

Private mineral owners in southeast Wyo plan public auction

Private mineral owners in southeast Wyoming plan mineral lease public auction

By DUSTIN BLEIZEFFER - Star-Tribune energy reporter | Posted: Thursday, July 29, 2010



This map depicts where the Niobrara geological formation is most likely to contain oil deposits. Much of the recent interest in the Niobrara is in northern Colorado, eastern Nebraska and southeastern Wyoming. Industry officials say not everything in this area will be productive or even drilled. (Source: Modified from 'Atlas of Major Rocky Mountain Gas Reservoirs,' 1993/Colorado Geological Survey)

Many landowners and private mineral lease owners in southeastern Wyoming have hopes of striking it rich in the Niobrara oil play.

But those who haven't already struck deals with oil developers must negotiate their way through a world of secrets, rumors and speculation.

Instead of simply waiting for companies to approach and make offers in private, a group of private mineral owners plans to offer parcels in a public auction. That way, according to one organizer, each private mineral owner can be assured a price that's truly reflective of the market.

"It's not to be greedy. It's about making a business decision. Through the auction we might just establish what a fair price means," said Ben Massion, who lives in Southern California but owns a share of land and minerals in Goshen County.

Massion said company representatives typically show up on doorsteps with a contract offer in one hand and a pen in the other, assuring their offers are generous. They share almost no information about what they're paying the neighbors. Even neighbors are suspicious of the dollar figures muttered at the coffee shop and at the mailboxes at the end of the lane.

"People are getting a little more savvy and are afraid of working directly with the companies," Massion said.

The only real market indicators people have to guess what their minerals might be worth are competitive auctions held by state and federal agencies. Private mineral owners look at what federal and state parcels close to their holdings sell for, then they use that as an indicator of who is interested in the area and what they're paying.

But why stop there? Massion said there's no reason private mineral owners shouldn't offer their lease parcels in an open, competitive bidding process as well.

"Based on the success of the state and federal land auctions through the auction process, we thought it might be worthwhile to set up our own auction," he said.

Recent state and federal lease auctions attracted hundreds of bidders, and many paid jaw-dropping prices for parcels in the Niobrara play. One state parcel went for \$3,200 per acre. A little more than a year ago, new oil drilling in the region wasn't even imaginable, and a mineral lease might have gone for \$10 per acre.

So far, Massion and his fellow landowners want to offer 14,000 acres scattered throughout southeastern Wyoming. That figure could change between now and the time of the auction, which Massion said will be sometime in September.

Just like federal and state mineral lease auctions, each lease parcel would be sold individually under contract – probably for a term of five years.

Massion said the intent of the private mineral lease auction is to assure the lease owners get a price that's truly reflective of the market. Outside a competitive bidding process, deals are struck on the basis of individual negotiating skills.

"However, this is not an infinite resource. Companies will make a decision based on economic value, and this is not a verifiable find yet," Massion said.

One fact the state and federal auctions confirmed is that the value of minerals in southeastern Wyoming varies greatly, depending on both the surface and the geology below. Several parcels in the state's July 8 auction received no bids at all. Some went for \$1 per acre and the highest \$3,200 per acre.

Landowners are boning up on their geology. Companies seem to be looking for areas where the Niobrara is deep and where there are natural fractures, which increase the chances of good initial oil flow.

Rod DeBruin, assistant director of the Wyoming State Geological Survey, said Exxon found some success in the Silo field north of Cheyenne in the mid-1980s. Some of those wells were first drilled vertically into the Niobrara formation, then drilled horizontally to intersect natural fractures to drain the hydrocarbons contained within.

"If you can get the Niobrara on a structure where it's been naturally fractured, your chances of getting some production is better," DeBruin said.

High hopes

Joe Guth, president of Platte Valley Bank in Torrington, said he visited with a local couple this week who recently leased their minerals.

"Some of these leases are as much or more than they paid for the property," Guth said. "Some people are putting it in the bank and some are paying off debts."

Guth said agriculture operations have mostly held steady in the recession. While most farms are relatively small, there are some large ranches in the region.

"But it takes (large acreage) to make that viable," Guth said.

Now oil and gas activity presents a new opportunity.

"I think people are optimistic, and I think it would be a great thing for Platte County," said Mona Sherard, owner of Sherard Realty Inc. in Wheatland and board member of Platte County Economic Development.

Sherard said investors from Casper and Cheyenne are making inquiries about potential rental properties in Wheatland.

The potential hot spots for drilling appear to be in the Niobrara formation between Cheyenne, Torrington and Wheatland, and in the Frontier formation between Glenrock and Lusk. Community and business leaders expect the oil activity will present some opportunities as well as challenges.

"We're working on what we're going to need and how to plan for it. Be proactive instead of reactive," Sherard said. "We're absolutely looking into what we can do and capitalize on some of it."

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Upcoming oil and gas lease auctions

* Aug. 3, bidding begins at 8 a.m. at the Holiday Inn in Cheyenne. The U.S. Bureau of Land Management is offering 83 parcels totaling about 92,000 acres scattered throughout much of Wyoming. For more information, go to http://www.blm.gov/wy/st/en/programs/energy/Oil_and_Gas/Leasing.html

* Aug. 4, bidding begins at 9 a.m. at the Herschler Building in Cheyenne. The Office of State Lands and Investments is offering 200 parcels scattered throughout much of Wyoming. For more information, go to <http://slf-web.state.wy.us>

* For information about a planned auction of private mineral holdings in September, contact Ben Massion at (818) 943-1122 or e-mail lsmp@earthlink.net.