Fair Market Value Determination

Assuring receipt of Fair Market Value (FMV) on OCS lands is mandated by the OCS Lands Act and its amendments and is a critical responsibility of the Resource Evaluation Program. The determination of FMV entails assessing the oil and gas potential and fair market value of OCS tracts offered for lease. These tracts are offered through sales that are conducted in accordance with the National OCS Oil and Gas Leasing Program.

BOEM uses a two-phase post-sale bid evaluation process to assess the adequacy of bids received for the lease sales. Under its bid adequacy procedures, the Bureau reviews all high bids received and evaluates all blocks using either tract-specific bidding factors or detailed tract-specific analytical factors to ensure that fair market value is received for each OCS lease issued. The bid adequacy process relies on both evidence of market competition and in-house estimates of tract value. The tract values are estimated using a discounted cash flow analysis. For a detailed description of the bid adequacy procedures refer to Fair Market Value**.** For more details on the discounted cash flow analysis please refer to the Fair Market Valuation Methodology section.

In general, the tract evaluation process consists of a two-phase evaluation process as described below:

Phase 1 is conducted on a tract-by-tract basis and is normally completed fairly early after the lease sale is completed. It is designed to accept those high bids where the competitive market can be relied upon to assure receipt of FMV or where Government data indicate the tract does not contain viable prospect.

Those high bids not accepted in Phase 1 receive further evaluation in Phase 2. These tracts are subject to a full scale resource and economic evaluation to determine if each tract's highest qualified bid is representative of fair market value. The government's value is determined using a cash flow simulation model to generate up to four measures of bid adequacy. A tract's highest qualified bid is then compared to the applicable measures of bid adequacy, and if that bid exceeds any of these measures, BOEM may accept the highest qualified bid as representative of fair market value for the tract. Some examples of the model inputs include the amount of recoverable resources, recovery factors, production profiles, exploration and development costs, operating costs, and revenue streams.

The computer simulation model used for assessing the tract value incorporates geologic and economic risks. Most analyses are undertaken based upon data available at the time of the sale; however, additional geophysical and geological data may be obtained after the sale at the discretion of the Regional Director (RD). The Phase 2 bid adequacy determinations are completed sequentially over a period normally ranging between 21 and 90 days after the sale. If necessary, the total evaluation period can be extended at the RD's discretion.

See Fair Market Valuation Methodology for a complete discussion of Phase 2. For additional information on Fair Market Value Determination see the BOEM Energy Economics page.