

State's special sale targets interest in Niobrara oil play

Wyoming mineral lease sale nets \$42M

By DUSTIN BLEIZEFFER - Star-Tribune energy reporter | Posted: Tuesday, July 13, 2010

A special state mineral lease sale netted more than \$42 million for 287 parcels across southeast Wyoming where the oil industry is competing for acreage in the Niobrara oil play.

The highest price paid was \$3,200 per acre for a 314-acre parcel in Goshen County, by a company called Big Bear Oil & Gas. The same company, which has an address in Pleasanton, Texas, bought dozens of lease parcels -- several at more than \$2,000 per acre.

"Prior to this, those areas were getting from \$40 to \$70 per acre. You can imagine what prices have jumped to now," said Steven Degenfelder, senior vice president of exploration for Casper-based Double Eagle Petroleum.

But bidders didn't blindly throw down money on just any lease parcel. Most were armed with historic seismic and other geologic data that gave them an indication where good oil production is most likely to occur.

Degenfelder noted that 11 state lease parcels received no bids at all. Several parcels sold for \$1 and \$3 per acre.

"It's all geologically based on our best educated guess that we have," said Degenfelder.

Friday's state mineral lease sale was quickly organized after a sale in May brought in a record \$45.6 million in "bonus bids."

The state had already scheduled mineral lease sales for Aug. 4 and Nov. 3. Those lease sales will feature parcels scattered throughout the state, while Friday's special sale specifically catered to interest in the Niobrara oil play.

The Bureau of Land Management, which manages federally owned minerals throughout the nation, also conducts several oil and gas lease auctions each year. However, there are very few BLM-administered minerals in southeast Wyoming.

Most of the minerals are privately held, so last week's state mineral lease is believed to be an indicator of what companies are paying to private mineral owners.

The money paid for a mineral lease is referred to as the "bonus bid." It buys the lessee the right to develop the minerals. If no minerals are developed, the lease expires in five years. Additional severance taxes and royalties are paid if oil and gas are produced from the parcels.

Currently, there's a 6 percent severance tax rate for oil and natural gas produced in Wyoming. Wyoming also collects a royalty -- more than 16 percent on production from state leases. On federal lands, a royalty of 12.5 percent is split between the federal government and the state.

Counties also earn revenue from ad valorem taxes.

Harold Kemp, assistant director of the state's mineral leasing and royalty compliance division, said the real revenue opportunity for the state and local governments is if and when there's commercial production from the state parcels.

"That's the name of the game," said Kemp. "Everyone benefits from actual production."

Kemp said the state will make information about the August lease sale available on its website within a week.

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