

**Minerals Management Service  
Interim Policy Document**

**Effective Date:** September 20, 2007

**IPD No: 07-09**

**Program:** Offshore Minerals Management (OMM)

**Title:** Internal Procedures and Responsibilities for Ensuring Receipt of Fair Market Value (FMV) for Outer Continental Shelf (OCS) Oil and Gas Leases

**Originating Office:** Resource Evaluation Division (RED), OMM

**1. Purpose.** This Interim Policy Document (IPD) establishes procedures and responsibilities for implementing the FMV process and bid adequacy procedures for OCS oil and gas lease sales.

**2. Objectives.** The objective of the FMV process and bid adequacy procedures is to ensure that the public receives a fair return for OCS oil and gas leases, as well as assuring that available Minerals Management Service (MMS) resources are used efficiently in performing this function.

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

**4. References.**

A. Modifications to the Bid Adequacy Procedures (Federal Register, Volume 64, Number 132, MMS, July 12, 1999).

B. Instructional Memorandum for Fair Market Value (FMV) Process and Bid Adequacy Procedures (Associate Director for OMM, August 20, 2007).

**5. Definitions.**

A. Adjusted Delayed Value (ADV) is the minimum of the Mean Range of Values and the Delayed Mean Range of Values.

B. Delayed Mean Range of Values (DMROV) is a measure that is used to determine whether the high bid received plus royalty receipts expected in the current sale is at least equal to the discounted sum of the bonus and royalties expected on the tract in the next sale. The bonus for the next sale is computed as the MROV associated with the delay in leasing under the projected economic, engineering, and geological conditions, including drainage.

C. Fair Market Value (FMV) is the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would be sold by a knowledgeable owner willing but not obligated to sell to a knowledgeable purchaser who desired but is not obligated to buy. This market value which is sought is not merely theoretical or hypothetical but it represents, insofar as it is possible to estimate it, the actual selling price.

D. Mean Range of Values (MROV) is a dollar measure of the MMS estimate of a tract's expected net present private value, given that the tract is leased in the current sale.

E. Nonviable Tract/Prospect is a geographic/geologic configuration of hydrocarbons whose risk-weighted, most probable resource size is below the minimum economic field size (MEFS) for the relevant cost regime and anticipated future prices. The level of geologic risk used in this analysis is below the lowest level anticipated for any tract or prospect in the same cost regime.

F. Qualified Bids are the legal, non-anomalous bids received on a tract.

G. Revised Arithmetic Average Measure (RAM) is the arithmetic average of the MROV and all qualified bids on the tract that are equal to at least 25 percent of the high bid.

H. Viable Tract/Prospect is a tract or prospect that has not been determined to be nonviable. A tract or prospect is presumed viable until an appropriate analysis has demonstrated that it meets the nonviable criteria.

## **6. Responsibilities.**

A. Director, MMS is responsible for making a final decision on company appeals for reconsideration of rejected high bids.

B. Chief, RED is responsible for developing and executing a National Geological and Geophysical (G&G) Data Acquisition Plan for each fiscal year; providing guidance related to implementation of the FMV procedures; and appointing representation on any bid appeal review team that may be necessary.

C. Chief, Economics Division (ED) is responsible for developing sale-specific economic parameters and price thresholds for use in the MONTCAR resource economic evaluation modeling software; assisting Resource Evaluation (RE) Regional Supervisors with the identification and treatment of anomalous bidding patterns; providing guidance related to implementation of the FMV procedures; and appointing representation on any bid appeal review team that may be necessary.

D. Regional Directors are responsible for identifying any illegal or unusual bidding patterns and accepting or rejecting the qualified high bids received on tracts offered for lease.

E. RE Regional Supervisors are responsible for prioritizing potential G&G data acquisitions for inclusion in the National G&G Data Acquisition Plan; preparing appropriate memoranda and supporting documentation to the Regional Director recommending the acceptance or rejection of high bids received on tracts offered for sale.

F. Chief, Resource Evaluation Methodologies (REM) Branch is responsible for coordinating the modification, testing, training, documentation and release of the official version of MONTCAR modeling software that conforms with appropriate statutes, regulations and policies; and reviewing draft sale-specific economic parameters and price threshold memoranda.

G. Regional G&G Section Chiefs and Resource & Economic Analysis Section/Unit Chiefs are responsible for conducting presale lookback studies; evaluating potential newly available tracts for upcoming lease sales; updating presale Geographic Information System (GIS) database(s); reviewing draft sale-specific economic parameters and price threshold memoranda; validating oil and gas drilling and development costs and activity schedule assumptions; developing appropriate estimates of MEFS (Gulf of Mexico Region only); running postsale reports and identifying tracts subject to the appropriate number-of-bids rule; evaluating the adequacy of available seismic information and alternative sources for this information; identifying unusual (including anomalous) bidding patterns; completing the Phase 1 evaluation of all high bids; completing the Phase 2 determinations of bid adequacy; providing appropriate supporting material to the RE Regional Supervisor for the preparation of bid acceptance/rejection recommendations memoranda; and distributing and archiving official MONTCAR modeling software input and output files.

## **7. Procedures.**

A. The bid evaluation process consists of two phases designed to distinguish those bids that reflect market forces and which can be relied upon to assure receipt of fair market value and those bids that require further detailed analysis. These procedures consider both market-oriented evaluation criteria and an independent Government determination of tract value. The procedures are included as Reference Document A: Modifications to the Bid Adequacy Procedures (Federal Register Volume 64, Number 132, MMS, July 12, 1999).

B. In addition to the two phase evaluation of bids, the FMV process requires the completion of a number of additional tasks, including the identification and treatment of unusual bidding patterns. A summary of each task is itemized below. The responsible office for each task is listed above in the Responsibilities paragraph. The complete procedures and responsibilities are detailed in Reference Document B: Instructional Memorandum for Fair Market Value (FMV) Process and Bid Adequacy Procedures (Associate Director for OMM, August 20, 2007).

C. Instructions

### **(1) Presale Instructions**

(a) Perform Presale Lookback Study – to identify long-term industry trends and highlight opportunities to refine or improve MMS evaluations and decisions. Completed prior to a subsequent sale in the same program area.

(b) Identify Potential Newly Available Tracts for Upcoming Lease Sales – that were recently returned to inventory and are available for leasing. Completed prior to a subsequent sale in the program area, if adequate time is available between sales.

(c) Update Presale GIS Database – to generate probability distributions for geologic and engineering input parameters used in MEFS analysis and MONTCAR modeling software. Updated no later than 30 days prior to a sale in program area.

(d) Develop a National G&G Data Acquisition Plan – to prioritize G&G data acquisitions necessary to support FMV determinations, resource assessment activities, reserve inventory studies, and other special projects and studies. Submitted prior to the start of each fiscal year and ongoing throughout.

(e) Coordinate Modifying, Testing, and Release of the Official Version of MONTCAR Modeling Software – to ensure conformance with current decision theory, statistical and evaluation techniques, and appropriate statutes, regulations and policies; and to ensure satisfactory operational performance of the model. Released to OCS Regions no later than 60 days prior to a scheduled sale date.

(f) Develop Sale-Specific Economic Parameters and Price Thresholds – for use in MONTCAR modeling software. Draft documentation submitted 45 days prior to a sale; final documentation submitted 30 days prior to a sale.

(g) Validate Oil and Gas Drilling and Development Costs and Activity Schedule Assumptions – against industry publications, reports from other Government agencies, internal MMS records, and additional sources for use in MONTCAR modeling software. Ongoing throughout the year.

(h) Develop Estimates of MEFS for Viability Determinations (GOMR only) – for use in Phases 1 and 2 of the sale for tract viability analysis. Analysis begins upon receipt of final economic parameters memorandum, no later than 30 days prior to a sale; final MEFS analysis completed by sale date.

## **(2) Postsale Instructions**

(a) Run Postsale Reports and Determine the Number of Qualified Bids – to identify tracts subject to the number-of-bids rule and those meeting requirements for comparison to the RAM. Performed 2 days after a sale.

(b) Coordinate and Monitor the Submission, Inspection, and Selection of Geophysical Data and Information Collected on Tracts Receiving Bids and Processed or Reprocessed by a Permittee or a Third Party – to assess the adequacy of available information to identify and delineate potential prospects. Ongoing through the postsale period.

(c) Identify Any Unusual (Anomalous) Bidding Patterns – that may occur on any set of tracts, and after consultation with the Solicitor, determine if the affected tracts should be passed to Phase 2 for further evaluation. Identification must be completed prior to the acceptance of any high bid in Phase 1. Any affected tracts passed to Phase 2 will be evaluated as part of the Phase 2 determinations, generally completed within 90 days of the sale date.

(d) Complete the Phase 1 Evaluation of All Blocks Receiving Bids – and document Phase 1 bid acceptance recommendations, tract-specific FMV determination data, and viability information in the Technical Information Management System (TIMS). Recommendation from RE Regional Supervisor to Regional Director completed within 14 days after the sale date; Regional Director decision within 21 days after the sale date.

(e) Complete Phase 2 Determinations of Bid Adequacy – performing G&G evaluations as deemed appropriate. Perform a MONTCAR discounted cash flow analysis on potentially viable prospects. Tracts identified as having no economically viable prospect are recommended for award to the high bidder. Generally completed within 90 days after the sale date.

(f) Prepare Phase 2 Acceptance/Rejection Recommendations Memoranda – along with appropriate supporting material. After review, the RE Regional Supervisor prepares a memoranda to the Regional Director recommending acceptance or rejection of the high bids. Upon final approval by the Regional Director, acceptance letters and rejection notifications are prepared and distributed to the bidders. Completed periodically 21 to 90 days after the sale.

(g) Appoint a Review Team to Evaluate Company Appeals for Reconsideration of Rejected High Bids – and to prepare a recommendation and record of decision for the Director, MMS. Final decisions are not bound by a specific time frame.

(h) Distribute and Archive MONTCAR Input and Output Files – for documentation of the evaluations and future reference. All files are compiled and distributed to RED for archival. Completed after all Phase 2 decisions and the bid appeal processes have been completed.

**8. Cancellation.** This IPD will remain in effect until incorporated into the MMS Manual, cancelled, or superseded with another IPD.

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