of protected acres to 124,000. This new plan amends a 1986 RMP that would have allowed leasing with few restrictions on oil and gas activities, would have used standard lease terms and conditions for leasing, and would not have provided the protections for grasslands and other sensitive areas developed in the BLM's current plan amendment.

Recreation

Along with the BLM's Healthy Lands Initiative, the BLM is participating in the new "Take it Outside" campaign to reconnect America's families to the great outdoors. Our goal is both to increase an appreciation for the wonderful world of nature and address problems of physical and mental health brought on by inactivity.

Opportunities for physical and educational experiences and activities abound through the discovery and exploration of public land adventures. By engaging children through their schools, youth groups, and families, we hope to increase outdoor activities for all families and children, including the growing numbers who call the public lands their backyards. In our strategy, which is in the process of being finalized, our hope is to:

- Connect children to nature through schools and an educational program using the BLM's existing Environmental and Heritage Education programs;
- Create and promote outdoor activities which encourage family-friendly recreation; and,
- Engage children in nature through volunteer and public service opportunities on public lands.

Efficiency Improvements

The BLM is aggressively focusing on the effective stewardship of our resources—funding, employees, and assets—to ensure that they are used wisely and responsibly. The agency will undertake a series of actions to promote a more effective and efficient organization, including:

- Establishing a set of broad-ranging management concepts to maintain the agency's core mission;
- Creating consistently structured state organizations made up of a state office, district offices, and field offices;
- Establishing a National Operations Center in Denver that consolidates the existing business functions already located there, thus providing greater support to the field because of its proximity to the majority of Rocky Mountain offices; and
- Taking advantage of technological improvements to centralize functions in information technology and human resources.

Mr. Chairman, thank you for the opportunity to testify on the BLM's FY 2008 Budget Request. I will be pleased to answer any questions you may have.

Mr. COSTA. Thank you very much, Mr. Hughes. I would now like to recognize Mr. Frederick Norbury, who is the Associate Deputy Chief of the United States Forest Service.

Actually, I went out of order. First we will hear from Brent Wahlquist, Acting Director of the Office of Surface Mining Reclamation and Enforcement. Mr. Wahlquist.

STATEMENT OF BRENT T. WAHLQUIST, ACTING DIRECTOR, OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT, U.S. DEPARTMENT OF THE INTERIOR

Mr. WAHLQUIST. Thank you, Mr. Chairman, and thank you, Members of the Committee, for the opportunity to discuss the budget.

Our nation is blessed with huge reserves of coal. For over 200 years, coal has fueled our nation's development. It built our industrial might, heated our homes, and moved—I am having some more trouble with that mike. We might want to use the other one. Paula, you might try to figure out what is going on. We will see if we are doing better here.

Over 30 years ago, Congress had the wisdom to address the impact of coal mining, because that development of coal certainly had substantial impacts upon the public and the environment. And with the passage of the Surface Mining Act in 1977, the Office of Surface Mining was created.

I should note here that the Office of Surface Mining is really misnamed, in that it is really the Office of Coal Mining. We deal with coal, and only coal, both surface and underground.

We operate two basic programs: a regulatory program to address prospective mining after the passage of the Act, to make sure that that mining is conducted in a way in which the public and the environment is protected and the land is restored. We also operate an Abandoned Mine Lands program that is based upon the collection of a fee on each ton of coal that is produced.

In this past fiscal year we collected over $300 million from that fee. That is used to fund an Abandoned Mine Lands program across the Nation to address those problems that had existed prior to 1977.

While implementing that Act has not been without controversy, OSM and our state and Federal partners are proud of the achievements of the past three decades. Mining has truly become a temporary use of the land. As we implement that, we recognize that we do this primarily through state primacy. We have approved programs with 23 states and three Indian tribes that also operate an abandoned mine land program.

Today the primary use of coal is to generate electricity. Electric power is the backbone of this nation's economy, and is integral to the daily life of each and every citizen; and more than half of that electricity comes from the burning of coal, and that is on the rise.

The Act requires that we balance the need for environmental protection with our nation's need for coal. OSM and our state partners continually strive to provide that stable regulatory environment necessary to achieve that balance.

This afternoon I would like to highlight three critical aspects of our budget request with implications for OSM and our state and tribal partners. To continue this record of success, it is critical that funding for state regulatory programs be increased, as the President has requested, in our Fiscal Year 2008 budget.

State programs regulate 97 percent of U.S. coal production. Just like the Federal government, state programs have fixed-cost increases each year, but they have gone unfunded now for several years. This is a mistake.

State regulatory programs are a tremendous bargain because they accomplish the permitting and enforcement work essential to keep the coal moving and the lights on at a fraction of what it would cost OSM to do the same work under Federal programs. Without additional funding, states will be forced to further reduce staff, which will impact permitting and enforcing efforts.

Virginia, for example, has already asked us to work with them to explore options to current grant funding, including giving the program back to OSM. I cannot over-emphasize how important it is that no state lose primacy.

The second point I would like to highlight is that there are major changes in our budget request, resulting from the 2006 amendments to the Surface Mining Act.

On behalf of the OSM and states and tribes that administer Abandoned Mine Lands programs, I want to thank the Congress for reauthorizing AML fee collections. That debate is now over.

We are now engaged in new debates that will arise as we implement and interpret these amendments as signed into law. We will work closely with the Congress, and the states and tribes, in an open and transparent process, as we make the regulatory, procedural, and administrative changes needed to implement these amendments. In doing so, we will focus on the goal of finishing the job of mitigating all of the serious health and safety problems at coal AML sites in the 15 years you have given us for this extension.

Finally, our budget proposal continues to emphasize the importance of sound science and modern technology tools in maximizing the efforts of regulatory and reclamation programs. We will continue our efforts to apply current technology to mining and reclamation issues, to use good science to solve technical problems, and to increase the technical capacity of states and tribes in doing their jobs.

An example of this is our Appalachian Reforestation Initiative. Almost all of the land in Appalachia surface mined for coal over the past 30 years was forested before mining. However, very little of it has been returned to productive forest. Yet it is possible to restore highly productive forests on mine land.

Over the past three years, in cooperation with states, academic experts, industry, the American Chestnut Foundation, and other public interest groups, we have made a substantial progress in changing perceptions of how reclamation should be done in order to restore the benefits associated with forests.

We anticipate the investment of our 2008 budget makes the nation's coal mining and regulation programs, together with the amendments to the Surface Mining Act, will bring about a period of unprecedented achievement. And we look forward to working with the Congress and this committee, or Subcommittee, to bring the benefits of these achievements to millions of Americans living and working in the coal fields.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Wahlquist follows:]

Statement of Brent T. Wahlquist, Acting Director, Office of Surface Mining Reclamation and Enforcement, U.S. Department of the Interior

Mr. Chairman and Distinguished Members of the Subcommittee, I am pleased to present to you the Fiscal Year (FY) 2008 budget request of the Office of Surface Mining Reclamation and Enforcement (OSM).

In August, OSM will mark the 30th year since its creation. OSM was established with the passage of the Surface Mining Control and Reclamation Act of 1977 (SMCRA). Since then, working closely with the States and Tribes, OSM has been responsible for assuring that coal mines are operated in a manner that protects citizens and the environment and that the land is restored to beneficial use following mining. Additionally, we are responsible for reclaiming and restoring lands and water degraded by past mining operations.

Coal is an important energy source for the nation. It provides over one-half of the nation's electricity. Balancing coal production and the protection of the public and environment during operations to produce coal is a challenge faced by OSM and its State and Tribal partners on a daily basis.

Currently, 24 States have regulatory primacy programs in place. Twenty-three States and three Tribes administer approved abandoned mine land reclamation programs. The primacy States are successfully implementing their approved regulatory and reclamation programs. OSM's role has evolved to establishing policy direction and guidance, providing grants to primacy States and Tribes, conducting oversight activities in accordance with SMCRA, and administering and operating programs on Federal and Tribal lands and in States that have not assumed primacy.

Since enactment of SMCRA, OSM has provided about $1 billion in regulatory grants to the States and Tribes to assist in funding the regulation of active coal mines. Also, since that time, OSM has provided about $3 billion in grants to States and Tribes to clean up mine sites abandoned before passage of SMCRA. In the course of addressing health, safety and environmental hazards, more than 215,000 acres of Priority 1 and 2 abandoned coal mine sites have been reclaimed under OSM's Abandoned Mine Land (AML) Program.

The authority to collect the mine reclamation fee and distribution of the fee was revised by the Tax Relief and Health Care Act of 2006, which included the Surface Mining Control and Reclamation Act Amendments of 2006 (Public Law 109-432). Among other things, these amendments extended the authority for fee collection through September 30, 2021, and changed the way State and Tribal reclamation grants are to be funded, beginning in FY 2008. State and Tribal grants, except for grants under the emergency program, are now mandatory spending derived from the AML Fund and the general fund of the U.S. Treasury. OSM continues to review the new law, which was signed on December 20, 2006, and discuss the changes with its State and Tribal partners. Appropriate rulemaking will occur during FY 2007 to implement the many changes contained in the law. OSM will also be revising policy directives and operational systems to accommodate these changes.

In order to maximize the effectiveness of our program, OSM must also take advantage of the tools modern science and technology have to offer. We will continue our efforts in several areas to increase the technical capacity of our staff and State and Tribal partners, apply current technology to mining issues, and pursue new ways to solve technical issues.

Fiscal Year 2008 Budget Request

To address some of the issues I have just outlined, I would like to present some highlights of our FY 2008 budget proposal. With enactment of the FY 2007 Joint Resolution, we now have a full year appropriation of $294.2 million not including additional funds that will be provided for at 50 percent of the January 2007 pay raise. Based on direction in the Joint Resolution, we are preparing a detailed operating plan for FY 2007. We are not at liberty to disclose the details of the operating plans until they are approved and submitted to Congress on March 17. At that time, we will be able to provide comparisons at the program level with the 2008 budget request.

The comparisons in our 2008 budget are with the third 2007 continuing resolution, which was in effect through February 15. Throughout this testimony, the comparisons will be on that basis. OSM's FY 2008 budget request totals $168.3 million in discretionary spending (or current appropriations) and 544 full-time employees. Compared with the 2007 continuing resolution level of $291.7 million, this represents a total decrease of $123.5 million. This change is comprised of a shift of $134.2 million in State and Tribal grant funding that is mandatory and no longer subject to appropriation. The balance of the change from the 2007 level reflects an increase of $1.5 million for fixed costs and net program increases of $9.2 million.

OSM's budget also contains an estimated $ 401.4 million in mandatory spending (or permanent appropriations). Mandatory spending includes $ 288.4 million for reclamation payments to States and Tribes and $113.0 million for payments to the United Mine Workers of America for specified health benefits plans. Mandatory spending comes from both the AML and Treasury Funds. These estimates, as contained in our budget submission, are very preliminary and subject to change as we refine our understanding of the SMCRA Amendments of 2006.

Current Appropriations

The FY 2008 request will enable OSM to provide sufficient financial support for 24 State regulatory programs, and for State AML emergency programs implemented by 14 States. It will also enable OSM to continue to administer Federal regulatory and reclamation programs in States that do not operate their own programs and on Federal and Tribal lands.

A portion of the funding appropriated to OSM is passed on to the States and Tribes in the form of regulatory and reclamation grants. For FY 2008, our request includes $11.2 million in reclamation grants to States for the emergency program, and $60.6 million for regulatory grants. These grants, along with Federal emergency and high priority project funding, and watershed cooperative agreement funding, account for 50 percent of OSM's budget. The remaining portion of the budget provides funding for OSM's internal operations, including the operation of Federal programs, technical training, and other technical assistance to the States and Tribes.

OSM's overall FY 2008 request includes $115.5 million for the Regulation and Technology (R&T) appropriation and $52.8 million for the AML appropriation. This request represents an increase of $6.6 million for the R&T program and a decrease of $130.0 million for the AML program, thus accounting for a total decrease of $123.5 million from the FY 2007 continuing resolution level.

Our FY 2008 budget request contains an increase in regulatory grants for a total of $60.6 million in funding. This level of funding is important to support continued operational increases at the State level (e.g., salaries, benefits, rents and utilities) that constitute by far the largest proportion of State regulatory program expenditures. States must have sufficient staff to complete permitting and inspection and enforcement actions needed to protect citizens of the coal fields. If a State were to relinquish primacy, OSM would have to hire sufficient numbers and types of Federal employees to implement the program. The cost to the Federal government would be significantly higher than the current matching grant amount.

Additional increases include $0.5 million for Watershed Cooperative Agreements, $0.1 million for the Working Capital Fund to support implementation of the Department-wide Financial and Business Management System that will result in improved effectiveness and efficiency, and fixed costs for increases in FY 2008 for OSM of $1.5 million.

The major decrease is $134.2 million in AML grants to States and Tribes as a result of the SMCRA Amendments of 2006. That funding is now accounted for under mandatory spending.

Our FY 2008 budget is a fiscally responsible proposal that enables OSM to implement its mission goals effectively and efficiently.

Government-wide Management Reforms

This budget supports the Administration's Government-wide management reforms by integrating budget and performance measures; improving capital asset planning and control; improving strategic management of human capital; improving financial performance; and expanding electronic government. OSM's budget proposals have integrated strategic goals and associated measures with OSM's budget structure for the past several fiscal years. Our 2008 proposal continues this integration and incorporates the Department's Strategic Plan for FY 2007-2012.

OSM is also implementing a new financial system, the Financial Business and Management System (FBMS). Furthermore, OSM continues to refine its workforce plan to help strategically manage its human resources. Finally, because of OSM's expanded electronic government initiatives, greater opportunities exist for citizens to access OSM provided information.

I thank the Subcommittee for providing this opportunity to present OSM's FY 2008 budget request, and I look forward to answering your questions.

[A letter submitted for the record by Mr. Wahlquist follows:]

United States Department of the Interior

OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT
Washington, D.C. 20240

March 2, 2007

The Honorable Jim Costa
Chairman, Subcommittee on Energy and Mineral Resources
Committee on Natural Resources
1324 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

Thank you for the opportunity to testify before the subcommittee on Tuesday, February 27th. When I returned to my office, I learned of a misstatement in recounting the history of the use of "Office of Surface Mining" and "OSM" to refer to the Office of Surface Mining Reclamation and Enforcement.

I was off by about 5 years in what I remembered. I said the last specific direction on how to refer to the agency was given in about 1995 when it was, in fact, about 1990. I would like to provide the correct information.

Our regulations (30 CFR 700.5) expressly recognize both acronyms, "OSM" or "OSMRE," as acceptable shorthand for the Office of Surface Mining Reclamation and Enforcement. The original agency seal, adopted shortly after the Office was created in 1977, featured the images of a pine tree and a bulldozer blade circled by the wording "US Department of the Interior - Office of Surface Mining."

There was a time in the late 1970s when the agency was sometimes referred to by its full acronym, "OSMRE" (pronounced "Oz-Marie"). That usage faded with time and was completely replaced in common usage with "OSM." For about three years, beginning in 1986, there was a conscious effort initiated by Director Jed Christensen to return to the use of "OSMRE" in order to emphasize Reclamation and Enforcement. In Federal Register notices, Directives, and correspondence written during that time the acronym "OSMRE" was used, rather than "OSM". However, saying "OSMRE" rather than "OSM" never gained popular support.

The last conscious action taken in regard to the agency's name and acronym was during the administration of President George H.W. Bush. Not long after being confirmed in 1989, Director Harry Snyder sanctioned the use of the shortened acronym "OSM" in official documents. He also oversaw a re-design of the agency's official seal resulting in the seal we use today featuring a scale balancing coal production and the environment encircled by the same title as in the original seal, "US Department of the Interior - Office of Surface Mining."

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Since you passed on Chairman Rahall's suggestion to me during the hearing, I have instructed that our websites use the agency's full name rather than "Office of Surface Mining" where they were not already doing so. This will make our websites –which are on the domain "*osmre.gov*"—consistent with our letterhead, correspondence, budget documents including our "Green Book", Federal Register notices and other official documents.

I apologize for giving you incorrect information on this subject and thank you for the suggestion and the opportunity to set the record straight.

Sincerely,

Brent Wahlquist
Acting Director

Copy to: Honorable Rep. Nick J. Rahall

cc: Honorable Rep. Steve Pearce
Honorable Rep. Don Young

Mr. COSTA. Thank you, Mr. Wahlquist, for your testimony. And I am glad we got the mike problem resolved. Hopefully it will work as well for our next testifier, Mr. Fred Norbury, who is the Associate Deputy Chief for the National Forest System.

Now you are on.

STATEMENT OF FRED NORBURY, ASSOCIATE DEPUTY CHIEF FOR NATIONAL FOREST SYSTEM, U.S.D.A. FOREST SERVICE

Mr. NORBURY. Thank you, Mr. Chairman.

Mr. COSTA. Thank you very much.

Mr. NORBURY. Thank you for giving me this opportunity to talk to you today.

With your permission, I would like to submit my testimony for the record, and just summarize it briefly for you.

Mr. COSTA. That would be welcome.

Mr. NORBURY. And use a little bit of the time to address the question that you raised at the beginning, about the nature of our program on the national forests.

Just to dimensionalize the program for you a little bit, there is 193 million acres in the national forest. Five million of those acres are currently leased for oil and gas development. There are 90,000 mining claims in the national forest There are 15,000 ongoing mineral operations. There are 39,000 abandoned mines in the national forests, of which roughly 2,000 have some sort of environmental hazard that needs to be mitigated, and 22,000 have some sort of safety hazard, physical safety hazard that needs to be mitigated.

Now, to address all of these issues, we work in a close and complex relationship with the Bureau of Land Management and the rest of the Department of the Interior. The exact nature of that relationship depends upon the mineral in question, and whether or not you are dealing with public domain land or land that was acquired. So it is very complex.

In general, you could characterize the kind of relationship that we have is that we provide advice to the Bureau of Land Management as to stipulations that should be included in leases, and conditions that should be included in plans of operations, in order to manage the surface resources in conjunction with the subsurface and mineral resources in a way that is optimal for all the resources and interests considered.

For example, on oil and gas leasing, the Forest Service will provide advice to the Bureau of Land Management as to areas which are available to oil and gas leasing, and what stipulations should be attached to leases when they are issued. The Bureau of Land Management actually manages the leasing process.

Our program in Fiscal Year 2008, our proposed program in Fiscal Year 2008, is down slightly from last year. Well, actually, the overall budget is down slightly. The Minerals Program is down by about 14 percent in this coming year.

It is a tight budget year for us. We have increasing demands from fire; fire has gone from 13 percent of our budget in 1991 to an estimated 48 percent of our budget in 2008. And it continues to go up every year as the fire years get worse. In addition, we are devoting increased resources to law enforcement because of the growing drug problem in the national forests.

This means that most of the discretionary programs on the national forest system are declining by somewhere between 9 percent and 15 percent in 2008, in our proposed program.

Within that program, the biggest single activity will be administering those 15,000 ongoing mineral operations, and making sure that all the requirements that we have established for those operations are adequately enforced.

The second-largest program is processing new applications for mineral operations. I think we are planning for something on the order of 7,000 of those, although the exact number to be processed will depend upon the number of complexity of those that get proposed.

The third-largest program is in environmental restoration, and we also have programs in management of geologic resources, including groundwater and paleontological resources, and mitigation of physical hazards to public safety.

We do hope to mitigate some of these reductions in the overall budget with increased operational efficiencies. We expect to see some efficiencies out of, there are consolidation of some administrative operations in Albuquerque. We have some administrative, some efficiencies we have achieved with the legislated categorical exclusions that were in the Energy Policy Act, and additional categorical exclusion from NEPA that we have adopted administratively.

We are also embarked this year on a redesign effort for our Washington office and our regional offices, and our intent is to reduce the overall spending at those levels of the organization by 25 percent by the end of 2009. Our expectation is that we will make more money available at the ground level which will mitigate some of the reductions in funding that are in our proposed budget.

That is the highlights of the testimony. And again, I would like to stress our close relationship with the BLM and the rest of DOI, and say that has been a good working relationship. And we are proud to be a partner with them.

[The prepared statement of Mr. Norbury follows:]

Statement of Fred Norbury, Associate Deputy Chief for National Forest System, U.S.D.A. Forest Service

Overview

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to discuss the President's Fiscal Year 2008 Budget for the Forest Service's Minerals and Geology programs. I am pleased to be here with you today.

Forest Service Fiscal Year 2008 Budget

The Forest Service's Fiscal Year 2008 Budget request must be viewed in the larger context of the overall federal budget in which it is presented. Like other non-defense domestic discretionary programs, the Forest Service faces a constrained budget. And the results of the Administration's policies on economic growth and fiscal restraint include cutting the deficit in half, three years sooner than originally predicted. The Fiscal Year 2008 President's Budget request for the Forest Service is $4.127 billion, which is approximately the same level of funding as Fiscal Year 2006 and a modest reduction below Fiscal Year 2007. However, within that total are some important shifts: the budget makes important changes to the Wildland Fire account, maintains funding for Healthy Forests including a commitment to fully fund the Northwest Forest Plan, and emphasizes public health and safety by proposing a significant increase in the Law Enforcement Operations budget.

In order to fund these high priority programs, the Budget makes hard tradeoffs to other programs. Moreover, efficiencies gained through the centralization of Business Operations, Planning Rule revisions, and renewed focus on collaborative management will help offset reductions under the Fiscal Year 2008 Budget request. In Fiscal Year 2008 and Fiscal Year 2009, the agency will further its efforts to optimize organizational efficiency by restructuring leadership and program management functions at its National and Regional Offices. In order to provide additional funding for on-the-ground performance, many headquarters and regional activities will be consolidated on a centralized basis, and appropriate program management functions will be zoned across multiple regions. The Forest Service will realize personnel cost decreases of approximately 25 percent in National and Regional Office operations by the end of Fiscal Year 2009. An executive Steering team, led by Eastern Regional Forester Randy Moore, has been appointed to oversee the reorganization effort.

These and other efficiencies are reflected in the request. Today I will provide an overview of the FY 2008 proposed budget and program for the Minerals and Geology Management and a summary of accomplishments.

Minerals and Geology Management Program and Budget

The Fiscal Year 2008 President's Budget requests $71 million for the Minerals and Geology Management program. This decrease from prior year levels reflects greater efficiencies and supports the agency's increased emphasis on administration of operations to ensure the protection of surface resources, supports continued implementation of the National Energy Plan and Energy Policy Act of 2005, and funds environmental compliance and environmental restoration programs at levels similar to prior years to continue the focus on cleanup of abandoned mines and other contaminated sites.

In general, the Minerals and Geology Management program is responsible for the management of energy and non-energy mineral commodities which includes processing proposals and administering approved operations. Program responsibilities also include the protection of groundwater, paleontologic and geologic resources, and restoration of hazardous waste sites within the 193 million acres of National Forest System lands. The value of mineral production from National Forest System lands typically exceeds $2 billion per year yielding over $125 million in revenues to the U.S. Treasury. National Forest System lands are the single largest source of municipal water supply providing over 66 million people with safe drinking water. Estimates also state that there are over 2,000 abandoned and inactive mines on National Forest System lands requiring some type of cleanup.

The energy component of the Minerals and Geology program continues to emphasize the implementation of the National Energy Plan and the Energy Policy Act of 2005. Funding for the energy program will focus on opportunities for development and supply of oil and gas, coal, and geothermal resources from Federal lands. Specifically the 2008 Budget identifies $15 million for activities authorized by the Act.

The Environmental Compliance and Protection and Abandoned Mine Lands (ECAP/AML) programs consists of three major funding areas: 1) cleanup and restoration of NFS lands impacted by hazardous materials and/or mining activities; 2) mitigation of safety hazards associated with inactive/abandoned mine lands; and 3: environmental compliance audits of Forest Service operations, facilities, and permitted activities. The FY 2008 Budget will support environmental audits that will be conducted at 33 administrative units and mitigation of over 470 physical safety hazardous such as open shafts and adits. The agency will continue to emphasize cost recovery from potentially responsible parties and partnership opportunities with state, federal, and private organizations to mitigate safety hazards and cleanup of abandoned mines and other sites that pose the greatest risk to human health.

The locatable or "hardrock" mineral program provides for approval and administration of operations on National Forest System lands under the General Mining Law. There are approximately 90,000 mining claims on National Forest Systems land. Operations range in size and complexity from major underground and open pit platinum-palladium, gold, silver or copper mines producing millions of dollars in value, to small, individual hand tool or suction dredging activities occurring on a seasonal basis. The salable mineral program involves approximately 8,000 mineral material sale contracts and permits. These provide mineral materials such as sand, gravel and other construction material for industrial mineral uses. In total, the FY 2008 Budget supports the processing of more than 6700 mineral applications and administering almost 12,000 mineral operations.

Forest Service Accomplishments

The Forest Service has been highly successful at implementing actions authorized by the Energy Policy Act of 2005. The Forest Service and Department of the Interior agencies have entered into an interagency Memorandum of Understanding that has improved energy permit coordination on Federal lands and included the assignment of personnel to pilot project offices. The Forest Service is participating in four of the pilot project offices, which are located in areas with a high volume of development and project proposals. Project processing timelines have been shortened substantially, as a result of the efficiencies realized by having multi-agency personnel involved in the approval of operations who are working out of a single office. The agency has also worked closely with the BLM on the revision of the Oil and Gas Onshore Order No.1.

Accomplishments in the Environmental Compliance and Protection and Abandoned Mine Land program for 2006 included:

- 346 dangerous safety hazards at 70 abandoned mine sites in 12 states were eliminated with appropriated funds and State partners' funding.
- 77 site characterization and enforcement activities: 11 cleanup plans; and 38 cleanups were completed with appropriated funds and Department of Agriculture Central Hazardous Materials Management funds.
- 7 environmental compliance audits were conducted by the National Environmental Audit Team.
- The agency recovered nearly $3,000,000 in past costs and $3,000,000 to cover future costs associated with cleanup of abandoned and other sites affected by hazardous materials from support received by the Department of Agriculture Office of General Counsel Pollution Control Team.

The Minerals and Geology Management program has designed and is beginning to implement new national databases that will accurately track and report accomplishments. This will enhance program performance by providing consistent, accurate and timely information. Additionally, the Agency revised guidance to comply with the Clean Water Act for locatable mineral operations; thereby ensuring mining operations meet water quality requirements.

Conclusion

Thank you for this opportunity to discuss the President's Budget for the minerals and geology program. I look forward to working with you to implement our Fiscal Year 2008 program, and I'm happy to answer any questions that you may have.

Mr. COSTA. Well, thank you very much, Mr. Norbury. And thank you for falling within the five minutes allotted for your time. We appreciate your good work.

Now we begin the rounds of questions to the witnesses, and I shall begin by taking my five minutes. And we will follow normal rules of the House and the Committee and custom, and then alternate it between our Republican colleagues as we go through the rounds, until the time that I designated on the outset, which will be approximately 4:00, at which we will conclude the hearing.

Ms. Burton, let me begin with you. As I indicated on the outset, accountability and transparency is something that I think is very important as we do the proper oversight of this Subcommittee. And while there can be differences of opinion, the numbers that I have is that only 9 percent of the oil/gas leases have been reviewed by auditors. And of 20 percent of all the companies in the last five to six years, which has been a total decline, as I said in my opening statement, of approximately 22 percent, and the auditors have been reduced by 15 percent.

What I am trying to understand—and if you could please explain to me—under the Fiscal Year 2008 budget for Mineral and Management Services, is that the proposal does not reflect, as I understand it, the Inspector General's recommendations to use compliance reviews solely in conjunction with the audits. I am wondering if you could respond, please.

Ms. BURTON. Mr. Chairman, the goal of an audit program or compliance program is to make sure everybody pays what they need to pay. But it is also to entice people to do it right the first time. Which means that as our regulations are getting more clear, then industry ought to be reporting more correctly, and there should be less mistakes made that can be caught on the back end.

Now, why do the numbers go down? There are several reasons. New regulations, more clear regulations that we have issued in the last five years, are making it easier for industry to report correctly the first time around.

The other issue that is really a very big part of the decline that you saw is royalty-in-kind. When we take product in kind, we sell it ourselves, there is no need for that much audit. All we verify is the volume, the meter. But there is no valuation audit necessary. And therefore, that declines the number of companies and the number of properties that need to be audited.

Furthermore, we have audited, we have reviewed 72 percent of the volume of money that we take in. A compliance review is really a fairly extensive check. And I would like to share a couple——

Mr. COSTA. So you take issue with the Inspector——

Ms. BURTON. I would like, Mr. Chairman, if you——

Mr. COSTA.—General's recommendation

Ms. BURTON. No. I think that the idea has given us some good information, and we will improve our program wherever we can. But I would like to share a couple numbers with you.

For every dollar that we spend on compliance review, we get back $3.27. For every dollar we spend on an audit, we get back $2.06. Which is telling us that we do better to allocate our resources where we can get more money back. And this is what we are doing. We are doing more compliance review. We are still doing a lot of audits; we need to do more. And this is why part of our budget is asking for money to improve our computer system so that we can catch certain types of errors much more quickly.

Mr. COSTA. I don't want to belabor this; this is something that I will go into in further questioning. But in terms of the audits and the randomness of the audits and how they take place, I would like to understand that better. I am sure other Members of the Subcommittee would, as well.

Let me move on quickly to Mr. Hughes, who is the Acting Director. The proposal for the $20 million Healthy Lands Initiative under the Bureau of Land Management proposes to address the conflict between oil and gas development.

The President obviously has proposed promoting additional development and the issuances of the APDs, the applications for permits to drill. That obviously has positive impacts because we need the additional energy, but on the same time it has additional environmental impacts, as well.

How do you think we are going to address that with $20 million? Is that going to be sufficient?

Mr. HUGHES. We are trying to do this, this is a whole new way of thinking for the BLM, looking at it in a landscape, a landscape view of where we are having these programs on the ground.

So what we are going to do, we are going to try to find partners, partners who will also contribute money. I think it is a conservative estimate, but I think in the next year we think we can find a minimum of $10 million in partners' money to also come in and work with us.

In the State of Utah there is a bill currently in the Legislature to put up $6 million to help us with this program in Utah. Other, in the case of EnCana, a company in Pinedale, Wyoming, they have offered up $2.5 million per year for the next 10 years to help mitigate the impacts of development in that part of the country.

So we think people are ready to step up to the plate. We want to try it in six locations. Once these six locations work, we will try and expand this program. We have been all over the country talking to groups like the Rocky Mountain Elk Foundation, the Wild Turkey Federation; these groups are ready and excited to step up to the plate and work with us on this.

Mr. COSTA. Well, Mr. Hughes, I don't want to belabor the point. I can understand why the Wild Turkey Association would be excited and enthusiastic about wanting to participate, but I am not so sure that is the pilot project we want to highlight.

My time has expired, but I do want you to know the Subcommittee will continue to look at these, I don't know if you described them as pilot projects, but state/Federal participation and collaboration is something from my previous background I am a big supporter of. I would like to understand that better.

Mr. HUGHES. Yes, sir.

Mr. COSTA. I would like now to defer to the gentleman from New Mexico for a question. Mr. Pearce.

Mr. PEARCE. Thank you, Mr. Chairman. Ms. Burton, if you were to estimate the number of audits—in other words, of the total receipt transactions that you get, about what percent do you audit? Not the compliance review, but the audit.

Ms. BURTON. I am not sure.

Mr. PEARCE. Just roughly. How many, what percent of your activity gets audited, I guess

Ms. BURTON. From a money standpoint, 72 percent of the revenue gets reviewed, and probably I would say that 20 percent of that is audited. But that is a rough number, and it is off the top of my head.

Mr. PEARCE. Sure. I mean, we are just trying to get a flow, we are not trying to get you into a corner. So roughly 20 percent of 70 percent, about 14 percent if I were doing the calculation; 20 percent of 74 percent, 14 percent? If you just multiply 20 percent times 74?

Ms. BURTON. Might be.

Mr. PEARCE. Might be, but something in that range

Ms. BURTON. Yes.

Mr. PEARCE. Now, that is interesting, because we only audit 3 percent of income, Internal Revenue Service people. So you are outperforming Internal Revenue Service by 5 percent, I suspect, or five times, on less of a budget.

And I do understand that you get $1.21 more for every compliance review than what you do on your audits

Ms. BURTON. That is correct, sir. Because when we do a compliance review, we exchange letters with the company. And unless they really fight us, they pay us at that point. So we get the money in faster, and we don't have to expend the resources that it takes to do a full-blown audit.

Mr. PEARCE. OK. Now, on your in kind, I got a little distracted at that point. You are taking how much in in-kind amount? In other words, you don't even have to do a calculation of the dollars coming in, you just take the oil at the well heads? You have a meter reading of what the oil was pumping up through, just like a water well, so you get the oil pumped to the surface. And you take your, what is your royalty rate, 12.5 percent?

Ms. BURTON. It depends. It is 12.5 or 16-2/3, depending on where it comes from.

Mr. PEARCE. But you know on each different well what you get.

Ms. BURTON. Right, right.

Mr. PEARCE. So you simply take that number of barrels, and so you know you have a lock-solid deal at that point.

Ms. BURTON. That is correct.

Mr. PEARCE. And what of your production that is capable of converting from audits or compliance reviews to in kind, how much?

Ms. BURTON. The in-kind production comes mostly from the Gulf of Mexico, and we are now at 75 percent of all royalty position taken in kind.

Mr. PEARCE. So you are converting from 75 percent, and yet your reduction of compliance reviews or audits is only down by 22 percent. It looks like you are checking more of a smaller—

Ms. BURTON. We are.

Mr. PEARCE. A smaller universe. And yet you are checking more if you have changed 75 percent out. And so if you had changed 75 percent of your audits or compliance reviews down, you could say that it would be almost roughly equivalent. But you are only down

22 percent, and yet the need to check is only like 25 percent of what it was a couple years ago

Ms. BURTON. Right. We are taking 75 percent of the oil and about 45 percent of the natural gas in kind. And so that eliminates the need to audit those——

Mr. PEARCE. And some of the personnel changes? I assume you are sticking them over in the in kind

Ms. BURTON. That is correct, sir.

Mr. PEARCE. When it makes business sense——

Ms. BURTON. We have moved people into the——

Mr. PEARCE.—to me. Mr. Hughes, kumbaya, the first hearing is over. Mr. Hughes and I had a previous hearing today, and it was all easy-going.

Now, then, you are recommending—we had an energy summit in our state in August, and were trying to figure out what New Mexico can do to lead the Nation in renewables. We have wind, we have solar, we have biomass, we have geothermal, we are leading the Nation in nuclear. And here you are trying to undermine our geothermal program that we have laid out there. I mean, not you, but the Administration is suggesting rolling back on the Energy Policy Act.

Why are you doing this? It is, the 25 percent savings was important. The improvement of the NEPA process was important. Here we are trying to convert to renewables. We have a pretty good stimulation package that industry, consumer advocates, we all met here in Albuquerque in August to see what we can do. And now you are unspooling it.

What am I to conclude by that?

Mr. HUGHES. Mr. Pearce, we are moving ahead on the new geothermal program. We are going to be submitting regulations.

But I think what we are trying to do here, as an Administration, is to keep those royalties coming into the Treasury, and then putting through sort of a regular order in terms of the process.

I know people on the Hill have strong feelings about the way this program, in the Energy Policy Act, is financed. But I think the Administration just feels that it is better that all those revenues go into the Treasury, and then are appropriated through the normal process.

We proposed to replace the geothermal rental fees as a source of funding for the program. We know there are Members on the Hill who disagree with that, but we think this is a proper way of administering the program.

Mr. PEARCE. Thank you, Mr. Chairman. As I yield back, I would say that the normal process is what we were doing, and geothermal is at this level of what it should be, what it could be. And so we are going back to the normal process. And I will tell you, thank you, Mr. Chairman, I will look for a second round if you have it.

Mr. COSTA. We will have a second round, and we will allow you to follow up on that at the appropriate time. I think that suffice it to say that the gentleman from New Mexico and I would like to have a better response.

Dr. Myers, I would like to move over to your area, with the U.S. Geological Survey.

In the Fiscal Year 2008 budget, as we look at the U.S. Geological Service budget, that it continues to refocus on the Mineral Resources program, how can you do that when it proposes a decrease of $2.6 million from 2007 under the continuing resolution?

Mr. MYERS. Mr. Chairman, first of all, I come from Alaska, which is a traditional mining state, and I have a lot of respect for mining. We value the Mineral program very much in the Survey, and that is not just rhetoric.

Mr. COSTA. We have a lot of respect for Alaska, too.

Mr. MYERS. Thank you. But truly, it was a matter of having to make some tough choices on the budget; that is really what it amounts to. It is a significant cut to the program. It is a good program, but it is really a matter of tough prioritization made by the Administration.

Mr. COSTA. All right. Mr. Wahlquist, under the Office of Surface Mining and Reclamation Enforcement as you explained it, what steps is OSM taking to ensure prompt implementation of the 2006 amendments to the Surface Mining Control and Reclamation Act?

Mr. WAHLQUIST. That is a fairly complex set of amendments that were passed in December.

Mr. COSTA. That is why I asked the question.

Mr. WAHLQUIST. We have already had a series, we had a meeting with our states in late January to discuss preliminary estimates of how this was going to be undertaken. We are participating again with a meeting with the Association of Abandoned Mine Land States this week in Santa Fe. And we have had discussions with Members of Congress.

We will continue to operate through an open and transparent process as we undertake these changes. We recognize that there are administrative changes, there is regulatory changes, and there is system changes that we have to make as we do this. We have kind of laid out a process. We are comfortable at this point that we will be able to get this done by September 30, to be able to accommodate the shifts in terms of how the money is going to come in, and how the money is going to come out.

Mr. COSTA. Do you have a timeline?

Mr. WAHLQUIST. Basically, by September 30 of 2007. Because that is when the major shifts come in as to how this money is coming in and going out. We anticipate that those things that are being done as to regulatory changes, we may need to do an interim final rule on some of that, along with the proposed rule, in order to be able to have those changes in place to operate for Fiscal Year 2008.

Mr. COSTA. Right. Well, that is an area that I believe we will continue to track, and that we want to maintain updates on as you proceed to implement the challenges that you explained.

Mr. Norbury, you talked about the comprehensive level of jurisdiction that the Forest Service has, and having a great deal of Forest Service land in California. I am familiar with some of it, and commend your efforts in those challenges you face.

There is a decrease in the funding, though, for the Forest Service budget, as you know, in terms of the testimony.

How, in the area of the Minerals and Geological program of the Forest Service, are you going to maintain the responsibility for the development of energy and non-energy mineral commodities; and at the same time, try to restore the hazard waste sites that you spoke about, that are voluminous in number when you get down to it, including abandoned and inactive mine sites that are within, you know, hundreds of miles of the National Forest system? I just think that with over 15,000 mining operations, that this lack of funding is going to present you with some real tough choices. How are you going to prioritize?

Mr. NORBURY. Well, Mr. Chairman, you are correct, it does present us with tough choices. Our initial response is to try to get more efficient administratively, to cut out administrative costs, to reduce overhead costs, to make more resources available to the people who are on the ground who actually have to oversee these operations and do the cleanup work. That is our primary emphasis.

We have also been very successful in getting some additional funds through the Department of Agriculture for some mitigation of contaminated sites. And in cooperation with the Office of General Counsel, we have been very successful in getting large sums of money from the PRPs, potential responsible parties, for circular cleanup sites. We are going to pursue those efforts very aggressively, as well.

Mr. COSTA. If you could share those priorities with the Subcommittee as you detail them, we would be, I think, wanting to get a better grasp of how you develop the criteria.

Mr. NORBURY. I would be happy to provide that.

Mr. COSTA. My time has expired, but I would be happy to yield to the gentleman from Texas, who is a classmate of mine. Mr. Gohmert.

Mr. GOHMERT. Thank you, Chairman, and I am delighted you are having this hearing. I think it is very worthwhile. And I appreciate you all being here.

I want to follow up on what the Chairman and Mr. Pearce have both brought up regarding the geothermal policy and the way the Administration seems to be backing off of that.

Mr. Hughes, you said, as I understood it, basically you want to keep the royalties flowing, and that is why—when you say royalties, which royalties are you talking about? From oil and gas, or what?

Mr. HUGHES. No, I may have misspoke, Congressman.

Mr. GOHMERT. Well, I may have misheard. But that is what I understood.

Mr. HUGHES. What I am talking about, the Administration feels that royalties, rents, and bonuses should go into the Treasury.

Mr. GOHMERT. From what? From everything?

Mr. HUGHES. From everything.

Mr. GOHMERT. OK.

Mr. HUGHES. This is consistent. We have, in our budget we proposed that a prohibition on getting cost recovery from the applications for permits to drill, there is currently a prohibition against us doing that. It is in the 2005 National Energy Act.

We have called for the repeal of that, and that we should be allowed to charge companies for cost recovery on the applications for permits to drill.

The geothermal area, we are just trying to be consistent with that, in that the rentals would go to the Treasury. And we would——

Mr. GOHMERT. So you don't like the 25 percent that would go to the host counties? Is that one of the problems you have got, or what?

Mr. HUGHES. What we are trying to do is do cost recovery and get those rentals back into the Treasury.

Mr. GOHMERT. So do you have a problem with 25 percent going to host counties because of the effect locally?

Mr. HUGHES. We are more in tune with trying to get cost recovery back from the companies, sir.

Mr. GOHMERT. Oh, OK. Well, let me ask it a different way. Do you have a problem with the 25 percent share going to the host counties?

Mr. HUGHES. Good question. That is an excellent question.

[Laughter.]

Mr. GOHMERT. Well, let us see, I am still green. I am going to keep asking until I get an answer.

Mr. HUGHES. We have numerous programs that try and——

Mr. GOHMERT. Let us go at it from a different way. Do you have a problem with the host counties getting 25 percent of the royalties?

Mr. HUGHES. Typically, the Administration favors that money going back into the Treasury, and——

Mr. GOHMERT. Typically, but how about in geothermal?

Mr. HUGHES. In geothermal, we will take a look at that, and I will take your views back to the Administration, sir.

Mr. GOHMERT. I just asked a question, that is all I have done. Do you have a problem—you are the one testifying—do you have a problem with the host counties getting 25 percent of the royalties? I mean, this is a little different than some areas of energy, and it is an alternative energy. And Heaven knows, we are sure needing to make use of all that we can.

So do you personally have a problem with that?

Mr. HUGHES. Well, we favor sharing royalties——

Mr. GOHMERT. OK, are you talking about everybody here?

Mr. HUGHES. With the Mineral Leasing Act, we split 50 each——

Mr. GOHMERT. Well, the way it confuses me, that is the first person plural. I am asking first person singular. Do you, Mr. Hughes, have a problem with host counties getting 25 percent of the royalties?

Mr. HUGHES. Mr. Hughes's opinion I don't think is—I understand what you are saying, that——

Mr. GOHMERT. I haven't said anything. I have asked a question.

Mr. HUGHES. No. You have said there is an impact on local counties, communities——

Mr. GOHMERT. Right, I did say that.

Mr. HUGHES.—development. We have numerous programs that we send back to the state, shares of income that we collect to offset those.

Mr. GOHMERT. OK. So for that reason, you have a problem with host counties getting 25 percent of the royalties? Is that fair?

Mr. HUGHES. That is probably fair, sir.

Mr. GOHMERT. OK, thank you. All right. Now, also, Mr. Hughes—and hopefully we will have other rounds. This is very helpful, I appreciate this. But on the issue of leases, you know, we have heard a number of times that this Administration has just leased, had so many more leases than prior Administrations. Anybody that knows something about the business knows that you don't get leases until you have, well, let us see—I am sorry. We had twice the number of applications to drill in 2005 than we did in 2000. So you don't get the application to drill until you have leases done.

And apparently, the Clinton Administration had 63 percent more leases actually entered. Do you know why the Clinton Administration had so many more leases than the current Administration?

Mr. HUGHES. I think it depends on what your base years are. Our figures——

Mr. GOHMERT. Well, let us go from 1994 to 2000, with the Clinton Administration, and 2001 to 2007.

Mr. HUGHES. OK. From 1995 to 2000, 19.7 million acres were leased in the Clinton Administration, according to our records. From 2001 to 2006, a five-year period, we leased, 22.1 million acres were leased. Now, some of those leases may have been larger in acreage than in the previous, so the numbers.

However, earlier, if you would go from 2001 to 2004, and from 1997 to 2000, I think you will see that the Clinton years, they leased more than we did. Part of the reason, there is a couple things going on.

One is in some cases, our resource management plans we had to redo, and we had to put leasing on hold. We were shut down in the Powder River Basin for about a year and a half while were doing new resource management plans, where we did no leasing in the early 2002/2003 period. So that plays into it.

I think currently, for instance, we could put another 4 million acres on the market, but we are currently deferring that while we do additional studies on those acres. We found out there are some discrepancies; they need additional NEPA, additional cultural resource surveys. So we have deferred leasing on close to 4 million acres during the past few years while we look at issues that have come up.

Mr. COSTA. The gentleman's time has expired, but I wanted to allow the witness to answer the question.

Mr. GOHMERT. Thank you.

Mr. COSTA. Let it be stipulated for the record that there are a lot of factors under which, why percentages of application to drill permits take place over a certain period of time. And I believe the witness was trying to explain that to us.

Notwithstanding that, there are issues as it relates, Mr. Hughes, to remediation. And you know, I get, right or wrong, constituents of mine, when they see $50, $60, $70 a barrel oil and record profits, asking me to explain why the remediation shouldn't be paid by oil and gas companies that are benefitting from the use of these public resources, public-owned resources. And why taxpayers get stuck with the bill for the remedying of that remediation that takes place in an industry that obviously has enjoyed record profits.

Could you please give your best answer to explain that? You did such a good job with Mr. Gohmert on the previous question. I don't want to get back to the counties, though.

Mr. HUGHES. Right. There are a lot of factors that are going on.

Let me say first, an oil company that is out there gets a lease, goes through a process. In many cases we do not have the funds available to do environmental work when that company wants to do it. In many cases that company is paying for the environmental work. It pays for cultural resource service.

Mr. COSTA. Do you document that?

Mr. HUGHES. Yes, sir. We can get you those numbers.

Mr. COSTA. I would like to see that.

Mr. HUGHES. OK. In other cases we have required companies to decrease the footprint on that, what they are going to have to do to plug those wells when they are done, to spend money to, as I say, fix up the area, so to speak, once they are completed.

Mr. COSTA. Do you have any collaboration with the states when you are dealing with this remediation? I know in California they tend to get quite involved.

Mr. HUGHES. Yes, we do. We work closely, especially with the oil and gas divisions of state governments. Also the State Game and Fish folks, we work closely to make sure again the footprint is minimal as possible in that area.

We are also trying to work out, in some cases, companies are voluntarily, in northwestern New Mexico they have put up a fund to go in and clean up some of the fields. They contribute into a fund for what we call our orphan wells and roads to go in on their own and fix it up.

Mr. COSTA. We have a similar program in California. I like those numbers.

I would like to move on before my time expires. Mr. Wahlquist, getting back to the questions we were asking regarding the Fiscal Year 2008 budget. It is proposed, I believe, a $2.3 million increase from Fiscal Year 2007 for the state and regulatory grants. Can you explain why this was proposed, and where you expect to spend those—I mean, what bang for your buck do we expect to get for that?

Mr. WAHLQUIST. That money is primarily to cover the fix costs that states have in carrying out their programs. We are asking for $60.6 million for state regulatory grants. Actually, because the 2007 continuing resolution is at the 2006 level, there is—which was 56.3, we had really expected to have 58.3, but we didn't get that. And so it ends up being a larger step increase between 2007 and 2008 than we had otherwise anticipated. But that will help ease the crunch that states are in very serious trouble this year from 2007 because of the reduction that we had not anticipated in 2007.

Mr. COSTA. All right. I am going to yield back the balance of my time to the Ranking Member, because I have a longer line of questioning for Ms. Burton, and it would extend beyond the 23 seconds that I currently have. So I will yield back to the gentleman from New Mexico.

Mr. PEARCE. Thank you. And I would assume, Mr. Chairman, you mean the third round, which fits me really well, too.

So Mr. Norbury, you have how many acres of land in the Forest Service?

Mr. NORBURY. 193 million acres.

Mr. PEARCE. 193 million. And how much revenue do you make off of your mineral leases, your oil and gas leases? Just approximate.

Mr. NORBURY. The Forest Service doesn't receive any of that revenue.

Mr. PEARCE. How much revenue is generated off of——

Mr. NORBURY. In general, the sum total of the revenues that flow to all parties from those activities is around $125 million.

Mr. PEARCE. About $125 million. How much do you make off of your tree sales, your timber sales?

Mr. NORBURY. I don't have that figure at my fingertips.

Mr. PEARCE. Have you got anybody in the audience that could give you an approximate? Just, we are talking ballpark figures, trying to get concepts here, so anything.

Mr. NORBURY. Total Forest Service revenues from all sources are around $1.2 billion.

Mr. PEARCE. Around $1.2 billion?

Mr. NORBURY. That includes timber and other sources of income.

Mr. PEARCE. It would be instructive to know that. So that figure, if you can get your staff to e-mail out, we will come back around on the next round to ask that question.

The next question, Mr. Hughes, is going to be a bank shot at you. But first of all, to get to the question, we really need to approach it through Mr. Wahlquist.

Mr. Wahlquist, you said roughly 50 percent of the electric production in the U.S. is coal generated, is that right

Mr. WAHLQUIST. That is correct.

Mr. PEARCE. So of 300 million homes, you would deal with approximately 150 million, right? How significant is the downward pressure on the coal? I hear in the Congress a lot of really comments that would decrease the amount of coal, it seems like, I don't know, but it feels like that. How much downward pressure is there on the coal usage?

Mr. WAHLQUIST. Well, I don't know that there has been that much downward pressure. Certainly over the last 30 years, coal production has almost doubled under the Surface Mining Act.

We do have issues in particular certain areas, such as resale controversies in southern Appalachia with mountaintop mining.

Mr. PEARCE. You don't have trouble permitting mines and things? I noticed the hearing that occurred over this past weekend, where a southern Arizona group was objecting strenuously. But you are saying it doesn't really.

Mr. WAHLQUIST. Well, there are certainly permitting issues, but by and large, the permits have been able to continue to flow.

Mr. PEARCE. Ten years ago, how much of the electricity production was coal?

Mr. WAHLQUIST. It would have been a little less than 50 percent, I believe, but I would have to check that.

Mr. PEARCE. Pretty static at 50 percent.

Mr. WAHLQUIST. Yes.

Mr. PEARCE. OK.

Mr. WAHLQUIST. We stayed around that number in——

Mr. PEARCE. All right, Mr. Hughes, here we go to you. You said that we would get 1.2 million households on geothermal if we could develop it, and 1 million households on power by solar? Wind, I am sorry, it was wind.

Mr. HUGHES. Right.

Mr. PEARCE. If we are going to significantly change the pattern of usage—and there are people, regardless of what Mr. Wahlquist says, I think there are people who would stop use of coal today if they could. And what I want to get really clear for me is, do we have the capabilities with renewables to do anything else except supplement coal and oil and gas?

In other words, oil and gas and coal are going to fuel the economy; and supplementally, we can take small increments. But when I hear you talk in terms of 1.2 million households versus 150 million out of geothermal and 1 million out of wind, can you, on all the public lands, get us to where we need to go to be, to have a complete renewable fuel economy, which is what some people declare we should have? People in my district say that frequently. Can we get there? Or is that a stretch?

It is harder than Mr.—I won't ask it as many times as Mr. Gohmert did. If you want to dodge, it is OK.

Mr. HUGHES. I am certainly no expert, Mr. Pearce. But everything I have seen, you can talk to the Energy Information Agency and others, the answer is no, we can't get there.

Mr. PEARCE. OK, fine, I appreciate it.

Ms. Burton, before my yellow light turns red, the 149 leases out of 230—I am reading in your testimony, 149 leases out of the 230—were exploratory? That is a pretty stunning figure to me if, because as a business guy, I am going to do sound business. And yet, if there is 149 out of 230 who are exploring, who are going out beyond, who are trying to open up new areas, I think our Outer Continental Shelf is working pretty well. Am I right? Wrong? 149 is a pretty stunning percent of exploration

Ms. BURTON. You are absolutely right, sir. There is an enormous amount of work going on in the OCS. And it has paid off, particularly in deep water in the last 10 years. It has been really extraordinary.

Mr. PEARCE. OK. Thank you, Mr. Chairman. I will look for another round if you have it.

Mr. COSTA. Thank you. Ms. Burton, please comment on the progress of the independent panel for the Department of Interior's Royalty Policy Committee, which is taking, I understand, a comprehensive policy assessment of the Department of Interior's royal management program

Ms. BURTON. Are you, Mr. Chairman, talking about a panel that is supposed to be investigating our royalty collection, our management?

Mr. COSTA. Yes.

Ms. BURTON. I am not sure I understood your question, sir.

Mr. COSTA. I understand there is an independent panel

Ms. BURTON. Oh, yes, OK, I am with you.

Mr. COSTA. I am with you. We are both here together

Ms. BURTON. I am sorry.

Mr. COSTA. That is OK

Ms. BURTON. Unfortunately, sir, I cannot talk about that panel very much, because it is really a Secretarial Initiative, and the Assistant Secretary for Lands and Mineral is really in charge of that. I know very little, other than there will be a panel, and it will look at us from an——

Mr. COSTA. You are saying it is above your pay grade

Ms. BURTON. Yes, sir.

Mr. COSTA. OK. Well, that is fine. I would like to move further on to the situation that is more local for me. As a former Speaker of ours once said, all politics is local, and this involves California.

The State Controller's office that audits reviews in California for Federal leases for money that is owed the state within the boundaries. As you know, the Department of Interior has delegated the audit authority to states at the recommendation of the Linowes Commission, which, in 1982, recognized that states, as well as tribes, have more direct revenue interest, and in many cases greater expertise, about the operation of minerals in their particular regions. I suspect that would go for other states, as well.

The partnership that Congress envisioned some 25 years ago does not exist today, according to the Controller in California who wrote me a letter. He believes that SCO and the audit program is being steadily dismantled by the Mineral and Management Services funding cuts, and what he believes are questionable compliance policies. These funds, or whatever goals or priorities you may have, he believes, and I share his opinion, are in conflict with funding that goes to the states, goes to public schools, as well as the counties. Not only the counties in Mr. Gohmert's constituency and in Texas, but counties in California, monies that they believe they are owed.

My first concern is the restoration of the audit funds. And I would like you to respond

Ms. BURTON. Yes, sir. We have not decreased the amount of money going to state for the collaborative work they are doing with us on audits.

What we have done, however, is reallocated to different states in different ways. We have made a business case for how much revenue and how many leases are to be audited in a particular state, and made sure the state that had the highest level of work received the bigger share of the money.

For example, New Mexico and Wyoming were two states that were under-funded. But California, in terms of how much, how many audits they had to do and how much money was coming back, and how many companies were operating, they were over-funded.

So what we did was we reallocated——

Mr. COSTA. I don't think the Controller in California believes that he shares that opinion

Ms. BURTON. You are right, you are absolutely right, sir. We don't agree necessarily.

Mr. COSTA. I mean, you may think they were over-funded.

Ms. BURTON. But we made a business case. We looked at the amount of money, and we decided that the state with the biggest amount of money at risk were the one requiring the most audits. And so we reallocated the money based on that.

Some states gained, some states lose. But the total amount of money is still the same. We still have about $9.5 million a year that goes to paying our state partners.

Mr. COSTA. Well, in case you are in the doubtful column, let me indicate to you that Controller John Chiang and myself believe that—and it is not a fair question to you, but we think our public schools and our counties in California frankly are not—not—receiving their fair share of royalty revenue that is owed to them through this public resource.

And while California has not generally looked upon it in that way, we are a tremendous oil- and gas-producing state. And I know you know that. And certainly the State Lands Commission, as well as the Controller's office, monitors that effort. And I will submit this letter to you, and please respond. And hopefully you can give a better response to our Controller, Mr. John Chiang, than you gave just now to me, with all due respect

Ms. BURTON. Yes, sir, we will do.

Mr. COSTA. And I will now refer to the gentleman from Texas, who is concerned about all sorts of things, including counties.

Mr. GOHMERT. Thank you. I am concerned about all kinds of things, thank you.

I would like to ask Dr. Myers—I feel like you have been neglected here for a little bit—but I was surprised to hear your discussion about the U.S. Geological Survey role in assessing climate change, with all the things that you are concerned with. And I am curious, was the USGS assessing climate change back in the late sixties, seventies? How long has USGS been involved in that?

Mr. MYERS. Sir, pretty much from the start of the concern. We have had, because we had the geological component——

Mr. GOHMERT. Start of the concern, being when?

Mr. MYERS. The start of the concern being recognizing, on the geological record, that climate has changed dramatically over——

Mr. GOHMERT. And when would you say that start was?

Mr. MYERS. The understanding of that probably goes back at least 50 years.

Mr. GOHMERT. OK. So back when I was in school, and I was being taught, and I said that doesn't make sense, but I was being taught that we were dangerously at the very beginning of a new ice age, USGS was helping formulate that type of thinking back then? Is that correct? You are going back 50 years.

Mr. MYERS. Sir, again, as we get back into the geologic record, we recognize ice ages come and go. The geologic climate has changed dramatically. My home state, Alaska, for example, 66 million years ago there were dinosaurs really roaming across the north slope of Alaska. So we recognize the history of climate.

Now, obviously today we are in a bit of a different state, as we understand the effects of climate change, having effects on our environment. And we can document those effects.

Mr. GOHMERT. Right.

Mr. MYERS. That is not to say how much percentage of that is human induced versus natural systems. But clearly, those changes are occurring, and the USGS has been, being an integrated science agency, has watched it and monitored——

Mr. GOHMERT. Well, let me get back to the question. Was USGS supportive in the seventies, that we were beginning a new ice age? Because that was the prevalent thing being taught back then.

Mr. MYERS. The USGS, again, is actually looking at the long-term climate record. We were not the agency that developed the current climate models, but we did provide a lot of significant input into those models, including the understanding of the climate change as we see it occurring during a period.

During the nineties, for example, the USGS was, in fact, the lead agency for the United States with respect to climate change. So again, we understand——

Mr. GOHMERT. You provide the data, and other people say oh, ice age is starting; 30 years later they are saying no, we are starting to warm up; Alaska is going to melt. Texas will be the biggest state in the union then. Those type of things, right? OK. Thank you, Dr. Myers.

Ms. Burton, we had a hearing previously with the full committee, and a big topic of conversation was the price thresholds that were omitted. And of course, we heard from the IG, and I was very concerned, and at first I thought he would be part of the solution, but he kept wanting to talk about criminal conduct and paint it with a broad brush, and seemed to be painting that more of the Bush Administration. We finally pinned him down. It turned down that 1998/1999 leases by the Clinton Administration were the only ones in which the price thresholds or the price triggers were omitted, and that he said initially it was a mistake. And then we found out actually that someone within the Administration, the Clinton Administration, one of three people had directed that they specifically be omitted, the appendix be omitted, so that these were not included.

Obviously, the Federal government is losing money as a result of that. If it is criminal, I would like to see somebody go to jail, I don't care what administration they are in.

But we had, since the Democrats took the majority, we had a bill, as you are probably aware, last month trying to address this. As somebody who has dealt extensively with contract disputes, I have concerns when the Federal government unilaterally steps in and says we are going to breach the contract and start over, and the litigation that that may spawn. It may be, you know, the attorney savior act if we were to do something like that. It would give a lot of lawyers a lot of business.

But what do you see that could be done to correct the problem, without triggering all kinds of lawsuits

Ms. BURTON. I think that we need to entice the company to voluntarily come and accept, to get a price trigger in those contracts, without forcing them, because that would breach their contract, and the Administration doesn't believe this is something we can do.

Mr. GOHMERT. Entice with a hammer, or with sugar

Ms. BURTON. No, with sugar. I think that if there is a way to give something to bring them to the table that doesn't cost too much, maybe we need to do that. But I think that using only a hammer is going to create a situation where we will have lots of litigation, because those contracts are valid. Even though they may be bad, they are valid. And so that may create a situation where maybe we would be enjoined in future sales, and the repercussions of that action, because of litigation, would be disastrous for the country.

Not only would we, years down the road, have decrease in production, we would have also huge decrease in money. I think we calculated or we estimated that if we are enjoined for three years to have OCS sales, it may cost as much as $13 billion.

Mr. GOHMERT. Thank you.

Mr. COSTA. I think you answered the question, and the gentleman's time expired.

One more question to you, Ms. Burton, and this deals with our efforts that we have talked about somewhat in oil and gas leasing offshore in the next five years within the budget for the Offshore Minerals and Management. It states that there will be a $1 million reduction, if my information is correct, on environmental studies that take place with regards to the Outer Continental Shelf five-year leasing program.

You spoke in your own testimony about the difficult on the outer shelf at depths of 5,000 to 10,000 feet. I am wondering what the justification is for the reduction. Can you explain?

Ms. BURTON. It is a redirection that $1 million that we are decreasing here, is because we need it somewhere else.

In other words, we are asking, in our budget, $4 million for the five-year program, so that we can do some more environmental oversight. And environmental studies that we are willing to give $1 million for are general studies. We need to be more specific for the five-year program.

And so we are sort of redirecting that request to have $4 million additional put in the five-year program, but we give up $1 million of the general environmental studies. It is just a matter of trying to make a few dollars go a long way.

Mr. COSTA. It sounds to me like you don't have sufficient resources to begin with. But I want to move on to Mr. Hughes, because I have some questions as relates to hard rock mining.

It relates to the GAO's 2005 recommendation that the BLM needs to better manage financial assurances to guarantee the coverage of reclamation costs; that there needs to be adequate protections in place to ensure that the hard rock mining operations are reclaimed, and not abandoned, for the taxpayers. We have spoken about this earlier with the testimony by the Forest Service.

Can you please explain, Mr. Hughes?

Mr. HUGHES. Mr. Chairman, we are taking a look at a number of items. One is our reclamation bonding requirements. We are reviewing that at the department level. We did look at those recommendations. We think in some cases they—we think they didn't adequately portray what was going on out there in the field.

Mr. COSTA. Well, but the financial assurances to guarantee the coverage of reclamation costs found that, correct me if I am wrong, 48 hard rock mines without bonding that were abandoned, and left for the government to reclaim. I mean, aren't you concerned about that?

Mr. HUGHES. That is why I say that is why we are reviewing our current standards to make sure we do have adequate bonding out there. That is one thing——

Mr. COSTA. I mean, the bonding seems to be, to me, would have to go part and parcel with the issuance of the permits, at least prospectively. Otherwise, we are asking the taxpayers to reclaim these sites. I mean, we have some sites that I am familiar with in California that for decades have potentially created potential water quality issues that, you know, are significant.

Mr. HUGHES. You are correct, we have numerous abandoned mines on public lands we are taking a look at each year. We are working to address those issues, and prioritize which ones we look at.

But you raise an excellent point, Mr. Chairman.

Mr. COSTA. And if you could, for the Committee's information, provide information that would demonstrate what the Bureau of Land Management is doing to implement and accomplish these protections for hard rock mining operations? And please provide a report to the Subcommittee on all the hard rock mines on Bureau of Land Management lands that have been abandoned since 1987.

Mr. HUGHES. Yes, sir.

Mr. COSTA. And if we could get that information, that would be helpful. I would appreciate it.

Again, in the balance of fairness, I have a longer line of questioning, so I will yield back the balance of my time to, I believe it is the gentleman from New Mexico's turn.

Mr. PEARCE. Thank you, Mr. Chairman. Mr. Hughes, you have 258 million acres of land, and the Forest Service has got 193 million acres. What is your revenue off of your, what is the total revenue off of your lands?

Mr. HUGHES. Well——

Mr. PEARCE. Just approximate.

Mr. HUGHES. Approximately $5 billion.

Mr. PEARCE. Five billion?

Mr. HUGHES. Yes, sir.

Mr. PEARCE. See, the Forest Service generates $101.2 billion off of their 193 million, and you have about 1.3367 times as much land. So if you were making revenue at the same rate as the Forest Service, you would be getting $1.6 billion. Instead you are getting five-point-how many billion?

Mr. HUGHES. Five billion.

Mr. PEARCE. Five billion. We ought to let you manage the Forest Service land, excuse me. Excuse me, Mr. Norbury, I got on tricky ground. I have to take that back. But I do recognize the difference in the numbers.

Mr. Hughes, let us go to you first, and then I will come to Ms. Burton. You mentioned how many leases that we are now creating shale in Colorado. How many of those leases are actually producing, and how much production do we get out of that? More or less.

Mr. HUGHES. On the oil shale, there is no real producing leases. These are 160-acre leases that they are using for research and demonstration projects.

We are currently in the process of doing an oil shale leasing EIS that, under the auspices of the 2005 National Energy Act——

Mr. PEARCE. OK. Basically nothing is coming out of the research.

Mr. HUGHES. Nothing is coming out right now. There is 800 million, an estimated 800 million barrels of recoverable shale oil.

Mr. PEARCE. Eight hundred million barrels compared, how does that compare to something else? How much in regular oil through the rest of the nation?

Mr. HUGHES. That——

Mr. PEARCE. Is it a lot or a little?

Mr. HUGHES. It is a lot.

Mr. PEARCE. Yes. So I mean, so it is promising, but would need some stimulation. Because the same thing is happening here that happened in the Gulf 15 years ago. Nobody is putting money into it, and so we need some kind of stimulations. We have the stimulations, and as I covered last time, 149 out of 230 of the wells being drilled are exploratory. A lot of times our friends just, it is hard to understand why we need stimulations. But business is frankly the only one that can't get it out.

Now, Ms. Burton, we are back at this point of trying to figure out if the government is getting a good deal, and then we got this letter from the State of California, the SEO, being concerned that we are dismantling. Now, one of the rough checks that I would do—and I do it on my, for instance, my MRA—I know about what percent we want to spend on things, and then I would take a look. So I do a lot of percentages.

If I look at the total revenue dollars produced out of the Gulf, and I want to know—and roughly, you said, we have some leases at 12 percent, some at 16 percent, but most of them I think are at 12 percent, 12.5 percent royalty rate. I am going to do a rough calculation in my head that we have so many dollars produced, and it ought to be 12.5 percent of that, plus a little bit more.

When you do the calculations just with a pencil and a piece of paper—we are not doing big mainframe computers—what kind of percentage rate do you come up with? Again, rough is close enough. How much revenue are you generating?

Ms. BURTON. I would think that the rough number is between 9 percent and 10 percent.

Mr. PEARCE. So about 10 percent. So what was that figure three years ago or two years ago? In other words, is it trending up or trending down? Are we getting stronger

Ms. BURTON. That number stays about the same, because the royalty rate is about the same. So whatever they sell, we get 10 percent net of that——

Mr. PEARCE. You get 10 percent net, and you are between 9 percent and 10 percent.

Ms. BURTON. Between 9 percent and 10 percent.

Mr. PEARCE. And so the worry that we are not getting our money for what we are doing with a large-view picture says that we are getting pretty close

Ms. BURTON. I think so, sir.

Mr. PEARCE. Now, the letter, I was looking at the letter, and it seems pretty well constructed, from the guy in California. And you seem pretty familiar with the discord there, with the different opinion.

How do reasonable people—on policy I can understand how people come to different things. What I am going to do is I am going to ask a question. I am going to wait, I think we are going to get one more round, and I am going to let you have until the next round. But why do you think that he is under the belief that you are dismantling the MMS, and that you are not getting the revenues desired? When to me, the rough looks like 10 percent is what we ought to be getting, and we are between 9 percent and 10 percent. We are going to increase some, but there is not much room there to increase

Ms. BURTON. Congressman, what I heard from California, and a couple of other states actually, is not so much that they weren't getting the revenues they were entitled to in terms of royalty share; but that they weren't getting as much money to pay for the audits. And what happens, as I tried to explain, but obviously didn't do a very good job, is that we have to allocate the money to those states based on certain criteria. And we made a business case of how much revenue there are——

Mr. PEARCE. I understand, you have three-point-something, you know, $3.60, OK

Ms. BURTON. And we decided how much money to give them, based on what we could collect——

Mr. PEARCE. And they just would like to have a bigger share to run their audits or whatever. OK

Ms. BURTON. Right.

Mr. PEARCE. Thank you, Mr. Chairman.

Mr. COSTA. Thank you. And I thought I said earlier, but if not I would like to, for the purpose of this hearing, to submit the letter from Mr. John Chiang for the record. And as I asked you earlier, please respond to Mr. Chiang, and you can CC me.

Ms. BURTON. I would be happy to.

[The letter from John Chiang, California State Controller, to The Honorable Jim Costa and the response to Mr. Chiang from the Minerals Management Service submitted for the record follow:]

JOHN CHIANG
California State Controller

February 5, 2007

The Honorable Jim Costa
U.S. House of Representatives
Longworth House Office Building
New Jersey & Independence Avenue SE
Washington, D.C. 20515

Re: Minerals Management Service

Dear Representative Costa:

I wanted to applaud Congress's announcement of long overdue oversight of the Department of the Interior's Minerals Management Service (MMS) and urge you to support reforms that will assure credible audit coverage, full participation by California, and accurate reporting to the public.

As you know, the State Controller's Office (SCO) audits revenues owed under federal leases located within state boundaries. Congress authorized Interior to delegate audit authority to states at the recommendation of the Linowes Commission, which, in 1982, recognized that states, as well as tribes, have a more direct revenue interest and, in many cases, greater expertise about the operations of the minerals industry in their regions.

The "partnership" that Congress envisioned 25 years ago does not exist today. SCO's audit program is being steadily dismantled by MMS funding cuts and questionable compliance policies. Whatever MMS's goals and priorities are, they do not include ensuring that California's public schools and counties receive all that they are owed.

My first concern is a restoration of audit funds. MMS has unilaterally cut SCO's audit funding twice and we have been told to expect further reductions. Because audit funding is allocated by MMS at the end of California's, not the federal, fiscal year, your immediate assistance is needed.

Unfortunately, the disarray at MMS goes far beyond its decision to replace audits with simple checklist reviews. MMS cannot, among other things, calculate interest, cannot track its activities, cannot conduct automated verifications and is unwilling to collect

300 Capitol Mall, Suite 1850, Sacramento, CA 95814 • P.O. Box 942850, Sacramento, CA 94250
Phone: (916) 445-2636 • Fax: (916) 445-6379 • Web Address: www.sco.ca.gov

The Honorable Jim Costa
February 5, 2007
Page 2

back royalties that are owed. Less information is available for public evaluation. Press reports suggest that these systemic problems are accompanied by a lack of management independence, integrity and credibility.

These are not problems that, in SCO's view, MMS can be left to fix on its own or with the assistance of industry consultants. Oversight will show a need for more specific legislative direction of MMS, for limits on its administrative discretion, for more transparency in both MMS and lessee operations, and for more opportunities for state and tribal participation.

I would be delighted to share further details on SCO's concerns and potential reforms. If you need further information, please do not hesitate to contact Richard J. Chivaro, Chief Legal Counsel, at (916) 445-6854.

Sincerely,

John Chiang

JOHN CHIANG
California State Controller

JC:RJC/jw

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

MAR 27 2007

Mr. John Chiang
California State Controller
P.O. Box 942850
Sacramento, California 94250-0001

Dear Mr. Chiang:

I am in receipt of your letter to Senator Barbara Boxer and Chairman Jim Costa dated February 5, 2007, concerning the Minerals Management Service (MMS) compliance program and funding for the delegated and cooperative agreements with states and tribes. Senator Barbara Boxer and Chairman Jim Costa requested that we respond to you directly.

The MMS compliance program, supported by the state and tribal participants is a successful program. The MMS currently has 11 delegated state agreements and 7 cooperative tribal agreements to perform audits and compliance activities. The MMS's current compliance strategy effectively utilizes a combination of audits, compliance reviews, and royalty in-kind property reconciliations to ensure that Federal and Indian mineral royalty payments are accurately reported and paid consistent with applicable laws, regulations, and lease terms.

The Department is dedicated to collecting all of the royalties from Federal and Indian mineral leases that are due to the American public. Through implementation of a compliance strategy that includes both audits and compliance reviews during Fiscal Year (FY) 2006, MMS, together with our state and tribal participants, ensured compliance on 72.5 percent of the revenues paid in calendar year 2003 (approximately $5.8 billion). The MMS recognizes the direct revenue interest of the states and tribes and the specialized knowledge they have acquired about the Federal and tribal leases in their regions. The MMS continues to encourage those states and tribes that receive significant mineral revenues to participate with MMS.

To manage compliance coverage on the onshore Federal lease universe within available funds, MMS developed a "business case" that uses the number of producing leases and total royalty revenues received by states to allocate resources beginning in FY 2006. The enclosed table reflects the number of leases and revenues received by states and the MMS funding allocation for FY 2004 through 2007. You will notice that the total amount of funds devoted to the audit function of states and tribes has not decreased. However, it is apparent from this analysis that some states were significantly over or under-funded in comparison to others. For example, among the states with cooperative agreements, California ranks eighth in the number of Federal leases within the state and seventh in terms of revenues derived from these leases. Yet, as recently as FY 2005, California continued to receive more program funding than all but one state. MMS designed the business case to correct such inequities while maintaining overall program funding.

The MMS had several briefings concerning this methodology with the Congressional delegations representing impacted states, the Department of the Interior's Office of Inspector General (OIG) and the Government Accountability Office. During these briefings, the majority of participants seemed satisfied that our methodology was fair and reasonable.

We do not agree that audits have been replaced by "simple checklist reviews." Compliance reviews are a thorough analysis that determines the reasonableness of company-reported data. Compliance reviews are also performed by states and tribes in addition to performing audits.

The MMS is calculating, billing and collecting interest on a monthly basis. Although there is an interest backlog, MMS has made significant progress and anticipates being current no later than October 2007. For the past five years, as part of its annual Chief Financial Officer audit, MMS consistently has received clean audit opinions from the OIG and its delegated independent auditing firm.

The MMS is working diligently to address issues that will improve the overall compliance program. Many of the issues recently identified in the OIG's December 2006 report on the MMS's Compliance Review Program were previously identified by MMS as part of an overall strategic planning process started in FY 2006. The OIG's overall conclusion was that compliance reviews are a legitimate tool for evaluating the reasonableness of company-reported royalties. The OIG also concluded that such reviews provide broader coverage of royalties when used in conjunction with audits in a coordinated compliance strategy while requiring fewer resources. Through a detailed action plan, MMS will implement the recommendations made by the OIG and work closely with them to strengthen the compliance program.

The MMS appreciates the opportunity to respond to your concerns; we would be pleased to meet with you to discuss these issues and provide any additional information. A copy of this letter is being sent to Senator Barbara Boxer, Chairman Jim Costa, and to the members of the House Committee on Natural Resources Subcommittee on Energy and Mineral Resources. If I can be of further assistance, please do not hesitate to call me at (202) 208-3500 or Ms. Lyn Herdt, Chief, MMS Office of Congressional Affairs, at (202) 208-3502.

Sincerely,

Johnnie Burton

R. M. "Johnnie" Burton
Director

Enclosure

Minerals Management Service
Funding for the State Delegated Audit Program

	Audit Program Funding ($000)					Audit Program Analysis				
States	FY 2004 Obligated Funds	FY 2005 Obligated Funds	FY 2006 Obligated Funds	FY 2007 Requested Funds	FY 2007 MRM Approved Funding	Ratio of FY 2004 Mineral Revenues to FY 2005 Audit Funding	FY 2005 Audit Funding per FY 2004 Producing Lease	FY 2004 Mineral Revenues	FY 2004 Producing Leases	FY 2007 Number of Auditors
Alaska	86	154	181	192	192	244:1	$4,667	$37,531,553	33	1
California	835	1,017	800	700	700	56:1	$2,727	$56,702,405	373	5
Colorado	973	972	725	726	726	156:1	$457	$151,446,134	2,127	8
Louisiana	88	85	150	92	92	1419:1	$277	$120,642,908	307	1
Montana	254	253	272	276	276	222:1	$181	$56,105,495	1,401	3
New Mexico	972	973	1,048	1,396	1,396	711:1	$155	$691,759,891	6,268	21
North Dakota	437	412	413	375	375	60:1	$727	$24,898,582	567	4
Oklahoma	409	358	320	285	285	28:1	$414	$9,951,307	864	4
Texas	138	151	124	129	129	383:1	$616	$57,795,483	245	1
Utah	322	429	454	494	494	275:1	$306	$117,761,290	1,403	5
Wyoming	1,451	1,574	1,841	2,014	2,014	628:1	$239	$988,320,697	6,583	24
Total	5,965	6,378	6,328	6,679	6,679	n/a	n/a	$2,312,915,745	20,171	77

Mr. COSTA. On request of our Chairman, Chairman Rahall, and I try to honor requests, especially when it comes from our Chairman, he has a line of questioning, Director Wahlquist, that he has asked me to ask you, on behalf of the full committee, on his behalf.

Throughout your testimony you referred to the Office of Surface Mining. In fact, you even stated, I remember quite clearly, earlier that it actually should be called the Office of Coal Mining.

Chairman Rahall would like to remind you that, from his vast experience—and of course, he has been here for a few years, even though he was very young when he started—that the statutory name of the office is Surface Mining, Reclamation, and Enforcement. The Chairman also notes that he can't even find a reference to the Office of Surface Mining, Reclamation, and Enforcement on your website, and he wanted you to note that.

Chairman Rahall also strongly believes that the reclamation and enforcement, he believes, and I think Members of the Committee do, is an important part of your mission, and that he observes that reclamation enforcement is something that your bureau has not always done very well.

And so, as such, he is curious as to why your bureau does not utilize the proper statutory name.

Mr. WAHLQUIST. That is a fair question. Certainly when we first began in the late seventies, it was shortened to the three-letter acronym. In the eighties it was expanded, and you will notice Federal Register Notices in the 1980s as OSMRE. And then our director, in the early nineties, under Secretary Babbitt, said no, let us go back to the three-letter acronym. And so we have gone back to the three-letter acronym really since 1994.

Mr. COSTA. So we will blame it on Secretary Babbitt, huh? Seriously, though, I will tell you—and this is just one of my own personal gripes I will share with Members of the Subcommittee—I think we get so involved oftentimes here in Washington in government-speak, with all these acronyms. If you will notice, and I probably won't always do it, but I try to say Bureau of Land Management. I try to say the Mineral Management Services.

I mean, we get so caught up here in our acronyms and our initials that frankly, most of my constituents think we are speaking a foreign language. And I am a big believer in that we should all be literate in as many foreign languages as possible, but government-speak I think oftentimes is to confuse and obviate the obvious. So therefore, I would suggest you take Chairman Rahall's suggestions seriously, because I think we can all do a better job in making sure that we follow and better communicate, whether or not we agree.

Mr. WAHLQUIST. We will take any suggestion from the Chairman very seriously.

Mr. COSTA. Good. Let me move over to Dr. Myers. You talked about—and again, this deals with the budget for Fiscal Year 2008—to provide scientific information for the objective resource assessment on mineral potential and production, consumption, and environmental effects.

My understanding is, Dr. Myers, that you are going to have decreased funding. How are you going to do more with less?

Mr. MYERS. Mr. Chairman, in truth we are going to do less with less with the Minerals program.

Mr. COSTA. Thank you. I mean, I am saddened to hear that, but that is the most truthful answer that you could give, and I appreciate it.

How do you think that the United States Geological Service is going to maintain the critical publication of your mineral commodity summaries that are published on an annual basis, that furnishes and estimates covering non-fuel mineral industry data, and are a focal point of a lot of the new and emerging science and technology that are in the mineral fields, and that many of us believe are a part of our efforts to reduce our dependence on foreign sources of energy?

Mr. MYERS. Mr. Chairman, energy minerals are not part of the MIT program, so it is strictly with strategic commodities. In those reports, about 50 of the 100 commodities we now track will not be tracked with the budget decrease. Furthermore, some of the geochemical labs will be closed, and there will be a significant decrease in staff.

So we will be challenged to maintain it. We will maintain it with 50 significant mineral commodities. But it will be a much more limited——

Mr. COSTA. Well, I think you put it best, you are going to be doing less with less. Thank you very much. My time has expired. I believe the gentleman from Texas is up. Mr. Gohmert.

Mr. GOHMERT. Thank you, CC.

Mr. COSTA. Chairman Costa.

[Laughter.]

Mr. GOHMERT. I have a question for Ms. Burton regarding the minerals review management. In your statement you talked about the minerals review management its primary business of collecting, accounting, and assuring compliance for disbursement of Federal and Indian mineral revenues, and is highly dependent on its information technology system.

And I mean, that is pretty elementary. But do you think, because of allegations that the Federal government is getting less than it should, that we should be more relying on people in the field? Should we have a different type of information technology system? Or should we just convert to having somebody that examines the books, see how much is sold, and what the right was, and divide that and see exactly what the amount was?

It doesn't seem like this should be too difficult to zero in on what the Federal government's portion would be

Ms. BURTON. Congressman, I think you are absolutely right. But it is complex.

Mr. GOHMERT. On which part? That was really a multifarious question.

Ms. BURTON. Well, you are correct that we need to make sure the government gets its share. And we want to do our share in making sure that happens.

The problem is that it is a complex system. We are dealing with an enormous amount of laws and regulations that have to be applied. How do we do that, or how can we do that better?

The Inspector General has given us some recommendations that we are going to follow to improve our process. But the fact is that we have 26,000 leases to look at, we have 2600 companies. We can't audit every one of them. And so we have to have a system to decide which to audit.

We had picked a system based on money. We looked at the most vulnerable and the larger amount of money. Obviously the Inspector General thought that was not enough; we needed to vary our strategy. So we looked at very small companies, too, so that we would look at more companies, maybe less money, but more companies. So we are in the process of looking at what the IG gave us, and redesigning our process.

But in the meantime, we need to use technology. There is no way we can have enough people to do all of that. It would not be, from business standpoint——

Mr. GOHMERT. What kind of technology are you talking about?

Ms. BURTON. We need to modify our computer system. We have a very complex computer system that looks at a lot of things. When companies send us their production report, their sales report, et cetera, we look at a lot of things.

We now need to add some modification. For example, a company can take recoupment for maybe some money they overpaid at some point in their business. We now have trouble tracking those recoupments. Are they done within the limits that the statute permits recoupment or not?

And right now we have trouble following that, because our system doesn't have that module. So we need to do that, and that is why we are asking for about close to $1 million to do that. We are asking for some more money to make our program a little more interactive with companies, so we can follow what they do and immediately pin them back when we don't like what we see or something is missing, so they can come back with the right answer.

So we need to be a little smarter in how we do things with computers. But I think that the two major recommendations of the IG is to have a different way of picking companies we audit, and we are going to do that.

Mr. GOHMERT. Well, in speaking of the money, why is there a reduction in your budget for methane hydrate programs?

Ms. BURTON. Congressman, I will tell you what I answered the Chairman about the difference in the OCS money.

In the times of constraints, of budget constraints, we have to use the money where the priorities are. The USGS does a lot of work on methane hydrate. They are out scientific agency; they do a lot.

We will come into the picture on hydrate when they are producible. Then we have to worry about the value, how they are produced, how we manage the production, and how we value them, and what royalty we receive for the government.

So our work comes down the line a little bit. So right now it is not as crucial for us to have money for hydrate as it may be for the USGS. And so we have more crucial needs right now, with a five-year oil and gas program, and the new alternative energy program. So that is why we redirected the money.

Mr. GOHMERT. Well, I would encourage you to keep looking at this.

Ms. BURTON. I know.

Mr. GOHMERT. I mean, we have got, what, 44 years nearly of gas out there, and we are paying higher gas prices probably than anybody in the world.

Thank you, Mr. Chairman.

Mr. COSTA. Thank you, Mr. Gohmert. There is also obviously a focus on natural gas as it relates to its clean-burning capabilities. And so there are a number of different dividends here that we are talking about.

I would like to go back to Mr. Myers. The mission of the Cooperative Topographical Mapping Program, otherwise known as CTM—that is a mouthful—provides the Nation with access to, as I understand it, current and accurate, consistent-based geographic data from derivative products that include topographical maps. The CTM program, as I understand it, is the lead responsibility of developing and maintaining and making available the national map.

In your Fiscal Year 2008 budget you have a lack of funding for this program, in my view. Do you want to respond? Will you be doing less again?

Mr. MYERS. Mr. Chairman, that is not the case at this time. What happened is the money moved over from what was traditionally the geography discipline into the Geospatial Information office. So you will see a transfer of those funds for——

Mr. COSTA. So is the work going to still get done?

Mr. MYERS. Yes, Mr. Chairman.

Mr. COSTA. In a timely fashion?

Mr. MYERS. Mr. Chairman, the basic mapping capabilities of the Survey, our GIS capabilities, are crucial to our success. They are also crucial to the national success with, again, understanding natural resources and——

Mr. COSTA. So you haven't dropped this down on the priority list.

Mr. MYERS. Mr. Chairman, it is one of my highest priorities.

Mr. COSTA. Good, I am glad to hear that. Mr. Hughes, back to you. I get questions from many of my colleagues, and I share some of the concerns, on why the Bureau of Land Management continues to issue leases on what, in many cases—and this relates to all politics being local—but where they view, in their respective districts, environmentally sensitive areas. Lands that have been identified for wilderness characteristics are areas that they may to, in fact, designate that as such.

Does the Bureau of Land Management propose or is currently looking at wilderness designation by Members of Congress when we are still in the process of obviously facilitating permits that are going through the pipeline? No pun intended.

Mr. HUGHES. Mr. Chairman, the Bureau of Land Management, as you are probably well aware, sent a recommendation a while back to Congress, after running an intensive wilderness inventory. That recommendation has been up here. In some cases Congress has acted on it; in other cases, those areas remain out there, waiting for Congressional action.

We do not typically pull lands from consideration because someone, you know, puts a bill out saying we want to do something with that. We look at that very closely. But for instance, in some cases, in the State of Utah there has been——

Mr. COSTA. Do you take in the wilderness impacts as you are considering these?

Mr. HUGHES. We have in many cases made those judgments already, and sent those recommendations to Congress. In other cases we are required by law, when companies come in and petition us to put lands up for lease/sale, we look at those. We have a resource management plan. If that management plan does not indicate a protective status for those lands, we would, in that we have adequate environmental studies available, that we have adequate cultural studies, adequate threatened endangered species studies, we offer those up for lease.

Mr. COSTA. OK. Before my time expires, I want to go to Mr. Norbury.

You have a backlog, I understand, in facilitating the process for energy leasing and permit applications. In respect to eliminating that backlog of oil and gas lease nominations for APDs, with the implementation of the Energy Policy Act of 2005, how do you expect to deal with that in an environmentally safe fashion, Mr. Norbury? With the decrease of funds that seems to be the case in the 2008 proposed budget?

Mr. NORBURY. The backlog, as defined in the Energy Policy Act, my understanding is that we will process all those applications this year. We will go into 2008 with no backlog.

Mr. COSTA. And you have sufficient funding to ensure that they are done in an environmentally safe fashion?

Mr. NORBURY. We believe we do.

Mr. COSTA. All right, my time has expired. And we will have the gentleman from New Mexico have the balance of his time, and then I will close the hearing following his five-minute line of questioning.

Mr. PEARCE. I thank the Chairman for extending past that 4:00 deadline, because there are just some burning things I had to get right out here.

Ms. Burton, you are one of the lucky two here to wrap us up. The five-year plan, 2007 to 2012, what is going to happen to the Mid-Atlantic Planning Area? And then second, what about the sale of 181 and 181 South out in the Gulf? Tell me about both of those things

Ms. BURTON. Congressman, the five-year plan is almost reaching conclusion. The final EIS should be done I think within the next month or so, and then the Secretary will make a decision as to whether to keep the Atlantic piece in the plan or not. That decision has not been made.

The offshore of Virginia is still in the proposed plan today. But the Secretary will make the decision in another month, 45 days. Then the plan will be sent to you for review, to Congress for review for 60 days, and then it will become effective by July 1.

As far as sale 181, the 181 South, I think you asked for, is scheduled to have a sale in 2009. We have to do all the environmental work on that, because it was under moratorium. We couldn't spend money on doing the work on this part of the OCS while we were preparing the five-year plan.

So now that you have lifted the moratorium, we can start the work. And this is why we are looking at our money very carefully.

Mr. PEARCE. Who in your department is in charge of talking to the Secretary as he approaches that decision on the Mid-Atlantic Region? Because I think it is important that we get new states involved, that we begin to develop those revenue sources for both the Federal government and the states.

Ms. BURTON. The way the process works——

Mr. PEARCE. No, just who. I don't want to know the process, I want to know who is going to be lobbying. Is that you?

Ms. BURTON. I make a recommendation to the Assistant Secretary.

Mr. PEARCE. All right. I hope you hear from at least one Member of the Committee.

Ms. BURTON. I heard you very loud and clear.

Mr. PEARCE. You know, again, New Mexico has got $13 billion that the oil and gas industry almost by itself has created for the State of Mexico, the third-largest permanent fund in the world when I was at the State Legislature five years ago. And those are great sources of revenue.

Mr. Myers, on the MIT, the minerals information teams, I wish Mr. Gohmert were here to ask this question, because I wonder how you feel about that MIT. If there has been attempts from the Administration to defund it, and how do you feel about the defunding? Or fund it at a lower level and changes.

Minerals information teams for me seems valuable because what it does is assesses the strategic minerals that this country uses, and it looks at what we are having to import versus what we get, with China being one of the great importers to us, or exporters to us today. I worry about that, and I would think we need more information, not less. And yet the Administration continues to try to do that. Why is that? And are you a party to that? I guess that is a loaded question. You don't have to answer that last part.

Mr. MYERS. Thank you, Congressman Pearce. Clearly, it is an important program. And it is a matter simply of the prioritization process that works with a limited budget. It was one of those hard——

Mr. PEARCE. How much is this MIT?

Mr. MYERS. The MIT cut is for this year about $2.6 million. But I believe——

Mr. PEARCE. Out of how big a budget?

Mr. MYERS. About $50 million. But earlier, because of the way the budget structure works, it is actually about, it is 20-some million. Carl, do you have the exact number? About $25 million. About half the program.

Mr. PEARCE. Yes, that is, I mean, on your commodity reports there is even the recommendation that we would just measure some, and not all of strategic minerals. Why is that? And what does it take to go ahead and get the MIT team authority to check all those minerals?

Mr. MYERS. Well, it is clearly, you know, the budget is determined by the Congress. Again, the Administration is trying to make—myself included—trying to make some very tough choices within a limited budget. And that is strictly it. It is a matter of prioritization.

Clearly it is up to Congress to determine what they think is appropriate to fund. And again——

Mr. PEARCE. Yes, we funded it at a higher level than you all did. And if it is up to us, Congress, both Houses, I think, want to fund this thing at a higher level at some point. With all respect, if you could carry that message back, too, I would appreciate it.

Mr. Chairman, I am going to yield back. You have been more than gracious with the time, and I appreciate the hearing. It has worked out very well.

Mr. COSTA. Thank you, the gentleman from New Mexico. I appreciate your focus and your earnest questions. I hope the panel that testified this afternoon feels the same way. I hope it was relatively painless.

In closing, we obviously want to thank you for your testimony. Members of the Subcommittee and I may have, or probably will have, additional questions to the witnesses. We will forward those to the Department in the next several days. We would appreciate, as I said on the outset, your cooperation in responding to those questions.

As I indicated in my opening comments, oversight is an important role of the checks and balances, I believe, of the legislative process. And it is our intent, it is my intent as the Subcommittee Chairman, to work in a very collaborative basis with Members, both Democratic and Republican Members of this Subcommittee, to continue this oversight effort throughout the 110th Congress. So that is my way of me telling you this won't be the last time we see you. And that goes with other areas within the jurisdiction of this Subcommittee as we begin to try to do our best work on behalf of our constituents.

The Subcommittee on Energy and Minerals on Public Lands will now be adjourned.

[Whereupon, at 4:15 p.m., the Subcommittee was adjourned.]

[Additional material submitted for the record follows:]

Response to questions submitted for the record by Johnnie Burton, Director, Minerals Management Service

1. Ms. Burton: I am sorry to have missed the hearing on the 27th, but I was unable to get back from New York in time to attend this important hearing. I also appreciate your providing me with a response to my December letter to Secretary Kempthorne that same afternoon. It contained a good bit of useful information and I appreciate the time you and your staff put into it. I am attaching both my letter, the lease agreement document and your response for the record.

However, I would also appreciate your expanding upon the first three critiques (bullet points) in my letter, because while I believe you met the fourth critique head-on and with some detail, my concerns about the implications regarding recouping past production, the impacts of future agreements with other non-negotiating lease holders on the existing agreement, and the potential of the Kerr-McGee lawsuit to further derail these renegotiations, did not get addressed adequately in my view. Please provide that response for the record.

Answer: The first bullet point in your letter of December 21, 2006, states that the agreements "[d]o nothing to recoup royalties on past production that has already occurred before October 2006 . . . ." The agreements we have entered into to date do not address pre-October 2006 production. Because the financial consequences of the future period are several times greater than for the past period, our priority is to address the future period.

The second bullet states that the agreement allows the lessee to terminate the agreement if the Department, in a future agreement with another lessee, agrees to different terms that are more favorable to the lessee. The agreements do not allow for termination. They do contain a "most favored nation" provision under which the terms of an existing agreement would be conformed to the terms of any subsequent agreement entered into with another lessee that is more favorable to that lessee. Without this provision, none of the lessees with whom we have negotiated was willing to be the first to enter into an agreement with the Department. We presume that their reluctance arose out of an apprehension that they could be harmed if the government made concessions to other lessees in subsequent negotiations that it had not made to those who signed first. That is why Director Burton noted in her February 27 letter that this provision was necessary to break open negotiations. In addition, we desire to treat all lessees equally. We find no reason to provide an economic advantage to one company over another. However, if for some unforeseen reason, we had to make a concession to a company whose agreement to a lease amendment was critical, then everyone should benefit from the same concession. We do not anticipate this happening and for these reasons, as I also noted in my February 27 letter, we expect this provision to have little or no monetary impact.

The third bullet of your letter notes that the agreement will terminate if the United States loses the pending judicial challenge to the legality of including price thresholds in the deep water leases issued in the 1996-2000 period that do include them (i.e., the leases issued in the lease sales held in 1996, 1997, and 2000). The Department believes that it is on strong legal ground in applying price thresholds to these leases. If, however, the courts were to agree with Kerr-McGee, the plaintiff in this pending challenge, that section 304 of the Deep Water Royalty Relief Act operates to prohibit price thresholds on royalty relief granted under that section, then inclusion of price thresholds in leases subject to section 304 would be beyond the Department's statutory authority. The section 304 leases include the leases issued in the 1998 and 1999 lease sales, so under this scenario, the Department would not be authorized to collect royalties on the production covered by the new agreements.

The third bullet also states that the agreements will terminate if the Department loses "any other lawsuit alleging that the Department lacks this authority." This seems to reflect a misunderstanding of the provision. Under paragraph 5(b) of each of the agreements, if the United States prevails in the first lawsuit to reach a final non-appealable judgment, the agreement will remain in force even if another court were to rule against the government in a subsequent case, unless the Supreme Court later rules adversely to the United States.

2. Ms. Burton, it seems that from the very beginning of this oil royalty debacle, you, and the Department of the Interior have been undermining the American people's ability to recoup the missing royalty payments from the 1998 and 1999 leases. Whether it was opposing my amendment to provide the Department of the Interior negotiating incentive tools to bring the oil and gas companies to the table, or publicly stating in September 2006 "I don't like to say "negotiate" because I really don't have anything to trade." Now, in testimony provided to the Senate Energy and Natural Resources Commerce, the Assistant Secretary for Lands and Management, Stephen Allred, requested additional authority from Congress to allow the Department of the Interior to extend leases for companies that choose to renegotiate their 1998 and 1999 leases. I guess after talking yourself into a negotiating corner, the department wants to somehow add more sweeteners to an oil and gas honey pot.

Which companies are requesting lease extensions as a prerequisite for renegotiations?

Answer: During discussions with companies, including Chevron and Devon, this tool was raised as a possible option as a way to move forward.

Has this proposal been submitted to Congress?

Answer: During a January 18, 2007, hearing before the Senate Energy and Natural Resources Committee, Assistant Secretary Steve Allred offered this concept in response to a question regarding what Congress could do to help the Department of the Interior negotiate terms that would result in companies paying royalties on leases from the 1998 and 1999 lease sales. The Department looks forward to working with the Congress on this concept.

What is the reasoning behind this request?

Answer: The majority of companies have indicated that there is management, stockholder or board of director pressure to not negotiate such agreements, since they hold valid leases issued in 1998 and 1999 without thresholds.

Presumably, by making a concession such as allowing some leases to be extended, companies could go back to stockholders and show that they received some benefits in the negotiation. In addition, as Assistant Secretary Allred has noted in his previous testimony, some proposals that would penalize companies that do not sign agreements may have an unintended consequence of creating legal risk of enjoining future lease sales and delaying new domestic production of oil and natural gas. The proposal to extend lease terms may avoid that risk.

[A letter dated December 21, 2006, submitted for the record by The Honorable Maurice D. Hinchey to Secretary of the Interior Dirk Kempthorne follows:]

MAURICE D. HINCHEY
22ND DISTRICT, NEW YORK

COMMITTEE ON APPROPRIATIONS

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INTERIOR

Congress of the United States
House of Representatives
Washington, DC 20515–3222

WASHINGTON OFFICE:
2431 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–3222
(202) 225-6335

www.house.gov/hinchey

December 21, 2006

Secretary Dirk Kempthorne
Department of the Interior
1849 C Street, NW
Washington DC 20240

Dear Secretary Kempthorne:

As you know, members of Congress from both parties have expressed serious concern about the fact that the Department of Interior had failed to include price thresholds in leases issued in 1998 and 1999 pursuant to the Deepwater Royalty Relief Act. More broadly, Congress has also expressed its disapproval over the Department's lax oversight of the royalty program as a whole. Despite this, I was pleased that the Department responded to our concerns by entering into discussions earlier this year with some oil companies, with an eye toward renegotiating the flawed leases.

A Minerals Management Service press release last week indicated that the Department reached agreements with five companies to renegotiate the erroneous leases and include the market-based limits on royalty relief that Congress had always intended. Having looked at the negotiating terms more closely, I am writing to raise my serious concerns about the terms of this new agreement, which in my view, continue the Department's pattern of giving sweetheart deals to the oil industry and a raw deal to American taxpayers.

In particular, it appears the new agreement would:

- Do nothing to recoup royalties on past production that has already occurred before October 2006, allowing these companies—which have a combined six leases in production—to escape giving a return to taxpayers for oil and natural gas they've already drilled.

- Allow the five companies to terminate the agreement if, in an attempt to recoup royalties from the more than 40 companies who have not yet renegotiated leases, the Department in a future lease agrees to terms "more favorable" with another company.

- Terminate the agreement in the event the Department loses the lawsuit filed by Kerr-McGee challenging its authority to impose limits on royalty relief, or any other lawsuit alleging that the Department lacks this authority. Under normal

BINGHAMTON OFFICE:
100A FEDERAL BUILDING
BINGHAMTON, NY 13901
(607) 773-2768

ITHACA OFFICE:
123 SOUTH CAYUGA STREET
SUITE 201
ITHACA, NY 14850
(607) 273-1388

KINGSTON OFFICE:
291 WALL STREET
KINGSTON, NY 12401
(845) 331-4466

MIDDLETOWN OFFICE:
CITY HALL, THIRD FLOOR
16 JAMES STREET
MIDDLETOWN, NY 10940
(845) 344-3211

MONTICELLO OFFICE:
18 ANAWANA LAKE ROAD
MONTICELLO, NY 12701
(845) 791-7116

legal circumstances, these five companies would need to take their own case to court in an attempt to benefit from a legal ruling in another company's case.

- Terminate the agreement if Congress enacts legislation intended to address the faulty 1998 and 1999 leases, including any attempts to recoup royalties on past production that has already occurred under these leases—production that has cost taxpayers approximately $2 billion in lost royalties. Indeed, this provision appears designed to thwart Congressional attempts to correct a multi-billion dollar problem that the Department has failed to adequately address. Furthermore, it's clear that the agreement would require the Department to refund royalty payments to companies that had previously agreed to pay under the agreement.

Taken together, these terms appear to give the same oil companies who are enjoying record profits any and every excuse to back out of the Department's new agreements. The Department should serve as a watchdog and advocate for the public interest, working to ensure that the American people get a fair return from oil companies who extract valuable resources from waters owned by all of us. Unfortunately, the agreement reached by the Department does nothing to allay concerns, which the Department's own Inspector General so aptly summed up when he testified that, "short of a crime, anything goes at the highest levels of the Department of the Interior."

After 12 years of very little oversight, the 110th Congress will conduct much more oversight when we examine the administration's budget and the Department's policies toward stewardship of our natural resources. Failure to respond to concerns and questions will not be taken lightly, and as a member of the Interior Appropriations Subcommittee with jurisdiction over the Department if Interior's budget, I will do everything in my power to ensure that the American taxpayers get a fair return for the use and exploitation of their public resources.

Finally, there are a number of questions that have arisen as a result of reading the negotiating terms and I would appreciate the Departments providing direct and complete answers to them:

1) How much money does the federal government expect to recoup from these five lease holders?

2) How much money will the federal government forego if it does not collect unpaid royalties prior to October 2006?

3) How many of the approximately 40 royalty-free lease holders are still in the process of negotiating with Interior?

4) How many OCS lease sales have been held in 2006?

5) How many of these same royalty-free lease holders have already bid on lease sales since this issue has been exposed in early 2006?

6) How many and which lease holders have been awarded with additional leases in 2006?

I would appreciate your earliest response, and I look forward to working with you in the next Congress. Please accept my best wishes.

Sincerely,

Maurice Hinchey

[A letter dated February 27, 2007, submitted for the record by The Honorable Maurice D. Hinchey from R.M. "Johnnie" Burton, Director, Minerals Management Service, in response to the Hinchey letter dated December 21, 2006, follows:]

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

FEB 27 2007

The Honorable Maurice Hinchey
House of Representative
Washington, D.C. 20515

Dear Mr. Hinchey:

Thank you for your letter dated December 21, 2006, to Secretary Dirk Kempthorne regarding your concern over the negotiated terms of the lease agreements recently made with some lease holders of leases issued in 1998 and 1999 pursuant to the Deep Water Royalty Relief Act (DWRRA), which did not include explicit price thresholds. Secretary Kempthorne asked me to respond.

We share your frustration over the lack of price thresholds for the 1998 and 1999 leases issued by the Clinton administration for deep waters in the Gulf of Mexico. This has been of great concern to the Department of the Interior. We agree that the American people own these resources and should get a fair return.

During this Administration, price thresholds limiting royalty relief when oil and gas prices are high have been included in all deep water leases issued. Also, once the royalty relief established by the Deep Water Royalty Relief Act became discretionary in 2001, we reduced the amount of royalty relief allowed on new leases.

Regarding future production, the Department is seeking to negotiate with the lessees of leases from 1998 and 1999 that do not include price thresholds on deep water royalty relief in an effort to obtain the lessees' agreement to apply price thresholds. There has been good progress. On December 14, 2006, we reached agreements with six companies, covering about 20 percent of the ownership in leases with oil and natural gas discoveries, and we look forward to reaching agreements with more companies in the near future. The agreements do not automatically terminate if Congress takes action, but do contain a provision that would allow a leaseholder to not be charged twice if Congress chooses to deal with royalty moneys in a different way than that which we negotiated. We look forward to working with you on this issue.

We recognize that there are still issues to be addressed, such as past production. The agreements we reached with the six companies are a first step in rectifying the problem with these leases. As we move forward, we will remain vigilant to ensure that future agreements are in the best interest of the Nation and the public. The specific concession that you note are expected to have little to no monetary impact on the newly agreed terms. These were important however, in creating forward progress and breaking open negotiations so that the American public can begin receiving a fair return on public resources.

In answer to your specific questions we provide the following:

Q1. *How much money does the Federal Government expect to recoup from these six lease holders?*

A1. The 6 lease holders who signed the agreement with the MMS have ownership interests in 6 of the 19 producing leases. On these 6 leases, the MMS estimates that 17.7 million barrels of oil and 37.65 billion cubic feet of gas from these 6 lease holders remain to be produced before the leases either reach their maximum royalty suspension volume or cease producing. This production would yield projected royalties of $124.5 million for oil, $31.9 million for gas, with the total being $156.4 million.

The 6 lease holders also have ownership interests in 9 of the 21 leases that have discoveries and reserve/resource estimates, but have not begun producing. Of those 9 leases a total of 162.8 million barrels of oil equivalent (BOE) are estimated to be owned by the 6 lease holders and are projected to be recoverable before the leases either reach their maximum royalty suspension volume or cease producing. Using the royalty value per BOE from the producing leases of $6.40, we approximate the added royalty amounts to be collected from this set of discovered, but not producing leases, at $1.042 billion.

Currently, there are 513 active deep water leases issued in 1998 and 1999 that neither currently produce nor have discoveries. The MMS estimates there will be a total of 200.8 million BOE of recoverable oil and gas from discoveries and production on these 513 leases. The 6 lease holders own shares of some of these leases equating to a 17.43 percent share of all 513 leases. Assuming that each lease has equal likelihood of discovery and the distribution of discovery sizes is uniform, these 6 companies would own 35.0 million BOE of the total 200.8 million BOE in this category of leases. Using a royalty value of $6.40 per BOE added royalties would be $224 million.

Thus, summing up the royalty estimates in the three lease categories, we project future collections to be increased by $1.422 billion.

Q2. *How much money will the Federal Government forego if it does not collect unpaid royalties prior to October 2006?*

A2. As of the end of Fiscal Year 2006, the following amounts were produced from deepwater leases issued in 1998 and 1999 during the years when royalties would have been collected had the price thresholds been included in the lease contracts: 77 million barrels of oil, and 760 billion cubic feet of natural gas.

To approximate the product sale prices, the MMS used the annual Energy Information Administration (EIA) prices for oil and gas, adjusted for historical variations between these EIA prices and prices actually received for these products by Outer Continental Shelf producers. The MMS also subtracted from the adjusted prices an estimate of transportation costs for oil and gas from these deep water leases--$3.50 per barrel for oil and $0.30 per thousand cubic feet for gas.

For oil, these thresholds were exceeded in 2004, 2005, and 2006; for gas, this occurred from 2000 through 2006, with the exception of 2002. The price threshold values applied to leases signed in 1996, 1997, and 2000 were used to determine when royalties would have been due if thresholds were included with the 1998 and 1999 leases. The MMS estimates the resulting royalties to be $381 million for oil and $575 million for gas, resulting in an aggregate imputed royalty amount of $956 million. This estimate is not precise because: 1) the MMS does not measure the value of royalties not due, and 2) the MMS knows what was produced on the relevant set of leases, but not exactly what the production sold for or how much transportation allowance would have been claimed if royalties had been due.

Q3. *How many of the approximately 40 royalty-free lease holders are still in the process of negotiating with Interior?*

A3. The MMS continues to have discussions with 22 additional companies.

Q4. *How many lease sales have been held in 2006?*

A4. Two Gulf of Mexico lease sales were held in 2006; Central Gulf Sale 198 in March and Western Gulf Sale 200 in August.

Q5. *How many of these same royalty-free lease holders have already bid on lease sales since this issue has been exposed in early 2006?*

A5. A total of 25 companies have bid in the 2 lease sales discussed above; however one was not a high bid and was not awarded a lease.

Q6. *How many and which lease holders have been awarded with additional leases in 2006?*

A6. A total of 404 leases were awarded to 24 of the subject lease-holders in the 2006 Central and Western Gulf of Mexico Lease Sales.

Number of Leases	Company
43	Amerada Hess Corporation or Hess Corporation (name changed)
20	Anadarko Petroleum Corporation
32	BHP Billiton Petroleum (Deepwater) Inc.
14	Callon Petroleum Operating Company
19	Dominion Exploration & Production, Inc.
2	Energy Resource Technology, Inc.
1	Eni Deepwater LLC
7	Exxon Mobil Corporation
37	Hydro Gulf of Mexico, L.L.C.
30	Kerr-McGee Oil & Gas Corporation
13	LLOG Exploration Offshore, Inc.
15	Mariner Energy, Inc.
6	Murphy Exploration & Production Company - USA
8	Newfield Exploration Company
35	Nexen Petroleum Offshore U.S.A. Inc.
11	Noble Energy, Inc.
43	Petrobras America Inc.
10	Plains Exploration & Production Company
2	Statoil Gulf of Mexico LLC
6	Stephens Production Company, LLC
7	Stone Energy Corporation
27	TOTAL E&P USA, INC.
4	W & T Offshore, Inc.
12	Woodside Energy (USA) Inc.

In closing, the Department is dedicated to collecting all of the royalties due to the American public from Federal leases, both offshore and onshore, and on Indian lands. We appreciate having the opportunity to respond to your concerns.

If I can be of further assistance, please do not hesitate to call me at (202) 208-3500 or Ms. Lyn Herdt, Chief, MMS Office of Congressional Affairs, at (202) 208-3502.

Sincerely,

R. M. "Johnnie" Burton
Director

[NOTE: A sample Minerals Management Service agreement submitted for the record by Mr. Hinchey has been retained in the Committee's official files.]

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