

U.S. DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

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SUBJECT: Financial Accountability and Risk Management (FARM) Program

EXPLANATION OF MATERIAL TRANSMITTED:

This document establishes policy and responsibilities for the Minerals Management Service (MMS) Financial Accountability and Risk Management (FARM) Program. It sets overall national policy and establishes the responsibility for program implementation and management.

FILING INSTRUCTIONS:

Remove:

IPD 07-05 -

Financial Accountability
and Risk Management
(FARM) Program

INSERT:

MMSM Part 640.1-

Financial Accountability
and Risk Management
(FARM) Program

Director
Minerals Management Service

OPR: Offshore Regulatory Programs

Minerals Management Service Minerals Management Service Manual

Effective Date: J

Series: Offshore Program

Part: 640 – Rules and Operations

Chapter: 1 - Financial Accountability and Risk Management (FARM) Program

Originating Office: Office of Offshore Regulatory Programs, Offshore Minerals Management

1. Purpose. This document establishes policy and responsibilities for the Minerals Management Service (MMS) Financial Accountability and Risk Management (FARM) Program. It sets overall national policy and establishes the responsibility for program implementation and management.

2. Objectives.

A. This Manual Chapter outlines the regulatory authority that MMS has to implement a system to protect the U.S. Government from incurring financial losses due to an entity's failure to meet its lease, grant (e.g., right-of-way) or permit (e.g., deep stratigraphic test well) obligations on the outer continental shelf (OCS).

B. The MMS has an obligation to ensure that procedures followed in determining an entity's financial strength and in assessing financial security provide for fair, consistent, and appropriate treatment of entities conducting activities on the OCS.

3. Authority.

A. OCS Lands Act, as amended (43 U.S.C. 1331-1356)

B. Federal Oil and Gas Royalty Management Act of 1982, as amended (30 U.S.C. 1701 et seq.)

C. Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (110 Stat. 1700, as corrected by 110 Stat. 2421)

4. References.

A. Regulations: Leasing of Sulphur or Oil and Gas in the Outer Continental Shelf (30 CFR 256).

B. Regulations: Oil and Gas and Sulphur Operations in the Outer Continental Shelf (30 CFR 250).

C. National Notice to Lessees and Operators (NTL) No. 2003-N06 titled “Supplemental Bond Procedures.”, effective 6/17/2003, or subsequent NTL’s that supersede and replace any NTL’s pertaining to Supplemental Bonding.

D. Gulf of Mexico OCS Region Notice to Lessees and Operators (NTL) No. 2000-G16 titled “Guidelines for General Lease Surety Bonds.”, effective 9/7/2000, or subsequent NTL’s that supersede and replace any NTL’s pertaining to General Bonding.

E. MMS Financial Accountability and Risk Management (FARM) Program Policy and Procedures Guidebook

5. Definitions.

A. A General Bond is the initial financial instrument required by MMS to guarantee an entity will meet its lease, grant or permit obligations

B. A Supplemental Bond is an additional financial instrument required by MMS of an entity when MMS has determined that the General Bond or the entity’s financial strength does not sufficiently guarantee compliance with the obligations of its leases, grants or permits.

6. **Policy.** It is the policy of MMS that:

A. The FARM Program is the system that MMS has developed to protect the U.S. Government from incurring financial loss if entities fail to meet their OCS lease, grant or permit obligations and to ensure that entities conducting activities on the OCS have the financial strength and/or security to meet their lease, grant or permit obligations

B. The FARM Program will be administered in a way that maximizes the U.S. Government’s protection from incurring financial losses, should entities fail to meet their lease, grant or permit obligations.

C. Entities will post a General Bond, per MMS requirements, for each lease, grant and permit as a minimum guarantee to MMS that the entities will meet their obligations.

D. Entities will post a Supplemental Bond, per MMS requirements, when MMS determines that the entities holding a lease, grant or permit do not have sufficient financial strength or financial security to meet all of their obligations.

E. The MMS Financial Accountability and Risk Management (FARM) Program Policy and Procedures Guidebook describes the operating controls and standard operating procedures for the FARM Program. These procedures will be adhered to by each Region and program area at all levels of the organization.

7. Responsibilities.

A. Associate Director for Offshore Minerals Management is responsible for ensuring that appropriate resources are made available to meet the objectives of the MMS FARM Program.

B. Chief, Office of Offshore Regulatory Programs is responsible for:

(1) Ensuring the objectives of the FARM Program are met and coordinating with Headquarters, Minerals Revenue Management and regional management to ensure MMS policies are carried out.

(2) Appointing one employee to serve as the National FARM Program Coordinator.

C. National FARM Program Coordinator is responsible for:

(1) Coordinating with Chief, Office of Offshore Regulatory Programs and the Regional FARM Program Coordinators to ensure proper administration of the FARM Program.

(2) Keeping Headquarters management and the Regions informed of policies, procedures, and issues that may affect the FARM Program.

D. Regional Directors/Manager are responsible for:

(1) Ensuring the implementation of the FARM Program in their respective Regions is consistent with the objectives of the program and MMS policies.

(2) Approving bonds and termination of bond liability including approving the replacement, termination, and cancellation of bonds.

(3) Ensuring that appropriate resources are made available to support the program.

(4) Appointing the Regional Supervisor(s)/Program Office Chief(s) responsible for administering the Regional FARM Program.

(5) Ensuring that the appropriate Regional Supervisor(s) and/or Program Office Chief(s) appoint personnel to serve as the Regional Decommissioning Assessment Coordinator and/or the Regional Farm Program Coordinator, as appropriate.

E. Regional Supervisor(s)/Program Office Chief(s) are responsible for:

(1) Ensuring proper administration of the FARM Program in their respective Region.

(2) Ensuring an effective process is in place to obtain General Bonds for all leases, grants and permits.

(3) Ensuring an effective process is in place to identify when Supplemental Bonds are warranted and to obtain such bonds.

(4) Ensuring the proper establishment and monitoring of Treasury Notes held by the Federal Reserve, lease specific abandonment accounts, and other agreements.

(5) Appointing personnel to serve as the Regional Decommissioning Assessment Coordinator and/or the Regional Farm Program Coordinator, as appropriate

F. Regional FARM Program Coordinators are responsible for:

(1) Ensuring that the FARM Program, in their respective Region, is implemented and conducted in accordance with the objectives of the program.

(2) Coordinating with regional management, the Regional Decommissioning Assessment Coordinator, adjudication staff, and the National FARM Program Coordinator, concerning the evaluation of the financial strength of entities to meet their obligations.

(3) Recommending a supplemental bond requirement to regional management if it is determined that an entity's financial strength is not sufficient to guarantee it can meet all of its obligations.

(4) Coordinating the approval, replacement, termination, and cancellation of supplemental bonds; monitoring the status of lease specific abandonment accounts including phased accounts; and alerting management and seeking timely resolution of problems and issues that may arise.

G. Regional Decommissioning Assessment Coordinators are responsible for:

(1) Coordinating the calculation of decommissioning and site clearance costs for all OCS facilities, including platforms, wells, pipelines, power cables and offshore support facilities.

(2) Coordinating with experts inside and outside MMS to obtain the latest cost information and alerting management and seeking timely resolution of problems and issues that may arise.

Director
Minerals Management Service