

Non-viable tracts and Fair Market Value

During the 2008 Election there was considerable out cry about the large number of leases which were not being produced. For example in February 2010, only about 22% of the active leases were in a production status in the Gulf of Mexico. A major cause of the excess leasing is acceptance of bids on non-viable tracts. In Sale 210 there were 162 tracts bid on. 130 tracts were accepted as non-viable. So MMS has determined about 80% of the tracts bid are not viable from a geologic prospective. The agency has invested millions in GIT to make such determinations.

Now consider the non-viable decision by the agency.

First assume the agency is correct that the tract is non-viable. What public purpose does leasing a tract which does not contain hydrocarbons? Why are scarce public and private resources being funneled into support of a lease which will not produce?

Oil and Gas exploration is a high risk process. Obtaining a non-viable tract is comparatively cheap and they have long lease terms. There is a chance that the lease owner could get lucky. Sometime during the lease term new information could be revealed, such as a discovery nearby the lease. The lease owner has a windfall.

Second case assume agency is wrong on the non-viable determination. Private sector GIT is likely to be better than agency GIT. So private sector would have a significant information advantage. In this case the agency is unlikely to obtain fair market value.

Consider lease G14205 with a bid of \$412,000 which was accepted as non-viable. On this lease is Nansen field which the agency estimated to have well over 200 million BOE of reserves. This is not the only example. G15604 was accepted as non-viable with bid of \$391,555. This lease is part of the Atlantis field. Atlantis has reserves over 600 million BOE. In 2009 the top 4 oil producing leases (G16641, G20082, G20084, G20085) issued under the Deepwater Royalty Relief Act all were classified as non-viable by MMS. These four leases are located on the Blind Faith, Tahiti, and Shenzi fields.

Summarizing the situation with non-viable leases. There are a lot of them. Those leases which have a correct label as non-viable don't serve a public purpose. If the agency is wrong about the non-viable determination, then the agency is at an information disadvantage and can not effectively insure fair market value. This is demonstrated by the discovery of very large fields on non-viable leases.

The current Fair Market Value process of handling of non-viable tracts has a major problem which the agency needs to address.

Ted D. Tupper
PO Box 504
Pine Beach, NJ 08741