

**OUTER CONTINENTAL SHELF
LEASE SALES: EVALUATION OF
BIDDING RESULTS**

**ANNUAL REPORT TO CONGRESS
FISCAL YEAR 2001**

**U.S. Department of the Interior
Minerals Management Service
Economics Division**

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Introduction

This report analyzes the two Gulf of Mexico (GOM) Outer Continental Shelf (OCS) oil and gas lease sales held in Fiscal Year (FY) 2001 pursuant to section 8 of the OCS Lands Act (OCSLA) [43 U.S.C. 1337].

The report's objectives are to review bidding results in FY 2001 and to present the schedule of lease sales for FY 2002. Cash bonus bidding with both 1/6- and 1/8-royalty rates was used in each GOM sale with a \$25 per acre minimum bid requirement in water depths less than 800 meters and a \$37.50 per acre minimum bid in water depths of 800 meters or more. In addition, in each sale, potential royalty suspension volumes for leases by water depth category and subject to price thresholds were set as follows:

- (1) 20 billion cubic feet per lease in water depths less than 200 meters on deep gas production where a new deep gas reservoir (15,000 feet or greater subsea) is drilled and starts production within the first five years of the life of the lease;
- (2) 9 million barrels of oil equivalent per lease in water depths of 800 to 1,599 meters; and
- (3) 12 million barrels of oil equivalent per lease in water depths of 1,600 meters or more.

Review of FY 2001 Lease Sales and Bidding Systems

Two OCS lease sales were held in FY 2001: Sale 178, Central Gulf of Mexico (CGOM) and Sale 180, Western Gulf of Mexico (WGOM). (Sale 178 in the CGOM was to have a second part in which 53 unleased blocks on the Amery Terrace protraction diagram (formerly referred to as the Western Gap) were offered. This portion of Sale 178 was to be held concurrently with Sale 180 on August 22, 2001. However, no bids were submitted for blocks offered in the second part of Sale 178.)

In the two GOM sales, 8,504 tracts (about 45.5 million acres) were offered, and 867 tracts (4.56 million acres) received bids. Of the tracts receiving bids, 97.7 percent (847 tracts) were leased. Sale results for the fiscal year are summarized in Table 1.

Table 1. Bidding Results for FY 2001 Lease Sales

	Sale 178 – CGOM (3/28/01)	Sale 180 – WGOM (8/22/01)	Total – FY 2001 (2 Sales)
Tracts Offered	4,390	4,114	8,504
- Receiving Bids	547	320	867
- Leased	534	313	847
- Rejected	2.38 %	2.19 %	2.31 %
Bids Received	780	386	1,166
Average Bids/Tract	1.43	1.21	1.34

Sum of All Bids	\$663,406,963	\$189,971,325	\$853,378,289
Sum of High Bids	\$505,468,501	\$165,571,777	\$671,040,278

Overall bidding results by royalty rate and water depth zone for the GOM sales held in FY 2001 are shown in Table 2. As in previous GOM sales, a water-depth criterion was used to assign royalty rates.

In the GOM, a fixed 1/6-royalty was specified in water depths of less than 400 meters and a fixed 1/8-royalty was specified in water depths of 400 meters or more. For water depths of 800 meters or more, the following royalty suspension volumes, subject to a price threshold were offered: (1) 9 million barrels of oil equivalent per lease in water depths of 800 to 1,599 meters and (2) 12 million barrels of oil equivalent per lease in water depths of 1,600 meters or more.

Table 2 indicates that the majority of tracts receiving bids in FY 2001 GOM sales were shallow water tracts with 1/6-royalty rates. These tracts received a higher number of average bids per tract than deepwater tracts with 1/8-royalty rates. The average high bid per tract for the 1/8-royalty tracts was about 149 percent higher than that observed for the 1/6-royalty tracts. The 1/6-royalty tracts (less than 400 meters) accounted for 57.2 percent of tracts receiving bids, 57.4 percent of tracts leased, and 34.9 percent of high bids received in the two FY 2001 GOM lease sales. Conversely, the 1/8-royalty tracts (400 meters or more) accounted for 42.8 percent of tracts receiving bids, 42.6 percent of tracts leased, and 65.1 percent of high bids received. As shown in Table 3, the mean high bid of \$0.77 million per tract receiving a bid was a decrease of 3.7 percent compared to the FY 2000 sales.

Table 2. GOM Lease Sale Bidding Results for FY 2001 by Royalty Rate

FY 2000 (2 Lease Sales)	Fixed 1/6-Royalty		Fixed 1/8-Royalty			Total
	Less than 200 meters	200 to 400 meters	400 to 800 meters	800 to 1,600 meters	More than 1,600 meters	
Tracts Receiving Bids	463	33	78	203	90	867
Tracts Leased	453	33	74	200	87	847
Bids Received	646	43	113	248	116	1,166
Average Bids/Tract	1.40	1.30	1.45	1.22	1.29	1.34
Tracts with Multiple Bids	25.92 %	24.24 %	29.49 %	15.76 %	15.56 %	22.72%
Sum of High Bids (\$MM)	\$214.00	\$20.33	\$105.10	\$210.93	\$120.68	\$671.04
Mean High Bid (\$MM)	\$0.46	\$0.62	\$1.35	\$1.04	\$1.34	\$0.77

Table 3. Mean High Bid (\$ millions) per Tract (FY 1990 - FY 2001), GOM Sales

Fiscal Year	Fixed 1/6-Royalty	Fixed 1/8-Royalty	Total (Both Rates)
FY 1990	\$ 0.73	\$ 0.60	\$ 0.70
FY 1991	\$ 0.59	\$ 0.34	\$ 0.50
FY 1992	\$ 0.41	\$ 0.43	\$ 0.41
FY 1993	\$ 0.39	\$ 0.28	\$ 0.37
FY 1994	\$ 0.62	\$ 0.23	\$ 0.58
FY 1995	\$ 0.57	\$ 0.32	\$ 0.49
FY 1996	\$ 0.63	\$ 0.52	\$ 0.57
FY 1997	\$ 0.71	\$ 0.82	\$ 0.78
FY 1998	\$ 0.70	\$ 1.30	\$ 1.14
FY 1999	\$ 0.36	\$ 1.16	\$ 0.74
FY 2000	\$ 0.42	\$ 1.37	\$ 0.80
FY 2001	\$ 0.47	\$ 1.18	\$ 0.77

Bidding Systems

In November 1995, the DWRRA was passed, which required use of bidding systems that allow for royalty suspension volumes for new fields in water depths greater than 200 meters for leases awarded in the CGOM and WGOM lease sales that occur prior to November 28, 2000. Thus, in the FY 2001 oil and gas lease sales in the GOM, the new lease provisions of the DWRRA no longer applied and the MMS was able to designate levels of relief appropriate to provide incentives for the development of deepwater leases.

For sales in FY 2001, new lease deepwater royalty relief continued to be available, but only on blocks in water depths of 800 meters or more. In addition, the royalty relief was now available on a lease-specific rather than a field-specific basis as was the case under the DWRRA. With the change to lease-specific royalty suspension volumes, each lease in water depths of 800 meters or more potentially was guaranteed some level of royalty relief subject to a price threshold. (Under DWRRA-mandated royalty relief, the royalty suspension volume was assigned to a field, so potentially, a lease was not guaranteed any royalty relief because other leases that comprise a field could produce the entire volume before all leases on the field began production.) In addition, under the current bidding system, a new deepwater lease can apply for additional, discretionary royalty relief prior to production, if needed, to supplement the automatic royalty relief. The discretionary relief alternative was not available to leases receiving DWRRA-mandated royalty suspension volumes from 1996 through 2000.

The specific bidding systems used in FY 2001 sales were:

- (1) cash bonus bid with a 1/6-royalty rate and a royalty suspension volume of 20 billion cubic feet per lease in water depths less than 200 meters on deep gas production where a new deep gas reservoir (15,000 feet or greater subsea) is drilled and starts production within the first five years of the life of

the lease;

- (2) cash bonus bid with a 1/6-royalty rate in water depths of 200 – 399 meters;
- (3) cash bonus bid with a 1/8-royalty rate in water depths of 400 – 799 meters;
- (4) cash bonus bid with a 1/8-royalty rate and a royalty suspension volume of 9 million barrels of oil equivalent per lease in water depths of 800 to 1,599 meters; and
- (5) cash bonus bid with a 1/8-royalty rate and a royalty suspension volume of 12 million barrels of oil equivalent per lease in water depths of 1,600 meters or more.

Schedule of FY 2002 Lease Sales

Lease sales scheduled for FY 2002 under the 5-year leasing program are listed in the table below.

Lease Sale (Date)	Bidding Systems
Sale 181 - EGOM (December 5, 2001)	Cash bonus, fixed 1/8-royalty with royalty suspension volume dependent on water depth category
Sale 182 - CGOM (March 20, 2002)	Cash bonus, fixed 1/6-royalty Cash bonus, fixed 1/6-royalty with royalty suspension volume for natural gas production from deep wells Cash bonus, fixed 1/8-royalty with royalty suspension volume dependent on water depth category
Sale 183 - WGOM (August 2002)	Cash bonus, fixed 1/6-royalty Cash bonus, fixed 1/6-royalty with royalty suspension volume for natural gas production from deep wells Cash bonus, fixed 1/8-royalty with royalty suspension volume dependent on water depth category