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**SUPPLEMENTARY INFORMATION:**

*Title:* "Royalty-in-Kind Pilot Program—Offers, Financial Statements and Surety Instruments for Sales of Royalty Oil and Gas."

*OMB Control Number:* 1010-0129.

*Bureau Form Number:* None.

*Abstract:* The Secretary of the U.S. Department of the Interior (DOI) is responsible for collecting royalties from lessees who produce minerals from leased Federal and Indian lands. The Secretary is required by various laws to manage mineral resources production on Federal and Indian lands, collect the royalties due, and distribute the funds in accordance with those laws. MMS performs the royalty management functions for the Secretary.

Taking and selling of the Government's royalty share in the form of production or "in kind" (RIK) is authorized by the Mineral Leasing Act (MLA), 30 U.S.C. 192, for onshore leases and the Outer Continental Shelf Lands Act (OCSLA), 43 U.S.C. 1353, for offshore leases. Recommendations in an MMS 1997 Feasibility Study concluded that, under the right conditions, RIK could be workable, revenue positive, and administratively more efficient for Government and industry. Pursuant to the 1997 study's recommendations, MMS is conducting the following pilots.

- For oil from Federal leases in Wyoming which began October 1, 1998;
- For gas from Federal leases offshore the State of Texas [Texas 8(g)] which began December 1, 1998;
- For gas from Federal offshore leases in the Gulf of Mexico (GOM) Region which began in October 1999. This will involve the largest production volumes; and

- For oil from Federal offshore leases in the GOM Region which began in October 2000.

In addition to the above pilots, on November 6, 2001, President Bush announced an initiative to refill the Strategic Petroleum Reserve (SPR). MMS, in coordination with the Department of Energy (DOE), entered into a joint, 3-year initiative to fill the remaining capacity of the SPR. Operators of Federal leases in the GOM will deliver royalty oil to MMS' exchange partner at or near the lease. MMS's exchange partner will then deliver similar quantities of crude oil to MMS or its designated agent at Gulf Coast market centers. MMS's designated agent will be either DOE or its exchange contractor. DOE will then contract for exchange or direct movement of exchange oil to the SPR.

The feasibility and cost-effectiveness of MMS providing RIK production direct to other Federal agencies for their consumption is also being investigated in conjunction with the pilots.

MMS, as the responsible steward of Federal mineral revenues, is conducting the pilot programs of oil and gas RIK sales and investigation of direct Federal consumption to show conclusively whether or not RIK is viable for the Federal Government, and, if so, how, when, and where it makes sense to exercise the RIK option.

*Offers, Financial Statements and Surety Instruments for Sales of Royalty Oil and Gas.* The collections of information addressed in this ICR are necessary because the Secretary of the Interior is obligated to hold competition when selling to the public to protect actual RIK production before, during, and after any sale, and obtain a fair return on royalty production sold. MMS must fulfill those obligations for the Secretary. The reporting requirements are as follows:

- a. The actual offers that potential purchasers will submit when MMS offers production for competitive sales;
- b. Offerors' statements of financial qualification; and

- c. Surety Instruments, such as a Letter of Credit (LOC), Bond, prepayment, or Parent Guaranty.

MMS has also re-evaluated the need for two reporting requirements that were approved by OMB in the last ICR submission and has decided that this information is no longer needed. These reporting requirements are (1) Form MMS-4440, Summary of Receipt and Delivery Volumes, and (2) Report of Gas Analysis. Also, the subject heading "LOC" has been changed to the more generic heading "Surety Instruments" to capture the broader field of financial instruments that may be collected under this ICR, such as Bonds, prepayments, and Parent Guarantees. That is, an LOC is just one of the many types of surety instruments used by MMS that provide a safeguard against non-payment by a respondent under an RIK contract.

No proprietary information will be submitted to MMS under this collection. No items of a sensitive nature are collected. The requirement to respond is required to obtain or retain benefits.

For clarification purposes, we have also changed the title of this ICR from "Bids and Financial Statements for Sale of Royalty Oil and Gas (RIK Pilots) (Form MMS-4440) to "Royalty-in-Kind Pilot Program'Offers, Financial Statements and Surety Instruments for Sales of Royalty Oil and Gas."

*Frequency of Response:* On occasion.

*Estimated Number and Description of Respondents:* 80 oil and gas companies.

*Estimated Annual Reporting and Recordkeeping "Hour" Burden:* 940 hours.

*The following chart shows the breakdown of the estimated burden hours:*

RESPONDENT ANNUAL BURDEN HOUR CHART

Royalty-in-kind pilot projects	Reporting requirements	Burden hours per response	Annual number of responses	Annual burden hours
	Offers .....	1	840	840
	Financial Statements .....	1	20	20
	Surety Instruments .....	4	20	80
	.....	Total	880	940

(NOTE: A respondent is counted each time they respond. Unsuccessful offerors will submit only 2 responses.)

*Estimated Annual Reporting and Recordkeeping "Non-hour Cost" Burden:* We have identified no "non-hour" cost burdens.

*Comments:* The PRA (44 U.S.C. 3501, *et seq.*) provides an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a

currently valid OMB control number. Before submitting an ICR to OMB, PRA Section 3506(c)(2)(A) requires each agency " \* \* \* to provide notice \* \* \* and otherwise consult with members of