U.S. Department of the Interior
Office of Inspector General

EVALUATION REPORT

OPPORTUNITY TO INCREASE OFFSHORE OIL AND GAS RENTAL REVENUES, MINERALS MANAGEMENT SERVICE

REPORT NO. 99-I-387
MARCH 1999

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington. D.C. 20240

MAR 31 1993

EVALUATION REPORT

Memorandum

To: Assistant Secretary for Land and Minerals Management

From: Robert J. Williams' Robert J. Williams
Assistant Inspector General for Audits

Subject: Evaluation Report on Opportunity To Increase Offshore Oil and Gas Rental Revenues, Minerals Management Service (No. 99-I-387)

INTRODUCTION

This report presents the results of our evaluation of potential increases in revenues for certain leases subject to the Deep Water Royalty Relief Act of 1995 (Public Law 104-58). During the followup evaluation of our December 1993 audit report "Offshore Minerals Leasing Activities, Minerals Management Service" (No. 94-I-l 79), we noted that the Minerals Management Service has an opportunity to significantly increase rental revenues from certain offshore oil and gas leases. The objective of this evaluation was to provide information to Service management on laws, regulations, policies, and procedures relating to the opportunity to increase revenues and an estimate of the amount of revenues that may be realized by this opportunity.

BACKGROUND

The Minerals Management Service's mission includes managing the Offshore Minerals Leasing Program under the provisions of the Outer Continental Shelf Lands Act, as amended. To accomplish this part of its mission, the Service prepares oil and gas leasing schedules, holds lease sales on offshore tracts (up to 5,760 acres), and awards leases on offshore Federal lands to the highest qualified bidder. For each lease awarded, the Service receives revenues in the form of bonus bids, rental fees, and royalties if a lessee begins production of oil and gas on the leased tracts. Bonus bids are a one-time cash amount paid per acre to the Service by the highest qualified bidders on leases they obtain. Rental fees are annual payments based on a fixed dollar amount per acre established at the time a lease is issued. Lessees make royalty payments equal to a stated share or percentage of the value of the oil or gas produced on a tract. During calendar years 1997 and 1998, rent and royalty revenues from the Outer Continental Shelf oil and gas leases totaled about $6.9 billion, which consisted of royalties of about $6.4 billion and rents of $467 million.

SCOPE OF EVALUATION

The evaluation was conducted at the Service's Economics Division in Herndon, Virginia. As part of the evaluation, we reviewed laws, regulations, and records pertaining to the Service's offshore oil and gas leasing program and interviewed Service personnel responsible for administering the program. We also reviewed the Secretary's Annual Statement and Report to the President and the Congress for fiscal year 1995, which was required by the Federal Managers' Financial Integrity Act; the Departmental Reports on Accountability for fiscal years 1996 and 1997, which include information required by the Act; and the Service'sannual assurance statement on management controls for fiscal year 1997. Based on our review, we determined that no material weaknesses were included in these documents that directly related to the objective and scope of our evaluation. Furthermore, we evaluated the system of internal controls to the extent that they related to the objective and scope of the evaluation. We did not identify any internal control weaknesses. Instead, we identified an opportunity for the Minerals Management Service to increase oil and gas lease rental fee revenues. The evaluation was conducted in accordance with the "Quality Standards for Inspections," issued by the President's Council on Integrity and Efficiency. Accordingly, we included such tests of records and other evaluation procedures that were considered necessary to accomplish our stated objective.

PRIOR AUDIT COVERAGE

In our December 1993 audit report "Offshore Minerals Leasing Activities, Minerals Management Service" (No.94-I-179), we found that the Service charged rates for bonus bids of $25 per acre and for rental fees of $3 per acre, which were less than the $32.50 and the $5 per acre rates, respectively, recommended in its internal studies, even though the Outer Continental Shelf Lands Act, as amended, requires that the Government receive fair market value for leases.

Our prior report included a recommendation that the Service should establish a procedure which would require both the minimum bonus bid and the rental fee rates to be evaluated before each offshore oil and gas lease sale and require the rates to be increased, as appropriate, based on the evaluation. The Service concurred with the recommendation, stating that it believed that "periodic evaluation of the effects of minimum bids and rental rates on Government receipts as well as other leasing objectives is clearly in the public interest."

In our March 1998 evaluation report "Follow up of Offshore Minerals Leasing Activities, Minerals Management Service" (No. 98-I-385) we found that the Service had taken action to implement the recommendation made in our December 1993 audit report. As a result, we determined that the increased rental fees for offshore oil and gas leases issued from September 1993 to August 1997 had generated an estimated $141 million in additional Federal revenues between calendar years 1993 and 1997 and were expected to generate an additional $194 million for these same leases during the 4-year period of 1998 to 2001.

RESULTS OF EVALUATION

We found that the Minerals Management Service has an opportunity to increase rental fee revenues. Specifically, the Deep Water Royalty Relief Act allows for royalty payments to be suspended for up to 87.5 million barrels of oil equivalent[1] produced under offshore leases in deep water (considered by the Royalty Relief Act to be water depths of 200 meters or more) primarily in the central and western portions of the Gulf of Mexico. During the period when royalty payments are suspended, the Service's offshore oil and gas lease terminates rental fees. Thus, the Department of the Interior does not receive any revenues during the period when royalties are suspended for offshore leases, This is in contrast to the terms of onshore leases, which require payments to be equal to the higher of rental fees or royalties throughout the time period of the lease. Based on our review, we estimated that the Government has lost the potential to earn rental revenues of as much as $3.7 million associated with deep water leases issued prior to the Royalty Relief Act and has lost the potential to earn rental revenues ranging from $6.9 million to $75.9 million on oil and gas leases issued in 1996 and 1997, subsequent to the Royalty Relief Act. However, the Service has an opportunity to increase rental revenues by an estimated $2.4 million to $26 million for leases that will be issued between April 1, 1999, and December 3 1, 2000, by changing the terms of these leases before they are sold to require rental payments during periods of royalty relief.

The Deep Water Royalty Relief Act

In November 1995, the Outer Continental Shelf Lands Act was amended by Public Law 104-58, Title III (the Deep Water Royalty Relief Act). The amendment requires that new deep water leases in the central, western, and a small portion of the eastern Gulf of Mexico issued within 5 years of the date of the amendment be offered with a provision suspending royalties on a specified number of barrels of production, depending on water depth. In accordance with the Deep Water Royalty Relief Act, the minimum royalty suspension volumes are as follows:

- 17.5 million barrels of oil equivalent for leases in water depths of 200 to 400 meters.

- 52.5 million barrels of oil equivalent for leases in water depths of 400 to 800 meters.

---

[1]The Minerals Management Service defines "barrel of oil equivalent" as follows: "The amount of energy resource (m this document, natural gas) that is equal to one barrel of oil on an energy basis. The conversion is based on the assumption that a barrel of oil produces the same amount of energy when burned as 5,620 m^3 of natural gas."

- 87.5 million barrels of oil equivalent for leases in water depths of more than 800 meters.

The purposes of the Deep Water Royalty Relief Act were to (1) promote development or increase production on the Gulf of Mexico's Outer Continental Shelf or (2) encourage production ofmarginal resources on producing or nonproducing leases in deep water. While deep water leases issued before November 1995 are not automatically covered by the Act, royalty relief for production under these leases would be available if the lessee requested and the Secretary of the Interior determined that new production under these leases might not be economical in the absence of relief.

Current Lease Terms

The Code of Federal Regulations (43 CFR 3 103.2-2) states that rental payments for onshore oil and gas leases "shall not be due on acreage for which royalty or minimum royalty is being paid." (The Code defines "minimum royalty" as the equivalent of the yearly rental charges.) Thus, annual rental fees are required to be paid on onshore leases until royalties are paid in an amount that exceeds the annual rental fees. In contrast, the Service's offshore oil and gas lease form in use since at least 1986 states, with regard to rent, that "the Lessee shall pay the Lessor, on or before the first day of each lease year which commences prior to a discovery in paying quantities[2] of oil or gas on the leased area, a rental as shown on the face hereof." Consequently, rental fees are not paid once a leased tract begins to produce oil or gas. In addition, the offshore leases issued since the Royalty Relief Act automatically provide royalty relief for leases issued in oil fields previously approved by the Service as being eligible for royalty relief. Thus, eligible leases automatically provide relief from rental and royalty payments for up to 87.5 million barrels of oil, whereas onshore leases require the payment of rent until annual royalties exceed the annual rental due on a lease. A senior-level Service official stated that the Service was aware that the offshore lease prepared in response to the Royalty Relief Act would eliminate rent fees during periods of royalty relief.

Estimate of Impact on Rental Revenues

We estimated that the Government has lost the potential to earn rental revenues of as much as $3.7 million on deep water leases issued prior to the Royalty Relief Act and has lost the potential to earn revenues ranging from $6.9 million to $75.9 million for oil and gas leases issued in 1996 and 1997, which was subsequent to the Royalty Relief Act. However, the Service has an opportunity to increase rental revenues by an estimated $2.4 million to $26 million for leases that will be issued between April 1, 1999, and December 3 1, 2000, by changing the terms of these leases before they are sold to require rental payments during periods of royalty relief. The details regarding our approach to estimating these impacts are as follows:

---

[2]"Paying quantities" is defined in the Code of Federal Regulations (30 CFR 250.111) as the "production of oil, gas, or both in quantities sufficient to yield a return in excess of the costs, after completion of the well, of producing the hydrocarbons at the wellhead."

Pre-Royalty Relief Act Leases. The Service told us that it expects 23 nonproducing deep water oil and gas leases issued prior to the Royalty Relief Act to be producing by 2002 and that royalties for these leases could be suspended under the Act if the lessees request and the Secretary approves the requests. If all 23 lessees were approved for royalty relief, we estimated that the Service has lost the potential to earn as much as $3.7 million in rental fee revenues because the Department's offshore leases do not require rental fees during periods of royalty relief. The revenues of $3.7 million were calculated as follows: 23 leases multiplied by 5,380 acres (average lease size) multiplied by $7.50 per acre rental fee multiplied by 4 **years.**[3] However, we recognize that it is possible that none of these leases will be approved for royalty relief and, in that case, no rental revenues would be lost.

Post-Royalty Relief Act Leases. Because of the large number of leases covered by the Deep Water Royalty Relief Act and the increase in the per acre rental charge from $3.00 to **$7.50,** the loss of rental fees paid to the Department could be significant for leases issued after the Royalty Relief Act. We estimated that the Service has lost the potential to earn revenues ranging from $6.9 million to $75.9 million. To derive this estimate, we requested that the Service determine the number and percentage of existing deep water leases issued after the Royalty Relief Act which were producing and the number and percentage of nonproducing leases it expected to produce in the future. We also requested an estimate of the average time expected for an oil and gas well to attain production that exceeded the suspension volumes included in **the** Act.

In its response to our requests, the Service stated that as of June 1998, 2 to 5 percent of the leases in deep water were producing. It further stated that there were no leases producing in water depths exceeding 400 meters. In addition, we found that the most current issue of the Minerals Management Service's publication "Offshore Stats" for the third and fourth quarters of 1997 stated that about 22 percent of existing offshore leases were producing. Although most of these producing leases were in water depths of 200 meters or less, we noted that the oil and gas industry experts were reporting that improvements in offshore exploration and drilling technologies had greatly lowered the costs to produce oil and gas in water depths of more than 200 meters and that the prospect of increased production for leases in this area was higher than in the past. Also, the Department of Energy, which maintains statistics on energy production and consumption, reported that because of the lower costs, oil and gas production in deep water was increasing.

During our evaluation, Service officials said that they recognized that their experience with production in water exceeding 200 meters was limited and that deep water oil and gas production costs were declining. They suggested that a reasonable estimate of the potential increased rental revenues be based on a production rate ranging from 2 to 22 percent of the 2,138 leases entered into since the effective date of the Act. Service officials estimated that it would take almost 4 years for a tract to produce oil or gas above the royalty suspension volumes. The estimate of lost revenues of $6.9 million was calculated by multiplying 43

[3] This is the average period of time that the Service estimated it would take for a lessee to reach the royalty suspension volume and to begin paying royalties.

leases (2 percent of 2,138 leases) by 5,380 acres (average lease size) multiplied by the $7.50 per acre rental fee multiplied by the 4-year average period of suspended royalties. The estimate of lost revenues of $75.9 million was calculated by multiplying 470 leases (22 percent of 2,138 leases) by 5,380 acres (average lease size) multiplied by the $7.50 per acre rental fee multiplied by the 4-year average period of suspended royalties.

In addition to these leases, the Service advised us that it anticipates deep water lease sales of 3.9 million acres between April 1, 1999, and December 3 1, 2000, when the Royalty Relief Act is due to expire. By revising the lease terms to require annual rental fee payments during periods of royalty suspension, we believe that the Service has the potential to earn revenues estimated at between $2.4 million and $26 million from these leases. This estimate was calculated by multiplying .08 million acres (2 percent of 3.9 million acres) and .86 million acres (22 percent of 3.9 million acres) by the $7.50 per acre rental fee multiplied by the 4-year average period of suspended royalties.

We believe that the Service, to realize those potential rental revenues, should revise its oil and gas leases before the sales are executed to continue annual rental fee payments during periods of royalty suspension. In that regard, our General Counsel, in a November 20, 1998, memorandum, noted that the United States Code (43 U.S.C. 1337(b)(6)) states that oil and gas leases "shall contain such rental and other provisions as the Secretary may prescribe at the time of offering the area for lease." Also, the General Counsel stated that the Service should determine whether it has the authority to revise existing leases to require such payments before the lessees are granted royalty relief to preclude new lessees from paying rental fees while existing lessees are not required to pay royalties or rental fees.

Recommendations

We recommend that the Director, Minerals Management Service:

1. Ensure that offshore oil and gas leases which will be issued in the future under the provisions of the Deep Water Royalty Relief Act of 1995 require that annual rental fee payments continue during royalty suspension periods until royalty payments meet or exceed the annual rental fees for leased tracts covered by the Act.

2. Request a Solicitor's opinion as to whether the Service has authority to modify terms of existing leases to require rental payments of lessees during royalty suspension periods. If this authority does not exist, the Service should request a Solicitor's opinion as to whether legislation can be sought to remedy this situation.

Minerals Management Service Response and Office of Inspector General Reply

In the October 7, 1999, response (Appendix 2) to our draft report from the Director, Minerals Management Service, the Service nonconcurred with both recommendations but stated that it would consider the report's recommendations as it begins discussions of whether the financial terms for deep water leases should be changed for future lease sales. Based on the response, we have revised the recommendations to clarify our intent. However, we consider the Service's comments to be partially responsive to both recommendations (see Appendix 3).

Recommendation 1. Nonconcurrence

In commenting on the report, the Service said that Recommendation 1 applied to future leases issued under the provisions of the Royalty Relief Act; however, it questioned whether the recommendation applied to leases which existed prior to the Act. We revised the recommendation to clarify that it applied only to future leases. The Service also stated that the Assistant Secretary for Land and Minerals Management had issued a notice in the *Federal Register* and hosted a workshop in June 1998 to begin discussions of whether the financial terms for deep water leases should be changed for future lease sales and that it would consider the report's recommendations during its review.

Recommendation 2. Nonconcurrence

The Service said that Recommendation 2 applied to leases which were issued prior to and after the Royalty Relief Act, stating that it could not "unilaterally change" leases already issued, that a number of leases were already producing and were not eligible for royalty relief, and that lessees who hold leases issued after the Royalty Relief Act do not require that the Service approve royalty relief. The Service said that it therefore had "no leverage on which to rely in negotiating changes to lease terms."

Based on these comments, we have revised Recommendation 2 to clarify that the Service should seek a Solicitor's opinion regarding whether there is authority for the Service to modify lease terms to require rental payments of lessees during royalty suspension periods and, if such authority is lacking, whether legislation can be sought to remedy this situation.

Additional Comments on Report

The Service also made other comments regarding our recommendations and our estimates ofpotential increased revenues. The Service's comments and our replies to these comments are in the paragraphs that follow.

The Service commented that the statement in our August 1997 draft report that Service officials "generally concurred" with the report's recommendations during our June 2, 1998, exit conference is "incorrect." We included this statement based on the Service's comments at the exit conference that it agreed with the report's conclusions that under the terms of the Service's offshore oil and gas leases, the Department would not receive rental revenues during periods of royalty relief and that it would pursue implementing our recommendations. However, the Service advised us that implementation may be difficult since the July 8, 1998, Department of the Interior appropriations bill for fiscal year 1999 (H.R. 105609) included a statement that restricted it from making changes to the financial terms of the oil and gas leases. Specifically, the appropriations bill stated the following:

> It has come to the attention of the Committee [on Appropriations] that MMS [Minerals Management Service] is proposing a public workshop to look at whether modifications to deep water leases are warranted. The Committee expects that existing financial terms for these lease sales will be maintained until this workshop is completed, public comments fully analyzed, and a report provided to the House and Senate Committees on Appropriations.

While this language restricts the Service from making changes to the financial terms of the leases until certain actions are completed, it does not prohibit the Service from making such changes. Also, the Service stated that it would pursue implementation of the report's recommendations, which we interpreted to mean that the Service "generally concurred" with the intent of the recommendations.

The Service stated that increasing rental fees could reduce offshore oil and gas lease sales and revenues from bonus bids on these leases. In response to a recommendation in our December 1993 audit report "Offshore Minerals Leasing Activities, Minerals Management Service," the Service also commented that lease sales and revenues from bonus bids would decline. However, our March 1998 evaluation report "Followup of Offshore Minerals Leasing Activities, Minerals Management Service" noted that the Service increased the rental rates on offshore oil and gas leases from $3 per acre to $7.50 per acre and realized increased rental revenues of $141 million between September 1993 and August 1997, with expected additional rental revenues of $194 million between fiscal years 1998 and 2001. Also, the minimum bid rates did not decline after the rental rate was increased to $7.50 per acre but remained at $25 per acre, which is the same rate that had been in effect for more than 50 years.

The Service stated that our report had "overestimate[d]" the $6.9 million to $75.9 million on deep water leases because it could not "unilaterally change" leases which it had issued and that companies had bid on leases with the understanding that they would not have to pay rent during a period of royalty relief. The estimated range was suggested by a senior-level Service official after our exit conference on a preliminary draft of this report. However, based on the Service's comments to the draft report, we have revised the final report to recognize the range of $6.9 million to $75.9 million as an estimate of rental revenues that the Service has lost the potential to earn because of its offshore lease provisions instead of classifying these amounts as potential additional revenues.

The Service commented that only 23 of 112 deep water leases existing prior to the Royalty Relief Act were eligible to request royalty relief and that the remaining 89 leases were producing in paying quantities and thus ineligible for royalty relief. However, the Code of Federal Regulations (30 CFR 203.1) states that the Service is authorized to grant royalty relief in three situations, including granting relief for a producing lease proposing to "significantly expand production under a Development Operations Coordination Document

. . . or a supplementary ... [Document], that Minerals Management Service approved after November 28, 1995." Thus, under these circumstances, the 89 producing leases could request and be eligible for royalty relief. Notwithstanding this provision, we have revised the estimate for theses leases fi-om $18 million to an estimate of as much as $3.7 million.

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by April 30, 1999. The response should provide the information requested in Appendix 3.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of Office of the Secretary and Bureau personnel in the conduct of our evaluation.

APPENDIX 1

CLASSIFICATION OF MONETARY AMOUNTS

Finding Area	Potential Additional Revenues
Opportunity to increase rental revenues for leases to be issued between April 1, 1999, and December 31, 2000	$2.4 million to $26 million

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

OCT -7 1998

Memorandum

To: Assistant Inspector General for Audits

Through: For Bob Armstrong Piet deWitt OCT - 9 1998
Assistant Secretary, Land and Minerals Management

From: Cynthia Quarter-man C Quarterman
Director, Minerals Management Service

Subject: Evaluation Report on Opportunity to Increase Offshore Oil and Gas Rental Revenues, Minerals Management Service (Assignment No. I-IN-MMS-002-98A(D))

We appreciate the opportunity to comment on the Office of Inspector General draft evaluation report. Before commenting directly on its recommendations, we would like to note two factual errors contained in the report.

First, the report's statement that Minerals Management Service officials generally concurred with the report's recommendations at a June 2, 1998, exit conference is incorrect. MMS officials did not concur in the recommendations. Rather, they indicated that language in the Conference Report for the Department of the Interior's Fiscal Year 1998 supplemental appropriations restricted MMS from making regulatory changes to the terms of the current Deep Water Royalty Relief Program. MMS officials said they would *consider* implementation of the OIG recommendations when appropriate and if permitted by congressional direction.

Second, the report overestimates the revenues associated with the recommendations. The report estimates additional rental revenues of $6.9 to $75.9 million on deep water leases issued in 1996 and 1997. However, the Government has no legal authority to unilaterally change lease terms on existing leases, so no additional revenues are possible on these-leases. The report also projects that rental fees of $18 million will be lost if the Department of the Interior approves relief for 112 deep water leases issued prior to the Deep Water Royalty Relief Act and does not continue rental payments during the relief period. Currently, 89 of those leases are producing and, consequently, are not eligible for royalty relief. Also, it is possible that none of the remaining 23 leases will apply for or be granted royalty relief. Therefore, the report should indicate that potential rental fees from these leases could range from zero to $3.7 million.

Comments on Recommendations

- Ensure that offshore oil and gas lease terms require that annual rental payments continue during royalty suspension periods until royalty payments meet or exceed the annual rental fee for leased tracts covered by the Deep Water Royalty Relief Act.

DISAGREE -- There are two types of leases to which this recommendation applies:

- leases issued since November 1995 subject to the royalty suspension provisions of the DWRRA, and

- leases that will be issued in the future under the provisions of the DWRRA.

With respect to the former, we have no legal authority to unilaterally change lease terms on existing leases. Therefore, this recommendation cannot be implemented for this category of leases. Further discussion of existing leases appears in our response to the second recommendation below.

With respect to the latter category, the implementation of the DWRRA was developed through comprehensive public and internal processes that considered legislative intent and input from constituents and many parts of the Administration. We believe that the financial terms for deep water leases should not be changed for future lease sales held under the DWRRA without a similar, careful review. MMS has already started such a review. The Assistant Secretary, Land and Minerals Management, issued a *Federal Register* Notice and hosted a workshop in June 1998 to begin discussions of whether the financial terms for deep water leases should be changed for future lease sales. We will consider the report's recommendations concerning rentals as we proceed with this process.

- Revise existing offshore oil and gas leases prior to granting the lessees royalty relief to require the payment of rental fees during periods of royalty suspension. Legislation should be sought to implement this recommendation if necessary.

DISAGREE - The type of leases to which this recommendation is intended to apply is unclear. However, there are two categories of deep water leases that it may seek to address:

- leases issued after November 1995 that have not yet gone into production, and

- non-producing leases issued prior to 1995 that apply for royalty relief on the basis that the proposed production project would be uneconomic at the lease stipulated royalty rate.

With respect to the first category of leases, it should be noted that MMS does not "grant" royalty relief to them. In accordance with the DWRRA provisions, the royalty suspension volume is incorporated into the lease terms. Lessees do not apply for nor does MMS approve the royalty relief; therefore, it has no leverage on which to rely in negotiating changes to lease terms.

In any case, MMS opposes this recommendation because its implementation would violate the integrity of the bonus bid auction system. That is, MMS sold these leases under specific terms known to all bidders and received cash bonuses in return based on the bidders' evaluation of the tracts offered with those terms. Had bidders known that rents would be charged during the suspension period, they would have submitted lower bids and fewer tracts would have been sold.

Attempts by MMS or Congress to revise existing lease terms would raise serious potential breach of contract issues and the possibility of extensive litigation. Furthermore, if we were to seek retroactively to change the terms of existing leases, we believe that potential bidders would be more likely to bid less and on fewer leases at future sales, more than offsetting any additional rental revenues that might be collected.

Consequently, we believe that retroactive changes in terms of existing leases are counter-productive if not illegal, but as stated under the first recommendation, we will continue to evaluate prospective changes to lease terms for future lease sales.

In the case of the second category of leases, Congress intended to provide economic incentives to encourage owners of marginal properties to undertake development and production activities that would not be profitable at lease royalty rates. MMS has written guidelines in accord with Congress' purpose, which permit it to determine financial terms on any non-producing lease granted royalty relief. That determination is made as appropriate on a case-by-case basis.

The provisions of the current program mandated by the DWRRA will sunset in November 2000. MMS already has begun an effort to design a follow-on program. In this process, we will carefully consider the rental issues raised in this report. We believe that these issues can best be dealt with in a comprehensive fashion rather than trying to impose new rental terms on existing contractual and financial arrangements.

Again, thank you for the opportunity to provide comments on the report.

STATUS OF EVALUATION REPORT RECOMMENDATIONS

Finding/ Recommendation Reference	Status	Action Required
1 and 2	Unresolved.	Provide responses to the revised recommendations stating concurrence or nonconcurrence. If concurrence is indicated, provide action plans that include target dates and titles of the officials responsible for implementation. If nonconcurrence is indicated, provide reasons for the nonconcurrence.

ILLEGAL OR WASTEFUL ACTIVITIES SHOULD BE REPORTED TO THE OFFICE OF INSPECTOR GENERAL

Internet/E-Mail Address

www.oig.doi.gov

Within the Continental United States

U.S. Department of the Interior
Office of Inspector General
1849 C Street, N.W.
Mail Stop 5341
Washington, D.C. 20240

Our 24-hour
Telephone HOTLINE
l-800-424-508 1 or
(202) 208-5300

TDD for hearing impaired
(202) 208-2420 or
l-800-354-0996

Outside the Continental United States

Caribbean Region

U.S. Department of the Interior
Office of Inspector General
Eastern Division - Investigations
4040 Fairfax Drive
Suite 303
Arlington, Virginia 22203

(703) 235-9221

North Pacific Region

U.S. Department of the Interior
Office of Inspector General
North Pacific Region
415 Chalan San Antonio
Baltej Pavilion, Suite 306
Tamuning, Guam 96911

(67 1) 647-6060

Toll Free Numbers:
1-800-424-5081
TDD 1-800-354-0996

FTS/Commercial Numbers:
(202) 208-5300
TDD (202) 208-2420

HOTLINE

1849 C Street, N.W.
Mail Stop 5341
Washington, D.C. 20240