United States Department of the Interior

BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT
Gulf of Mexico OCS Region
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

In Reply Refer To: GE 973E

August 17, 2020

Mr. Mickey W. Shaw
Atlantia Prometheus LLC
19219 Katy Freeway, Suite 260
Barker, Texas 77413

Dear Mr. Shaw:

By letter dated October 3, 2019, and emails dated January 8 through May 29, 2020, Atlantia Prometheus LLC (Atlantia Prometheus) requests a Suspension of Production (SOP) for the Alaminos Canyon Block 903 Unit (AC Block 903 Unit), Agreement No. 754320002. The AC Block 903 Unit consists of Leases OCS-G 33528, 33529, and 33530, and was held by the primary terms of the unitized leases through October 31, 2019.

BACKGROUND

Atlantia Resources, LLC (Atlantia Resources) is the parent company of Atlantia Prometheus, Atlantia Atlas LLC, AKC Gathering LLC, and two other subsidiaries. In a January 27, 2020, email, Atlantia Prometheus states that "[t]he Prometheus Development and all assets related to the development will be owned and operated by wholly owned subsidiaries of Atlantia Resources, LLC." Atlantia Prometheus also states that "[t]here will be no negotiations between the subsidiaries. All decisions have been made and the appropriate fees and tariffs are incorporated in the Atlantia Prometheus financial model… ." Of particular note, Atlantia Prometheus says that the proposed Floating Production Unit (FPU) and export system would be owned by other subsidiaries (Atlantia Atlas LLC and AKC Gathering LLC, respectively).

In January 8 and 27, March 23, and April 14, 2020, emails, Atlantia Prometheus asserts that it has a commitment to production, that it would build its own production facility, and that its proposed project is economically viable. Atlantia Prometheus provided economic information and estimates showing that the Atlantia Prometheus portion of the project, with certain expense burdens carried by other subsidiaries, would yield a positive Net Present Value (NPV) using a 10% discount rate.

In its April 14, 2020, email, Atlantia Prometheus also states that the facility it would allegedly build would have excess capacity that would "be offered to other operators in the area." In its email dated May 29, 2020, however, Atlantia Prometheus acknowledges that no executed agreements exist that would guarantee additional revenue from a third party utilizing the hypothetical facility.

ANALYSIS

Under 30 CFR 250.171(d), an SOP request must include a commitment to production (CTP), in addition to other items. In addition, guidance found in NTL No. 2019-G01 states that the operator should "demonstrate a firm commitment to produce the hydrocarbons that have been discovered by wellbore penetration." NTL No. 2019-G01 further states that demonstrating a CTP includes showing that "your project is an economic venture." When BSEE reviews the economics of a project for purposes of a CTP, it reviews them as a whole in order to ensure that the full scope of the project is an economic venture and not just a selected portion of it.

The cash flow model Atlantia Prometheus provides does not list construction of the FPU or the export system as a capital expenditure, as a company building its own production facility would normally do. Atlantia Prometheus contends this is appropriate because the proposed facilities would be owned by other subsidiaries of Atlantia Resources. In other words, Atlantia Prometheus says that other subsidiary companies would pay for the construction, and Atlantia Prometheus would compensate those other subsidiaries later by paying them usage fees. This method enables Atlantia Prometheus to avoid accounting for these large capital expenditures when they actually occur, and instead burdens the other subsidiary companies with them. Such an approach would be valid if the result was profitable for all parties (i.e., the usage fees were high enough to fairly compensate the other subsidiaries for their investments, including the time value of money), as would be the expectation in arms-length transactions. In its submission to BSEE, Atlantia Prometheus delays FPU and export system expenses until Year 5 in the cash flow model, when it then begins making hypothetical usage-fee payments to the other subsidiary companies. This modeling method improves the apparent Net Present Value (NPV) of the project from Atlantia Prometheus's perspective, but diminishes its NPV from the other subsidiaries' perspectives. Atlantia Prometheus's March 23, 2020, email acknowledges that the cost to design, fabricate, and install the FPU "is not utilized in the financial model. Instead, the financial model is based on allocation of FPU costs based on production handling fees... ."

BSEE performed an independent economic analysis and estimated the NPVs (using a 10% discount rate) from the perspective of the parent company, Atlantia Resources, and the three relevant subsidiaries (Atlantia Atlas LLC, AKC Gathering LLC, and Atlantia Prometheus). Based on the data provided by Atlantia Prometheus, the BSEE analysis found the project to be uneconomic for Atlantia Resources, Atlantia Atlas LLC and AKC Gathering LLC (i.e., the parent company and both of the other relevant subsidiary companies). Atlantia Prometheus seems to acknowledge the losses of the other subsidiaries in an April 14, 2020, email stating "cash flows from one subsidiary are available to cover any shortfalls from others." Although the cash flow yields a positive NPV for Atlantia Prometheus, the summation of cash flows for all three relevant subsidiaries results in a loss. In other words, the BSEE analysis (using data provided by Atlantia Prometheus) indicates that the overall project is uneconomic.

We conclude that Atlantia Prometheus did not demonstrate that its proposed project to produce the previously-discovered hydrocarbons would be an economic venture. Since the economic viability of a project is a prerequisite to a legitimate CTP, we further conclude that Atlantia

Prometheus did not demonstrate that it had a CTP before the date that the AC Block 903 Unit leases would otherwise expire (November 1, 2019).

DECISION

The decision whether to grant or not grant an SOP is at the discretion of the Regional Supervisor. *See Statoil* at 267. After consideration of all available information, we have determined that Atlantia Prometheus did not demonstrate that it had a CTP as of October 31, 2019, as required by 30 CFR 250.171(d). Therefore, your request for an SOP for the AC Block 903 Unit is hereby denied. Since Leases OCS-G 33528, 33529, and 33530 are beyond their primary terms, the AC Block 903 Unit terminated effective November 1, 2019. Therefore, pursuant to 30 CFR 250.1301(f), the aforementioned leases, which are beyond their primary terms, expired concurrently with the termination of the unit.

This decision may be appealed pursuant to 30 CFR Part 290. If you elect to appeal, a Notice of Appeal must be filed with this office and served on the Associate Solicitor, Division of Mineral Resources, within 60 days of receipt of this letter. If you have any questions regarding this matter, contact Ms. Natasha Bland at (504) 736-2528 or natasha.bland@bsee.gov.

Sincerely,

RICHIE
BAUD

Digitally signed by RICHIE BAUD
Date: 2020.08.17 13:58:11 -05'00'

Richie D. Baud
Regional Supervisor
Production and Development