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DEPARTMENT OF THE INTERIOR
Minerals Management Service

Modification to the **Bid Adequacy** Procedures

AGENCY: **Minerals Management Service**, Interior.

ACTION: Notification of procedural changes.

SUMMARY: The **Minerals Management Service** (MMS) has modified its existing **bid adequacy** procedures for ensuring receipt of fair market value on Outer Continental Shelf (OCS) oil and gas leases. This procedure eliminates in Phase 1 the number of bids rule, which effectively allowed for immediate acceptance of high bids on confirmed or wildcat tracts receiving three or more bids.

DATES: This modification is effective March 29, 1996.

FOR FURTHER INFORMATION CONTACT: Dr. Marshall Rose, Chief, Economic Evaluation Branch; **Minerals Management Service**; Mail Stop 4220, 381 Elden Street, Herndon, Virginia 22070-4817; telephone: (703) 787-1536.

SUPPLEMENTARY INFORMATION: Previous changes in the February 1983 **bid adequacy** procedures were made in February, March, and July 1984, May 1985, and May 24, 1991 (56 FR 23978). The following complete set of **bid adequacy** procedures incorporates those earlier changes and this most recent change.

The MMS uses a two-phase process to determine **bid adequacy**. In Phase 1, we classify tracts into two groups: drainage and development or wildcat and confirmed. The MMS also identifies nonprospective tracts, i.e., those tracts judged not to be located on a viable

prospect. All legal high bids \1\ on such nonprospective tracts are accepted. The MMS passes the high bids on all other tracts directly to Phase 2 for further evaluation. Phase 1 is conducted tract-by-tract and is generally completed within 2 weeks of the **bid** opening.

\1\ ``Legal high bids" mens those high bids which comply with MMS regulations and the Notice of Sale.

Phase 2 applies criteria designed to further determine **bid adequacy** on a tract-specific basis. Prospective wildcat and confirmed tracts that are not accepted in Phase 1 may receive further mapping and/or analysis in Phase 2. Subsequently, MMS reviews the viability determinations of these tracts. Those wildcat and confirmed tracts later determined to be nonviable can be eliminated from the set of tracts undergoing a full-scale MONTCAR evaluation and the high bids on them accepted. The remaining tracts, including all drainage and development tracts, receive further evaluation by comparing the high bids with the Mean Range of Values (MROV) and the Adjusted Delay Value (ADV). In addition, if in the judgment of the Regional Director a tract is or may be subject to drainage, the relevant costs due to delays associated with **bid** rejection are considered in computing the ADV.

All drainage and development tracts which received three or more adjusted bids \2\ and prospective wildcat and confirmed tracts which received two or more adjusted bids will be compared with the Geometric Average Evaluation of Tract (GAEOT). For drainage and development tracts, the GAEOT will not be used when the high **bid** is equal to or less than one-sixth of the MROV.

\2\ Anomalous bids are not included in the **bid** number in Phase 2. Anomalous bids include all but the highest **bid** submitted for a tract by the same company, bidding alone or jointly, and the lowest **bid** on a tract when it is less than one-eighth of the next lowest **bid**. The ``one-eighth rule" can exclude no more than one **bid** for a given tract.

The MMS conducts most evaluations based upon data and analysis available at the time of the sale. However, we may gather additional data and perform further analyses after the sale at the discretion of the Regional Director to ensure a fair return to the Government.

The MMS normally completes the **bid adequacy** recommendations for acceptance/rejection developed in Phase 2 sequentially over a period ranging between 14 and 90 days after the sale. Upon acceptance, the high bidders must pay the balance of the bonus **bid** (80 percent) along with the first year's annual rental within 15 days. The MMS returns the

deposits, with interest, on all rejected high bids.

Dated: March 22, 1996.

Thomas Gernhofer,

Associate Director for Offshore **Minerals Management**.

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