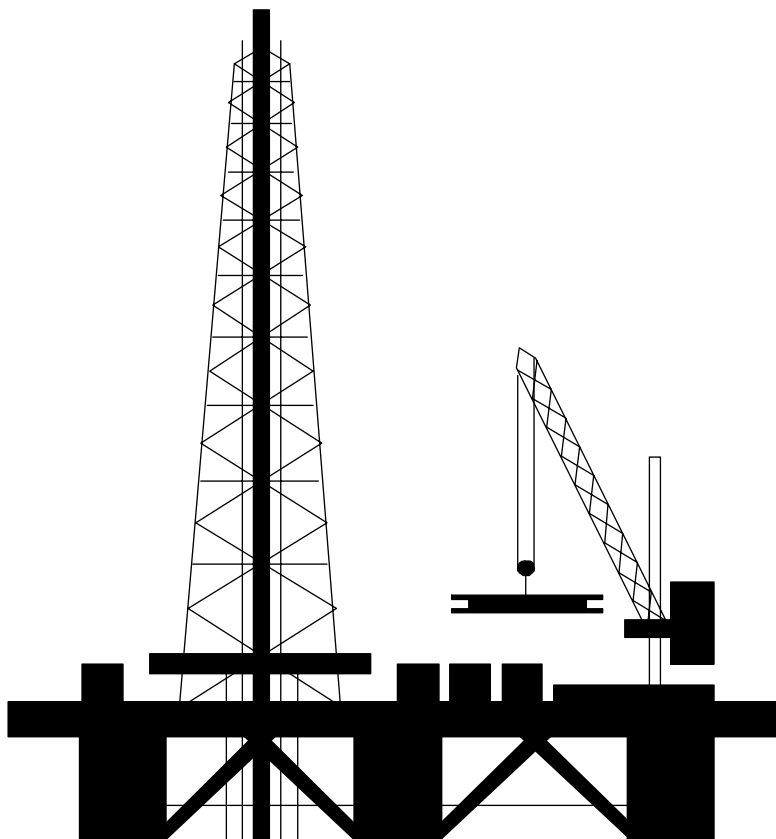


Central Gulf of Mexico Sale 198 March 15, 2006

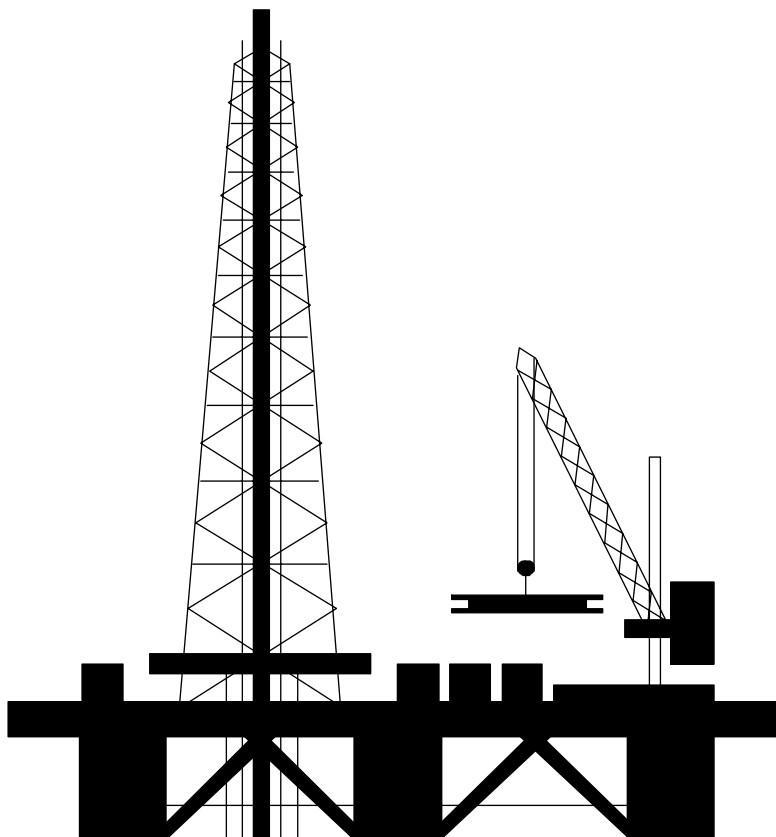
Sale Summary, Bidding Results and
Related Analyses



Central Gulf of Mexico Sale 198 March 15, 2006

Sale Summary, Bidding Results and
Related Analyses

Prepared by
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Central Gulf of Mexico

Sale 198 March 15, 2006

Sale Overview

Sale 198 was the first sale in the Central Gulf of Mexico (CGOM) Planning Area after passage of the Energy Policy Act of 2005 and included the royalty relief provisions specified in it. In this sale, 405 tracts received 707 bids (an average of 1.75 bids per tract). Tracts located in water depths eligible for deepwater royalty relief received 382 bids, while those tracts in water depths eligible for shallow water, deep gas royalty relief received 325 bids.

Bidding Results

In terms of the number of tracts receiving bids (405 tracts vs. 428 tracts), Sale 198 was smaller than the CGOM Sale 194 held in 2005. However, there was a large increase of about 66 percent in aggregate high bids in Sale 198 compared to Sale 194. In Sale 198, the 405 tracts received high bids totaling \$588,309,791.

Table 1 summarizes bidding results by water depth zone. More complete details are presented in appendix A.

Table 1. *Bidding Activity by Water Depth Zone*

Water Depth	Tracts with Bids	High Bids (MM)	Number of Bids	Average Bids/Tract
< 200 m	194	\$168.41	312	1.61
200 - 399 m	11	\$10.70	13	1.18
400 - 799 m	27	\$32.34	44	1.63
800 - 1,599 m	72	\$230.23	166	2.31
1,600 – 2,000 m	48	\$70.52	89	1.85
> 2,000 m	53	\$76.10	83	1.57
Total	405	\$588.31	707	1.75

Compared to the previous CGOM sale (Sale 194, March 16, 2005), the bidding activity in Sale 198 resulted in a decrease in the number of tracts receiving bids, but an increase in the number of bids, and in aggregate high bids. In Sale 194, 428 tracts received bids, whereas 405 tracts received bids in Sale 198, resulting in a decrease of about 5 percent. However, the sum of high bids submitted on tracts receiving bids in Sale 198 increased by about 66 percent compared to Sale 194 (\$588.31 million vs. \$353.96 million) and the number of bids increased by almost 9 percent (707 bids vs. 651 bids).

The amount of competition for tracts was similar to other recent CGOM lease sales. About 70 percent of tracts received single-bids. A summary of bidding results by number of bidders is presented in table 2, and bidding results by number of bids for the various water depth zones are presented in appendix B.

Table 2. *Bidding Results by Number of Bids Submitted*¹

Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	277	68.40%	\$134.70	22.90%
2	61	15.06%	\$97.44	16.56%
3	27	6.67%	\$58.11	9.88%
4	13	3.21%	\$66.21	11.25%
5 or more	27	6.67%	\$231.85	39.41%
Total	405	100.00%	\$588.31	100.00%

Sale 198 was typical of sales in the CGOM. Many more tracts received high bids greater than \$50 per acre, versus those receiving less than that amount. In Sale 198, tracts with high bids greater than \$150 per acre accounted for more than 84 percent of aggregate high bids, an amount higher than that observed in Sale 194. A summary of bidding results by high bid per acre for the sale is presented in table 3, and bidding results by high bid per acre for the various water depth zones are presented in appendix C. In addition, a graphical presentation of bidding results is presented in appendix D.

Table 3. *Bidding Results by High Bid per Acre*

High Bid per Acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	135	33.33%	\$25.76	4.38%
\$50 - 74.99	75	18.52%	\$23.38	3.97%
\$75 - 99.99	40	9.88%	\$18.60	3.16%
\$100 - 149.99	38	9.38%	\$24.12	4.10%
\$150+	117	28.89%	\$496.44	84.38%
Total	405	100.00%	\$588.31	100.00%

¹In the tables throughout this report, percent totals may not add up to exactly 100.00 percent due to rounding. In addition, other totals in the tables, e.g., high bids, may also differ slightly from the text due to rounding.

Bidding on Royalty Suspension Volume Tracts

All tracts in Sale 198 potentially are eligible for royalty suspension incentives, subject to price thresholds. The Energy Policy Act of 2005 established provisions for royalty relief for the production of natural gas from deep wells in water depths of less than 400 meters. In addition, deepwater royalty relief potentially is available for oil and gas production from leases in water depths of 400 meters or deeper.

Twenty-seven tracts in water depths between 400 - 799 meters that are eligible for royalty suspension volumes of 5 million barrels of oil equivalent (MMBOE) received bids, as did 72 tracts in 800 - 1,599 meters that are eligible for royalty suspension volumes of 9 MMBOE, 48 tracts in 1,600 – 2,000 meters that are eligible for royalty suspension volumes of 12 MMBOE, and 53 tracts in more 2,000 meters that are eligible for royalty suspension volumes of 16 MMBOE. These tracts accounted for 49 percent of the tracts in the sale receiving bids and 70 percent of the sale's high bids.

In water depths less than 200 meters, 194 tracts received bids as did 11 tracts in water depths between 200 - 399 meters. As specified in 30 CFR 203.40 through 203.47, these tracts potentially are eligible for royalty relief on the production of natural gas in deep wells.

In comparing the average high bid per acre by water depth category between Sales 198 and 194, the Sale 198 averages were above those observed in Sale 194 in all water depth categories. In water depths less than 200 meters, the Sale 198 average was \$189.31/acre and the Sale 194 average was \$156.14/acre. In 200 - 399 meters, Sale 198's average was \$171.17/acre and Sale 194's was \$125.97/acre. In 400 - 799 meters, Sale 198's average was \$213.83/acre and Sale 194's was \$152.02/acre. In 800 - 1,599 meters, Sale 198's average was \$555.14/acre and Sale 194's was \$215.87/acre. Finally, in 1,600 meters or more, Sale 198's average was \$252.04/acre and Sale 194's was \$167.56/acre. These results suggest that industry continues to perceive significant economic potential to exist in all water depths in the CGOM as average high bids are well above the minimum bid level and the Sale 198 bids exceeded those received in Sale 194.

Phase 1 Results

Following the post-sale bid evaluation procedures, which include a modified 3-bid rule, high bids on 106 tracts were accepted in Phase 1 of Sale 198. High bids were accepted on 55 tracts in water depths less than 400 meters, which are potentially eligible for royalty relief on the production of natural gas from deep wells, and 51 tracts in water depths of 400 meters or more, which are eligible for automatic royalty suspension volumes subject to oil and gas price thresholds. The Phase 1 accepted high bids accounted for about 26 percent of the tracts receiving bids in the sale and 11 percent of the high bids.

The high bids accepted in Phase 1 were in two categories of tracts. There were 96 wildcat or confirmed tracts that were determined to be non-viable. In addition, high bids for 10 wildcat or confirmed tracts were accepted in Phase 1 by the number of bids rule.

Revised Arithmetic Average Measure of Tract (RAM)

The RAM is a secondary bid acceptance criterion applied in Phase 2 of the Sale 198 bid evaluation process on multi-bid tracts with high bids that did not exceed the Government's Adjusted Delayed Value (ADV) of the tract. The ADV is explained in detail in appendix J.

For evaluating the high bids on multi-bid tracts that do not exceed the ADV, the RAM is applied to (a) drainage and development (DD) tracts having three or more qualified bids with the third highest bid being at least 25 percent of the tract's high bid, and (b) confirmed and wildcat tracts having two or more qualified bids with the second highest bid being at least 25 percent of the tract's high bid. Only bids that are at least 25 percent of the high bid are considered in calculating the RAM. If the high bid exceeds the RAM, it is accepted.

Use of the RAM allows the MMS to balance market factors and its own MROV (mean range of values) evaluation in determining fair market value. Previously, using the Geometric Average Evaluation of Tract (GAEOT), a few low losing bids on a tract were sufficient to require an MMS evaluation of the MROV well in excess of \$100 million for the high bid to be rejected.

In Sale 198, 57 tracts that were classified as wildcat and confirmed and that received three or more bids were passed to Phase 2 for evaluation. If necessary, based on the RAM, these tracts could have bids accepted or rejected. After adjusting the number of bids to include only those bids that are at least 25 percent of a tract's high bid, 47 tracts could be eligible for a decision based on the RAM. One high bid in Sale 198 (G27940) was accepted because of the RAM.

Bidding Activity

The number of companies participating in Sale 198 increased to 82 from the 80 active in Sale 194, the previous CGOM sale. Twelve companies submitted bids (either solo or jointly) on 20 or more tracts. The BP Exploration & Production was the most active company in terms of bids submitted with 87 and high bids with 73. Amerada Hess had the greatest aggregate high bids with a total of \$62.6 million.

With about 31 percent of the tracts receiving bids in the sale being multi-bid tracts, no firm that submitted 10 or more bids was the high bidder on every bid it submitted. For firms submitting 20 or more bids, the most successful bidder was BHP Billiton (Deepwater), with 26 high bids out of the 30 bids that it offered.

Listed in table 4 are the 10 most active bidders in terms of total amount of high bids. Also listed in the table are the total number of bids and number of high bids submitted by the companies with their rank indicated in parentheses. Appendix F contains a summary of bids for all companies that participated in the sale.

Many of the companies that were most active in CGOM Sale 194 (March 16, 2004) were not among the most active in Sale 198. Among the companies that were very active in Sale 198 (but had been less active in the previous CGOM sale) were BP Exploration & Production, Hunt Oil, BHP Billiton (Deepwater), Hydro Gulf of Mexico, Mariner Energy, Woodside Energy (USA), Amerada Hess, Samson Offshore, and Anadarko Petroleum. The magnitude of the high bids was much higher in Sale 198 compared to Sale 194.

Appendix G presents a listing of bidding by the most active companies in Sales 198 and 194.

Table 4. *Most Active Bidders by Total Amount of High Bids*
(For Number of Bids and High Bids, rank is in parentheses.)

Company	Total High Bids	Number of Bids	High Bids
Amerada Hess	\$62,593,922	23 (8)	13 (6)
Dominion E&P	\$41,417,099	38 (3)	16 (4)
Newfield Exploration	\$32,208,909	11 (31)	6 (25)
Woodside Energy (USA)	\$32,161,283	24 (7)	11 (9)
Samson Offshore	\$27,109,326	23 (8)	10 (12)
LLOG Exploration Offshore	\$26,616,000	17 (16)	11 (9)
Petrobras America	\$22,349,299	17 (16)	10 (12)
BP Exploration & Production	\$22,276,118	87 (1)	73 (1)
Repsol E&P USA	\$20,979,650	18 (13)	4 (32)
Anadarko Petroleum	\$20,298,816	22 (10)	13 (6)

Sale 198 vs. Sale 194

Sale 198 was smaller than Sale 194 relative to the number of blocks receiving bids. However, the aggregate high bids in Sale 198 were much higher than Sale 194's. The average high bid per acre was \$166.04 in Sale 194 as compared with \$280.17 in Sale 198. High bids in Sale 198 were \$588,309,791, an increase of 66 percent as compared to \$353,961,798 in Sale 194. In Sale 198, 405 tracts received 707 bids compared to the 651 bids received for 428 tracts in Sale 194. In addition, the number of bids per tract increased to 1.75 from 1.52 in the previous sale. Appendix H presents a graphical comparison of sale results.

In Sale 198, 12 tracts with high bids that were rejected in Sale 194 received bids. In addition, there were seven rejected tracts from Sale 194 with high bids of \$4,508,881 that did not receive bids in Sale 198. The high bids on the 12 tracts with bids increased from \$7,422,754 in Sale 194 to \$27,266,773 in Sale 198, an increase in high bids of 267 percent. Subsequently, the high bids on four of the tracts were rejected in Sale 198. For the eight tracts on which the high bids were accepted, the increase in high bids was 438 percent. Of the eight accepted tracts, five had Sale 198 high bids that were more than \$1 million greater than their previously rejected high bids. The potential to realize substantial gains in high bids on tracts that were previously rejected highlights the importance of MMS's bid adequacy procedures.

Appendix A

Sale 198

Bidding Summary

Central Gulf of Mexico

OCS Oil and Gas Lease Sale 198

Sale Day Statistics by Royalty Rate

	<u>16 2/3% Royalty</u>	<u>12 1/2% Royalty</u>	<u>Sale Total</u>
Tracts Receiving Bids	205	200	405
Acres Receiving Bids	952,108.31	1,147,740.13	2,099,848.44
Sum of High Bids	\$179,113,371	\$409,196,420	\$588,309,791
Sum of All Bids	\$260,217,480	\$718,093,407	\$978,310,887
Total Number of Bids	325	382	707
Average Bids	1.59	1.91	1.75
Companies Bidding	69	45	82
Highest Bid per Tract	\$11,101,039	\$42,789,994	\$42,789,994
- Tract Number	G27878	G28063	G28063
- Number of Bids	6	8	8
Highest Bid per Acre	\$2,220.21	\$7,428.82	\$7,428.82
- Tract Number	G27878	G28063	G28063
- Number of Bids	6	8	8
Most Bids	10	9	10
- Tract Number	G27924	G28066	G27924

Central Gulf of Mexico OCS Oil and Gas Lease Sale 198

Sale Day Statistics for 16 2/3 Percent Royalty Rate Tracts

	<u>16 2/3% w/RS6¹</u>	<u>16 2/3% w/RS7²</u>	<u>16 2/3% Total</u>
Tracts Receiving Bids	194	11	205
Acres Receiving Bids	889,573.23	62,535.08	952,108.31
Sum of High Bids	\$168,409,004	\$10,704,367	\$179,113,371
Sum of All Bids	\$249,178,336	\$11,039,144	\$260,217,480
Total Number of Bids	312	13	325
Average Bids	1.61	1.18	1.59
Companies Bidding	69	9	69
Highest Bid per Tract	\$11,101,039	\$6,000,000	\$11,101,039
- Tract Number	G27878	G28036	G27878
- Number of Bids	6	1	6
Highest Bid per Acre	\$2,220.21	\$1,041.67	\$2,220.21
- Tract Number	G27878	G28036	G27878
- Number of Bids	6	1	6
Most Bids	10	2	10
- Tract Number	G27924	G27981 G27984	G27924

¹ “16 2/3 percent w/RS6” is that category of tract in less than 200 meters of water with a royalty rate of 1/6 that is eligible for royalty suspension volumes as prescribed in 30 CFR 203.40 through 203.47 for natural gas from wells 15,000 feet or more deep.

² “16 2/3 percent w/RS7” is that category of tract in 200 to less than 400 meters of water with a royalty rate of 1/6 that is eligible for royalty suspension volumes as prescribed in 30 CFR 203.40 through 203.47 for natural gas from wells 15,000 feet or more deep.

Central Gulf of Mexico

OCS Oil and Gas Lease Sale 198

Sale Day Statistics for 12 1/2 Percent Royalty Rate Tracts

	<u>12 1/2% w/RS5³</u>	<u>12 1/2% w/RS3⁴</u>
Tracts Receiving Bids	27	72
Acres Receiving Bids	151,260.13	414,720.00
Sum of High Bids	\$32,343,427	\$230,227,471
Sum of All Bids	\$46,359,495	\$407,854,137
Total Number of Bids	44	166
Average Bids	1.63	2.31
Companies Bidding	22	34
Highest Bid per Tract	\$3,733,333	\$42,789,994
- Tract Number	G28056	G28063
- Number of Bids	4	8
Highest Bid per Acre	\$648.15	\$7,428.82
- Tract Number	G28056	G28063
- Number of Bids	4	8
Most Bids	6	9
- Tract Number	G27991	G28066

³“12 1/2 percent w/RS5” is that category of tract in 400 to less than 800 meters of water with a royalty rate of 1/8 that is eligible for a royalty suspension volume of 5 MMBOE per lease.

⁴“12 1/2 percent w/RS3” is that category of tract in 800 to less than 1,600 meters of water with a royalty rate of 1/8 that is eligible for a royalty suspension volume of 9 MMBOE per lease.

Central Gulf of Mexico

OCS Oil and Gas Lease Sale 198

Sale Statistics for 12 1/2% Royalty Rate Tracts (continued)

	<u>12 1/2% w/RS8⁵</u>	<u>12 1/2% w/RS9⁶</u>	<u>12 1/2% Royalty</u>
Tracts Receiving Bids	48	53	200
Acres Receiving Bids	276,480.00	305,280.00	1,147,740.13
Sum of High Bids	\$70,523,778	\$76,101,744	\$409,196,420
Sum of All Bids	\$133,752,245	\$130,127,530	\$718,093,407
Total Number of Bids	89	83	382
Average Bids	1.85	1.57	1.91
Companies Bidding	25	23	45
Highest Bid per Tract	\$20,217,600	\$21,353,333	\$42,789,994
- Tract Number	G28030	G28129	G28063
- Number of Bids	6	2	8
Highest Bid per Acre	\$3,510.00	\$3,707.18	\$7,428.82
- Tract Number	G28030	G28129	G28063
- Number of Bids	6	2	8
Most Bids	7	7	9
- Tract Number	G28131, G28132 G28134, G28135	G28129	G28066

⁵“12 1/2 percent w/RS8” is that category of tract in 1,600 to 2,000 meters of water with a royalty rate of 1/8 that is eligible for a royalty suspension volume of 12 MMBOE per lease.

⁶“12 1/2 percent w/RS9” is that category of tract in 2,000 meters of water or deeper with a royalty rate of 1/8 that is eligible for a royalty suspension volume of 16 MMBOE per lease.

Appendix B

Sale 198

Bidding by Number of Bids

Sale 198

All Tracts

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	277	68.40%	\$134.70	22.90%
2	61	15.06%	\$97.44	16.56%
3	27	6.67%	\$58.11	9.88%
4	13	3.21%	\$66.21	11.25%
5+	27	6.67%	\$231.85	39.41%
Total	405	100.00%	\$588.31	100.00%

Tracts with 1/6 Royalty Rate

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	148	72.20%	\$76.05	42.46%
2	32	15.61%	\$36.83	20.56%
3	12	5.85%	\$15.01	8.38%
4	4	1.95%	\$14.97	8.36%
5+	9	4.39%	\$36.26	20.24%
Total	205	100.00%	\$179.11	100.00%

Tracts with 1/8 Royalty Rate

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	129	64.50%	\$58.65	14.33%
2	29	14.50%	\$60.61	14.81%
3	15	7.50%	\$43.10	10.53%
4	9	4.50%	\$51.24	12.52%
5+	18	9.00%	\$195.59	47.80%
Total	200	100.00%	\$409.20	100.00%

Sale 198, by Water Depth Category

1/6 Royalty (<200 meters; Royalty Suspension Volume [RSV] as prescribed in 30 CFR 203.40 through 203.47 for gas from deep wells, i.e., drilling depth of 15,000 feet or more)

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	139	71.65%	\$66.29	39.36%
2	30	15.46%	\$35.89	21.31%
3	12	6.19%	\$15.01	8.91%
4	4	2.06%	\$14.97	8.89%
5+	9	4.64%	\$36.26	21.53%
Total	194	100.00%	\$168.41	100.00%

1/6 Royalty (200 to < 400 meters; RSV as prescribed in 30 CFR 203.40 through 203.47 for gas from deep wells, i.e., drilling depth of 15,000 feet or more)

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	9	81.82%	\$9.76	91.22%
2	2	18.18%	\$0.94	8.78%
3	0	0.00%	\$0.00	0.00%
4	0	0.00%	\$0.00	0.00%
5+	0	0.00%	\$0.00	0.00%
Total	11	100.00%	\$10.70	100.00%

1/8 Royalty (400 to less than 800 meters; 5 MMBOE RSV per lease)

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	18	66.67%	\$9.28	28.69%
2	5	18.52%	\$9.37	28.96%
3	2	7.41%	\$6.79	21.00%
4	1	3.70%	\$3.73	11.54%
5+	1	3.70%	\$3.17	9.81%
Total	27	100.00%	\$32.34	100.00%

1/8 Royalty (800 to < 1,600 meters; 9 MMBOE RSV per lease)

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	40	55.56%	\$17.63	7.66%
2	8	11.11%	\$10.93	4.75%
3	7	9.72%	\$28.63	12.44%
4	7	9.72%	\$43.29	18.80%
5+	10	13.89%	\$129.75	56.36%
Total	72	100.00%	\$230.23	100.00%

1/8 Royalty (1,600 to 2,000 meters; 12 MMBOE RSV per lease)

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	33	45.83%	\$15.18	21.52%
2	8	11.11%	\$8.52	12.09%
3	2	2.78%	\$5.39	7.64%
4	0	0.00%	\$0.00	0.00%
5+	5	6.94%	\$41.44	58.75%
Total	48	100.00%	\$70.52	100.00%

1/8 Royalty (more than 2,000 meters; 16 MMBOE RSV per lease)

No. Of Bids	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
1	38	71.70%	\$16.57	21.77%
2	8	15.09%	\$31.79	41.77%
3	4	7.55%	\$2.29	3.01%
4	1	1.89%	\$4.21	5.53%
5+	2	3.77%	\$21.24	27.91%
Total	53	100.00%	\$76.10	100.00%

Appendix C

Sale 198

Bidding by High Bid per Acre

Sale 198

All Tracts

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	135	33.33%	\$25.76	4.38%
\$50 - 74.99	75	18.52%	\$23.38	3.97%
\$75 - 99.99	40	9.88%	\$18.60	3.16%
\$100 - 149.99	38	9.38%	\$24.12	4.10%
\$150+	117	28.89%	\$496.44	84.38%
Total	405	100.00%	\$588.31	100.00%

Tracts with 1/6 Royalty Rate

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	74	36.10%	\$10.78	6.02%
\$50 - 74.99	37	18.05%	\$10.52	5.88%
\$75 - 99.99	14	6.83%	\$5.69	3.18%
\$100 - 149.99	18	8.78%	\$9.71	5.42%
\$150+	62	30.24%	\$142.41	79.51%
Total	205	100.00%	\$179.11	100.00%

Tracts with 1/8 Royalty Rate

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	61	30.50%	\$14.98	3.66%
\$50 - 74.99	38	19.00%	\$12.86	3.14%
\$75 - 99.99	26	13.00%	\$12.91	3.15%
\$100 - 149.99	20	10.00%	\$14.41	3.52%
\$150+	55	27.50%	\$354.04	86.52%
Total	200	100.00%	\$409.20	100.00%

Sale 198, by Water Depth Category

1/6 Royalty (<200 meters; Royalty Suspension Volume [RSV] as prescribed in 30 CFR 203.40 through 203.47 for gas from deep wells, i.e., drilling depth of 15,000 feet or more)

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	70	36.08%	\$9.87	5.86%
\$50 - 74.99	36	18.56%	\$10.23	6.07%
\$75 - 99.99	11	5.67%	\$4.31	2.56%
\$100 - 149.99	17	8.76%	\$9.10	5.40%
\$150+	60	30.93%	\$134.91	80.11%
Total	194	100.00%	\$168.41	100.00%

1/6 Royalty (200 to < 400 meters; RSV as prescribed in 30 CFR 203.40 through 203.47 for gas from deep wells, i.e., drilling depth of 15,000 feet or more)

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	4	36.36%	\$0.91	8.52%
\$50 - 74.99	1	9.09%	\$0.30	2.77%
\$75 - 99.99	3	27.27%	\$1.38	12.93%
\$100 - 149.99	1	9.09%	\$0.61	5.71%
\$150+	2	18.18%	\$7.50	70.07%
Total	11	100.00%	\$10.70	100.00%

1/8 Royalty (400 to < 800 meters; 5 MMBOE RSV per lease)

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	9	33.33%	\$2.21	6.85%
\$50 - 74.99	4	14.81%	\$1.01	3.13%
\$75 - 99.99	2	7.41%	\$0.92	2.83%
\$100 - 149.99	2	7.41%	\$1.36	4.20%
\$150+	10	37.04%	\$26.84	82.98%
Total	27	100.00%	\$32.34	100.00%

1/8 Royalty (800 to < 1,600 meters; 9 MMBOE RSV per lease)

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	17	23.61%	\$4.14	4.10%
\$50 - 74.99	10	13.89%	\$3.54	13.03%
\$75 - 99.99	14	19.44%	\$6.95	6.40%
\$100 - 149.99	5	6.94%	\$3.50	15.24%
\$150+	26	36.11%	\$212.09	61.24%
Total	72	100.00%	\$230.23	100.00%

1/8 Royalty (1,600 to 2,000 meters; 12 MMBOE RSV per lease)

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	13	27.08%	\$3.30	4.67%
\$50 - 74.99	12	25.00%	\$4.25	6.03%
\$75 - 99.99	5	10.42%	\$2.40	3.40%
\$100 - 149.99	9	18.75%	\$6.81	9.66%
\$150+	9	18.75%	\$53.77	76.24%
Total	48	100.00%	\$70.52	100.00%

1/8 Royalty (2,000 or more meters; 16 MMBOE RSV per lease)

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< \$50	20	41.51%	\$5.33	7.01%
\$50 - 74.99	12	22.64%	\$4.05	5.33%
\$75 - 99.99	5	9.43%	\$2.64	3.47%
\$100 - 149.99	4	7.55%	\$2.74	3.61%
\$150+	10	18.87%	\$61.33	80.60%
Total	53	100.00%	\$76.10	100.00%

Appendix D

Sale 198

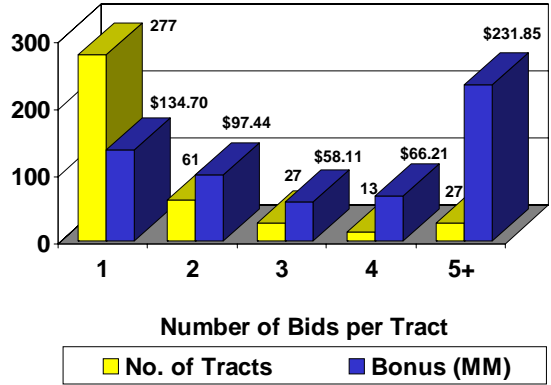
Bidding Results – Graphs

Sale 198 (CGOM) Bidding Results

- 405 tracts received 707 bids (1.75 bids/tract)
- High bids were \$588.31 million
- Average high bid per acre was \$280.17
- 82 companies submitted bids
- 205 tracts in < 400 meters received high bids of \$179.11 million – 50.62 percent of tracts and 30.44 percent of high bids
- 200 tracts in 400+ meters received high bids of \$409.20 million – 49.38 percent of tracts and 69.56 percent of high bids

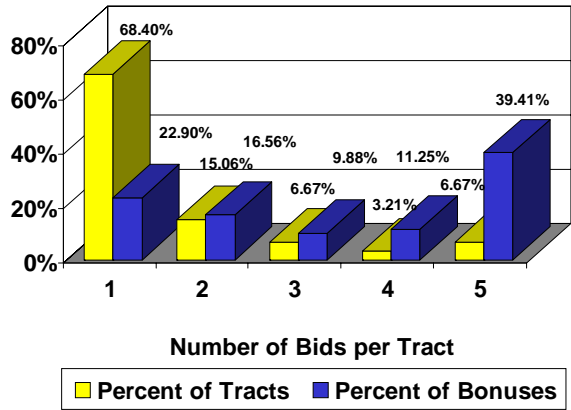
Sale 198, Aggregate

Bidding Activity by Bids per Tract



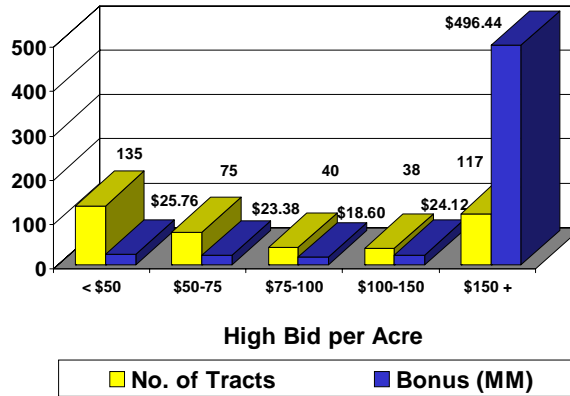
Sale 198, Aggregate

Bidding Activity by Bids per Tract



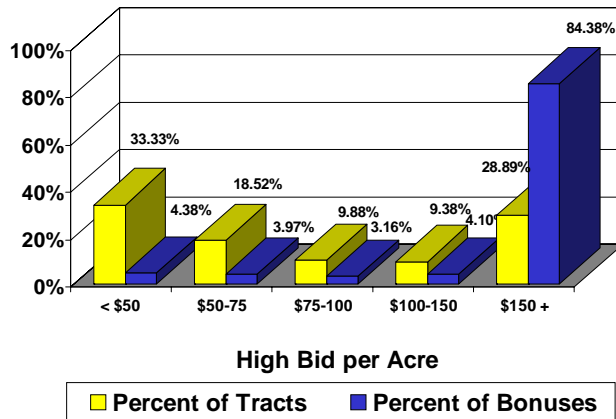
Sale 198, Aggregate

Bidding Activity by High Bid per Acre



Sale 198, Aggregate

Bidding Activity by High Bid per Acre

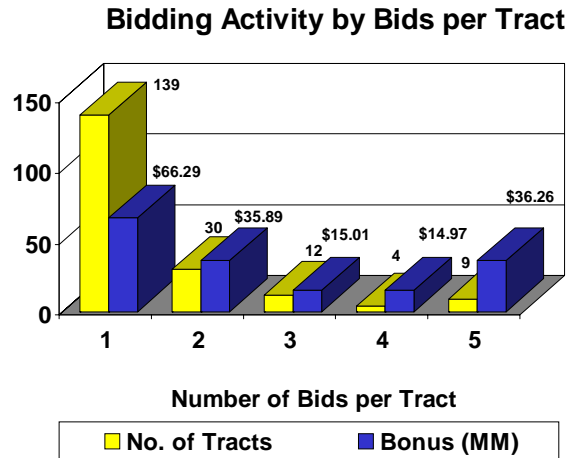


Sale 198 (CGOM)

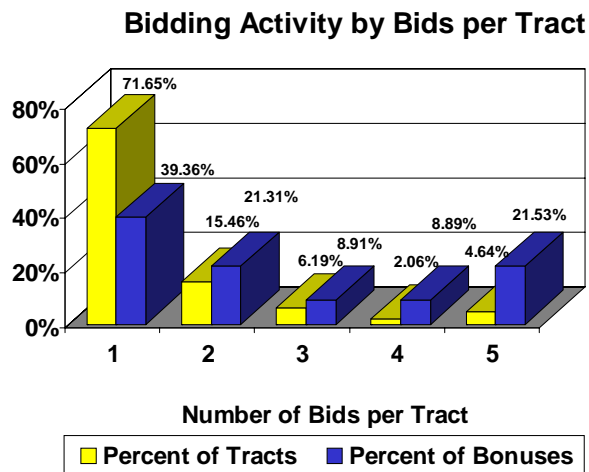
Bidding by Water Depth Category

- 194 tracts in < 200 meters received 312 bids and high bids of \$168.41 MM (\$186.31/acre)
- 11 tracts in 200 to < 400 meters had 13 bids and high bids of \$10.70 MM (\$171.17/acre)
- 27 tracts in 400 to < 800 meters had 44 bids and high bids of \$32.34 MM (\$218.83/acre)
- 72 tracts in 800 to < 1,600 meters had 166 bids and high bids of \$230.23 MM (\$555.14/acre)
- 101 tracts in 1,600 or more meters had 172 bids and high bids of \$146.62 MM (\$252.04/acre)

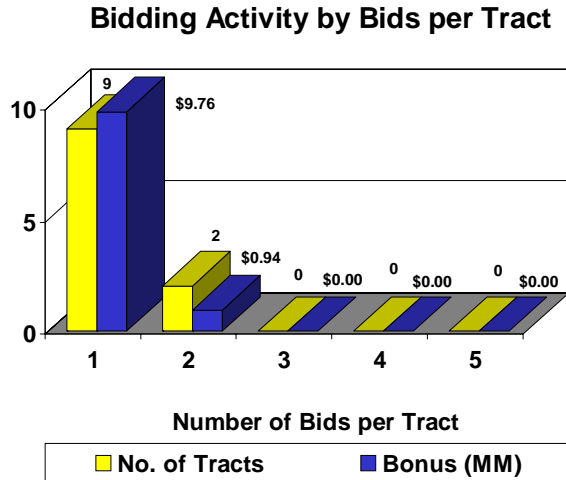
Sale 198, Tracts in < 200 Meters Water Depth



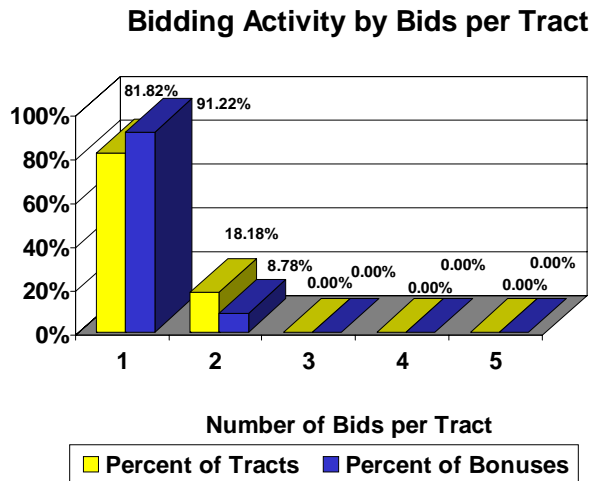
Sale 198, Tracts in < 200 Meters Water Depth



Sale 198, Tracts in 200 to < 400 Meters Water Depth

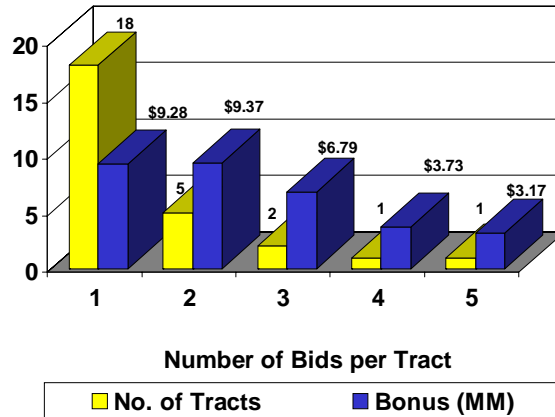


Sale 198, Tracts in 200 to < 400 Meters Water Depth



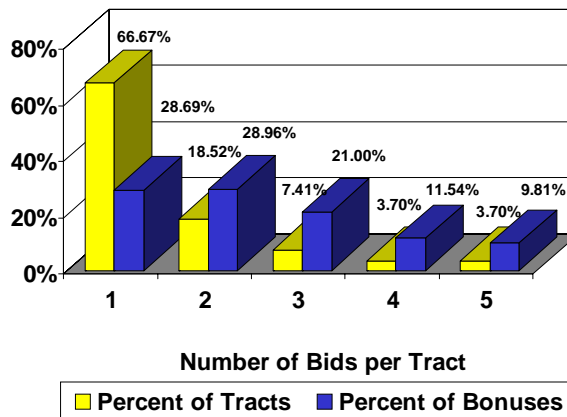
Sale 198, Tracts in 400 to < 800 Meters Water Depth

Bidding Activity by Bids per Tract



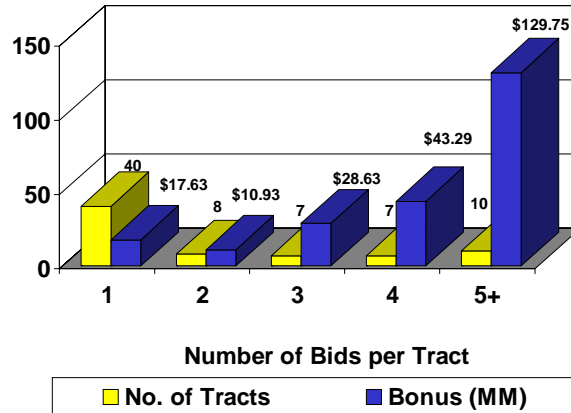
Sale 198, Tracts in 400 to < 800 Meters Water Depth

Bidding Activity by Bids per Tract



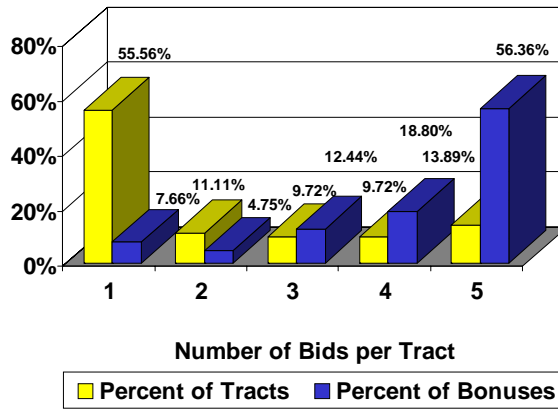
Sale 198, Tracts in 800 to < 1,600 Meters Water Depth

Bidding Activity by Bids per Tract

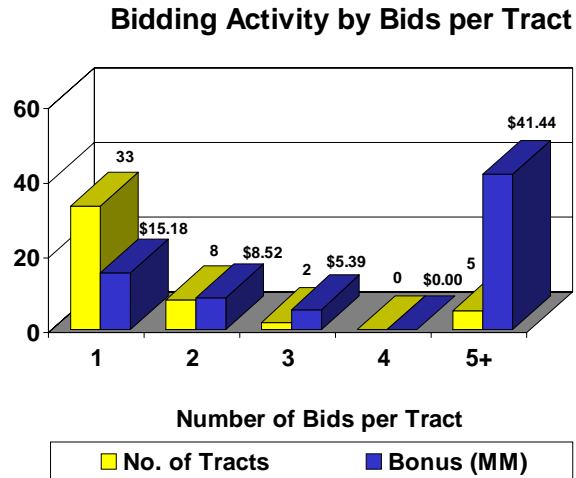


Sale 198, Tracts in 800 to < 1,600 Meters Water Depth

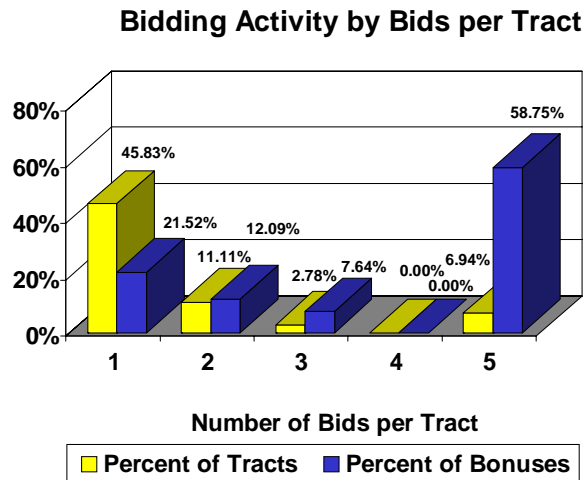
Bidding Activity by Bids per Tract



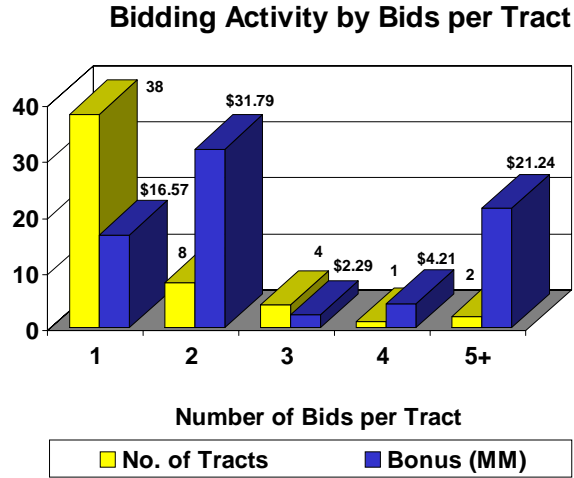
Sale 198, Tracts in 1,600 to 2,000 Meters Water Depth



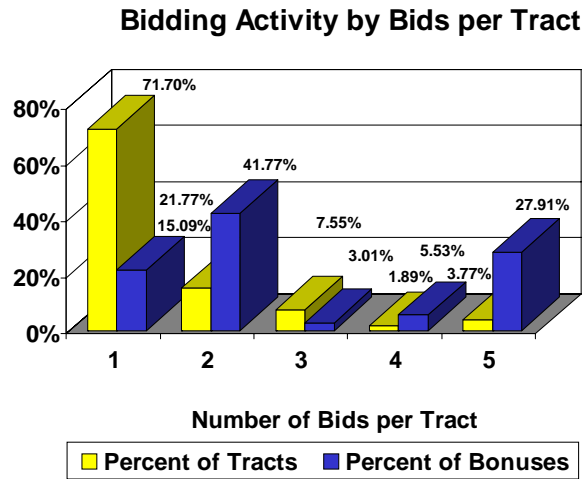
Sale 198, Tracts in 1,600 to 2,000 Meters Water Depth



Sale 198, Tracts in 2,000 or more Meters Water Depth

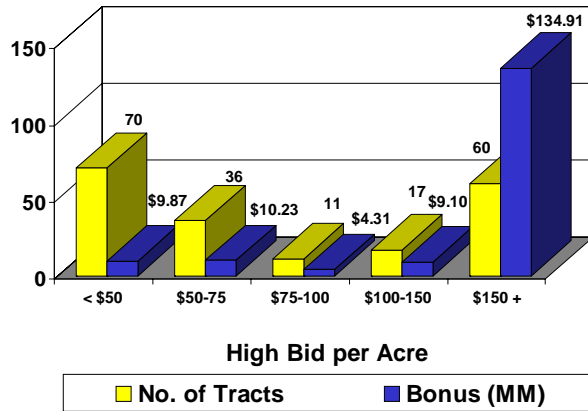


Sale 198, Tracts in 2,000 or more Meters Water Depth



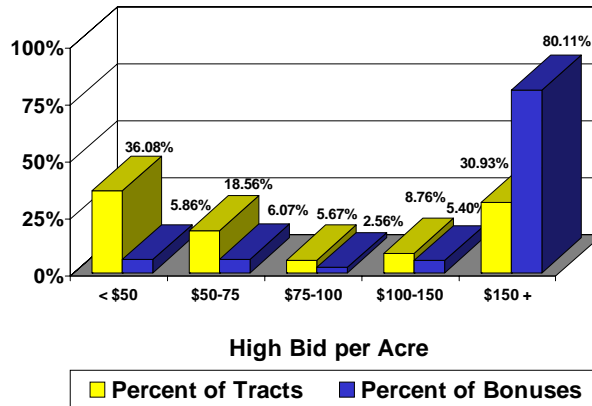
Sale 198, Tracts in < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



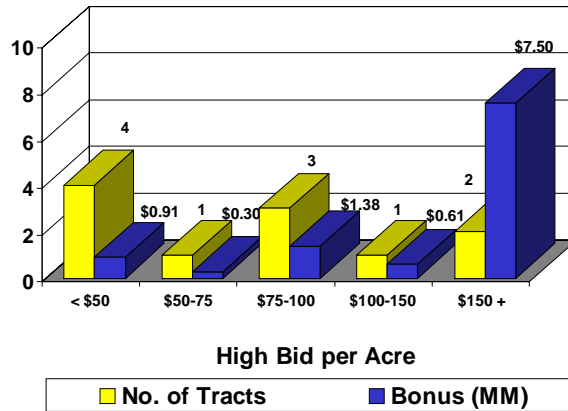
Sale 198, Tracts in < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



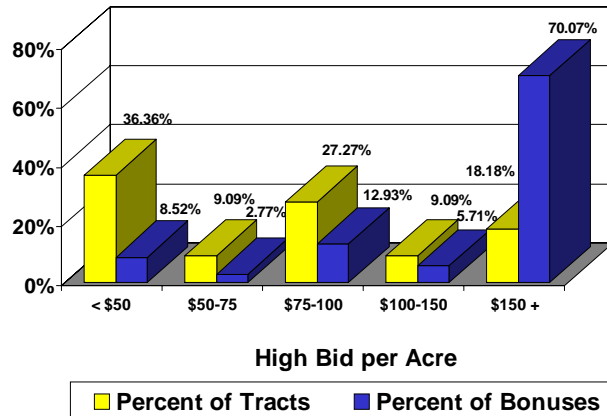
Sale 198, Tracts in 200 to < 400 Meters Water Depth

Bidding Activity by High Bid per Acre



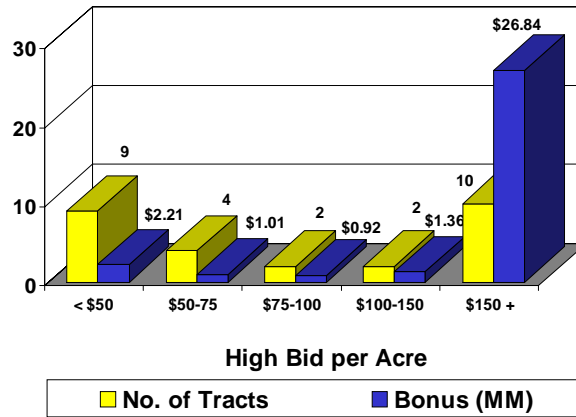
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Bidding Activity by High Bid per Acre



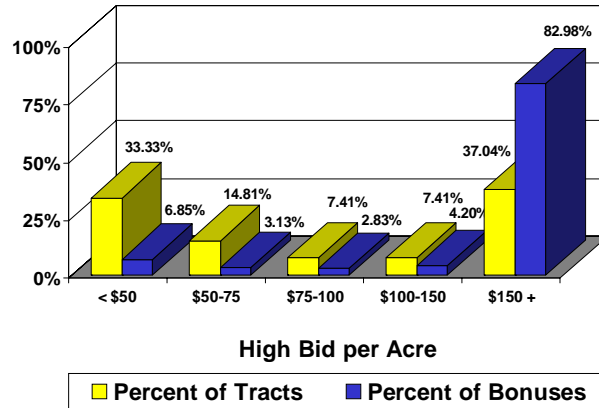
Sale 198, Tracts in 400 to < 800 Meters Water Depth

Bidding Activity by High Bid per Acre



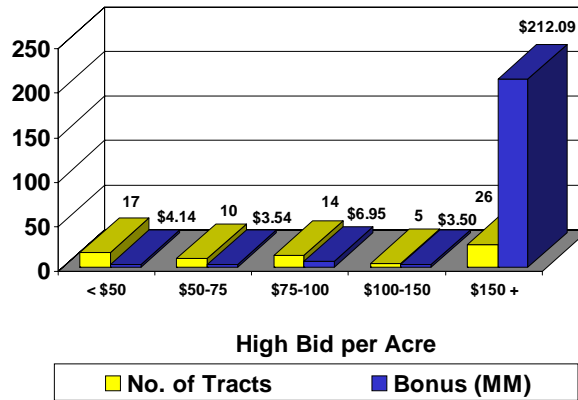
Sale 198, Tracts in 400 to < 800 Meters Water Depth

Bidding Activity by High Bid per Acre



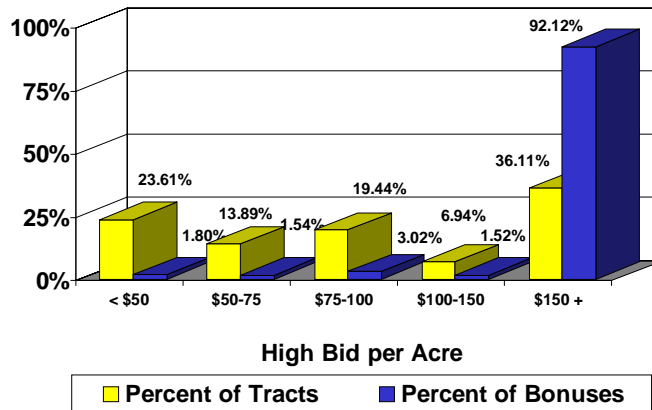
Sale 198, Tracts in 800 to < 1,600 Meters Water Depth

Bidding Activity by High Bid per Acre



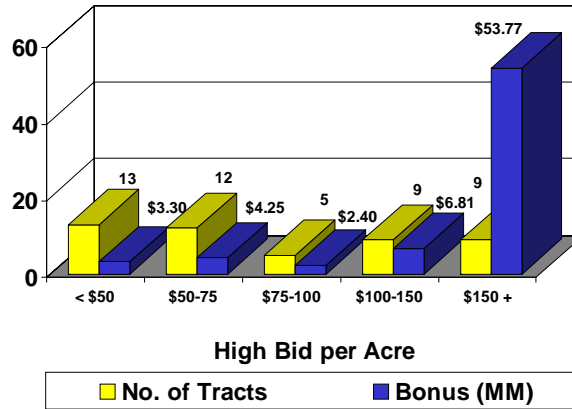
Sale 198, Tracts in 800 to < 1,600 Meters Water Depth

Bidding Activity by High Bid per Acre



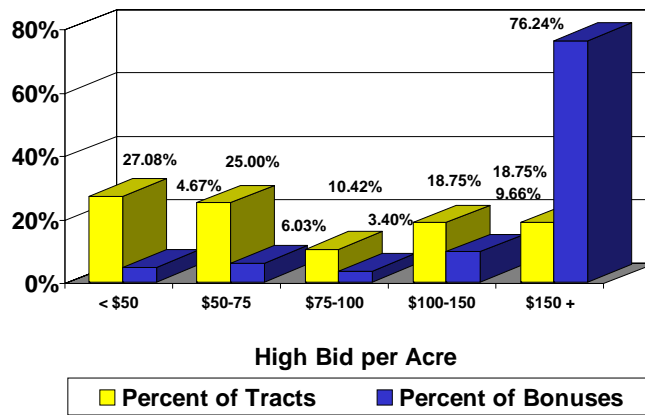
Sale 198, Tracts in 1,600 to 2,000 Meters Water Depth

Bidding Activity by High Bid per Acre



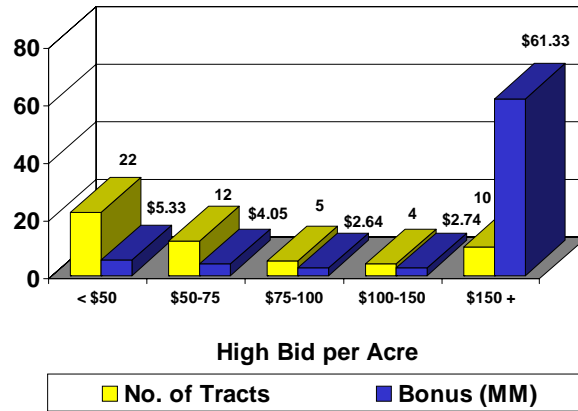
Sale 198, Tracts in 1,600 to 2,000 Meters Water Depth

Bidding Activity by High Bid per Acre



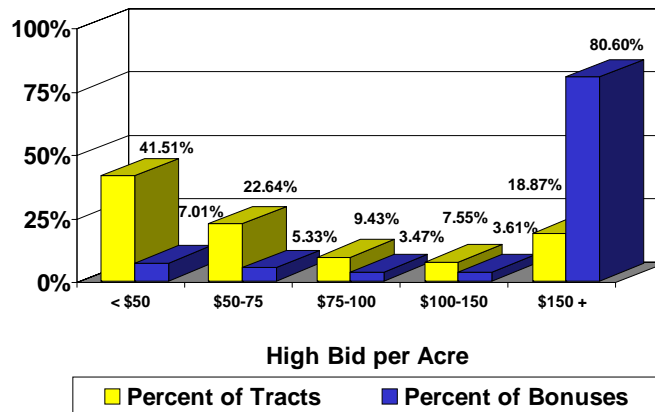
Sale 198, Tracts in 2,000 or more Meters Water Depth

Bidding Activity by High Bid per Acre



Sale 198, Tracts in 2,000 or more Meters Water Depth

Bidding Activity by High Bid per Acre



Appendix E

Sale 198

**Revised Arithmetic Average Measure
(RAM)**

Sale 198, Tracts with Three or More Bids

In Sale 198, three or more bids were received on 67 tracts. Table E1 presents the distribution of those bids by water depth category and third bid as a percent of high bid.

Table E1. *Third Bid as a Percent of High Bid by Water Depth Category*

Category	< 25%	25 - 50%	50 - 75%	> 75%	Total
< 200 m	11	6	4	4	25
200 to < 400 m	0	0	0	0	0
400 to < 800 m	2	1	1	0	4
800 to < 1,600 m	13	10	1	0	24
1,600 – 2,000 m	3	1	2	1	7
> 2,000 m	1	3	1	2	7
Total	30	21	9	7	67

Applying the bid adequacy procedures, the modified number of bids rule was used for Phase 1 acceptance of high bids on selected tracts receiving three or more bids. Under the rule, high bids on wildcat and confirmed tracts receiving three or more bids are accepted in Phase 1, if the third highest bid on the tract is at least 50 percent of the high bid and the high bid per acre ranks in the top 75 percent of high bids per acre for all three-or-more bid tracts within a specified water depth category. (The procedure is described in the *Federal Register*, vol. 64, no. 132, pp. 37, 560-37, 562.) In Sale 198, 10 three-or-more bid tracts met the bid acceptance criteria described above.

A modified Phase 2 averaging rule, the RAM of tract value was also applicable in this sale. The RAM is a secondary bid acceptance rule that is used on multi-bid tracts if the Government's ADV of the tract exceeds the high bid. The RAM is an arithmetic average of a tract's high bid, MROV, and all other bids that are at least 25 percent of the high bid. If a bid on a tract is not at least 25 percent of the high bid, that bid is considered an outlier and not included in the RAM calculation. Thus, the adjusted number of bids on a tract for the RAM calculation can be less than the total number of bids that a tract receives.

For those tracts on which the RAM is used as the bid acceptance rule, if the RAM is less than the tract's high bid, then the high bid is accepted, and if the RAM exceeds the high bid, then the high bid is rejected.

Fifty-seven tracts that could potentially use the RAM as the bid acceptance decision rule were passed to Phase 2 for further evaluation. Of those, 10 tracts did not have second bids that were at least 25 percent of the high bids. So, the use of the RAM as a Phase 2 decision criterion for

those tracts was not a possibility. For the remaining 47 tracts, the MROV's needed to reject a tract's high bid using the RAM were calculated. Using the RAM, 8 tracts need an MROV of less than \$1 million, 19 tracts need an MROV of between \$1 million to \$5 million, 7 tracts need an MROV of between \$5 million to \$10 million, and 13 tracts need an MROV of \$10 million or more for high bid rejection based on this criterion. The results are presented in table E2. The RAM was used to accept one high bid (G27940) in Sale 198.

Table E2. *MROV Needed to Reject a High Bid Using the RAM by Water Depth Category*

Category	< \$1 MM	\$1-5 MM	\$5-10 MM	> \$10 MM	Total
< 200 m	4	8	1	2	15
200 to < 400 m	0	0	0	0	0
400 to < 800 m	0	0	2	0	2
800 to < 1,600 m	2	7	3	9	21
800 to < 1,600 m	1	0	1	1	3
1,600 m or more	1	4	0	1	6
Total	8	19	7	13	47

Appendix F

Sale 198

Summary of Company Bids

Sale 198 - Company Bids by Total Amount of High Bids

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
1	59	Amerada Hess	23	13	10	\$74,326,050	\$62,593,922	\$11,732,128
2	282	Dominion E & P	38	16	22	\$63,707,623	\$41,417,099	\$22,290,524
3	1364	Newfield Exploration	11	6	5	\$36,809,315	\$32,208,909	\$4,600,406
4	2407	Woodside Energy (USA)	24	11	13	\$61,292,452	\$32,161,283	\$29,131,169
5	2397	Samson Offshore	23	10	13	\$36,348,014	\$27,109,326	\$9,238,688
6	2058	LLOG Exploration Offshore	17	11	6	\$30,757,000	\$26,616,000	\$4,141,000
7	1207	Petrobras America	17	10	7	\$31,967,146	\$22,349,299	\$9,617,847
8	2481	BP Exploration & Production	87	73	14	\$46,941,948	\$22,276,118	\$24,665,830
9	2805	Repsol E&P USA	18	4	14	\$36,582,009	\$20,979,650	\$15,602,359
10	981	Anadarko Petroleum	22	13	9	\$31,811,904	\$20,298,816	\$11,513,088
11	2169	Hydro Gulf of Mexico	28	14	14	\$33,262,758	\$20,117,740	\$13,145,019
12	818	Mariner Energy	28	10	18	\$32,853,791	\$18,011,143	\$14,842,648
13	2421	Devon Energy Production	15	9	6	\$27,995,550	\$15,908,950	\$12,086,600
14	1704	Remington Oil and Gas	21	8	13	\$24,696,130	\$14,986,212	\$9,709,918
15	2237	Noble Energy	21	8	13	\$24,575,720	\$13,596,480	\$10,979,240
16	2219	Kerr-McGee Oil & Gas	16	5	11	\$23,013,420	\$12,284,310	\$10,729,110
17	64	Hunt Oil	41	23	18	\$20,787,264	\$10,943,280	\$9,843,984
18	222	Hunt Petroleum (AEC)	5	4	1	\$10,911,399	\$10,535,382	\$376,017
19	1978	Helis Oil & Gas	12	8	4	\$14,809,008	\$10,109,063	\$4,699,945
20	2668	Red Willow Offshore	15	9	6	\$21,582,724	\$9,513,369	\$12,069,356
21	2361	Eni Deepwater	6	1	5	\$10,747,254	\$8,035,233	\$2,712,021
22	2266	Energy Partners	18	11	7	\$10,822,560	\$7,870,085	\$2,952,475
23	2277	BHP Billiton (Deepwater)	30	26	4	\$16,499,909	\$7,661,284	\$8,838,624
24	78	Chevron USA	14	7	7	\$24,582,104	\$7,620,017	\$16,962,087
25	730	Walter Oil & Gas	7	4	3	\$10,697,224	\$7,263,702	\$3,433,522
26	105	Apache Corporation	2	2	0	\$5,603,220	\$5,603,220	\$0
27	2117	Shell Gulf of Mexico	12	6	6	\$9,273,232	\$5,524,116	\$3,749,116
28	2647	Murphy Exploration & Production	15	6	9	\$18,629,800	\$5,411,100	\$13,218,700
29	1834	Stone Energy	14	7	7	\$9,958,400	\$5,316,650	\$4,641,750
30	1500	Total E&P USA	9	7	2	\$5,728,940	\$5,125,617	\$603,323

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
31	1284	W & T Offshore	7	4	3	\$6,755,000	\$4,875,000	\$1,880,000
32	2702	Plains Exploration & Production	6	4	2	\$9,795,781	\$4,526,441	\$5,269,340
33	560	Seneca Resources	9	4	5	\$6,770,305	\$4,506,240	\$2,264,065
34	2079	Nexen Petroleum Offshore	18	10	8	\$33,531,497	\$4,186,074	\$29,345,424
35	56	ConocoPhillips	6	4	2	\$5,021,000	\$4,001,000	\$1,020,000
36	1999	Houston Energy	15	9	6	\$6,513,574	\$3,462,782	\$3,050,792
37	2479	Republic Exploration	16	12	4	\$4,142,610	\$3,314,610	\$828,000
38	1819	ATP Oil & Gas	2	1	1	\$3,543,600	\$3,291,800	\$251,800
39	276	Exxon Mobil	12	7	5	\$4,380,760	\$2,644,510	\$1,736,250
40	2631	Frankel Offshore Energy	7	6	1	\$2,932,000	\$2,625,000	\$307,000
41	1586	Petsec Energy	6	4	2	\$3,957,700	\$2,251,800	\$1,705,900
42	2561	NCX Company	3	2	1	\$2,331,251	\$2,177,900	\$153,351
43	2769	Darcy Energy	2	2	0	\$1,983,336	\$1,983,336	\$0
44	236	El Paso Production	3	2	1	\$2,547,281	\$1,974,021	\$573,260
45	2478	Stephens Production	14	6	8	\$6,029,800	\$1,803,700	\$4,226,100
46	2643	Contango Offshore	6	4	2	\$1,883,345	\$1,717,850	\$165,495
47	1513	Callon Petroleum	5	2	3	\$6,247,682	\$1,471,754	\$4,775,928
48	2872	Pearl Exploration & Production	4	4	0	\$1,469,265	\$1,469,265	\$0
49	2780	Lymac Exploration & Production	4	4	0	\$1,226,000	\$1,226,000	\$0
50	1764	Energy Resource Technology	4	2	2	\$4,000,000	\$999,283	\$3,000,717
51	2765	Bois d'Arc Properties	9	4	5	\$8,985,294	\$973,284	\$8,012,010
52	2246	St. Mary Energy Company	8	1	7	\$4,026,952	\$933,333	\$3,093,619
53	1711	Cairn Energy USA	2	1	1	\$2,160,000	\$910,000	\$1,250,000
54	2790	Focus Exploration	13	4	9	\$3,913,680	\$905,232	\$3,008,448
55	2417	Arena Energy	8	3	5	\$8,899,000	\$755,000	\$8,144,000
56	1963	Apex Oil & Gas	1	1	0	\$601,601	\$601,601	\$0
57	2260	Carrizo Oil & Gas	2	2	0	\$459,396	\$459,396	\$0
58	2543	Fidelity Exploration & Production	1	1	0	\$457,500	\$457,500	\$0
59	2377	MCX Gulf of Mexico	7	3	4	\$1,215,401	\$441,512	\$773,889
60	2807	Marlin Coastal	1	1	0	\$421,058	\$421,058	\$0

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
61	2579	Tana Exploration	9	2	7	\$7,065,376	\$377,760	\$6,687,616
62	2766	Capco Offshore	2	2	0	\$360,000	\$360,000	\$0
63	2427	Virgin Offshore USA	1	1	0	\$345,000	\$345,000	\$0
64	2066	Ridgelake Energy	2	1	1	\$825,800	\$340,400	\$485,400
65	2312	McMoRan Oil & Gas	1	1	0	\$310,877	\$310,877	\$0
66	2841	Coldren Oil & Gas	1	1	0	\$252,246	\$252,246	\$0
67	2605	Badger Oil	1	1	0	\$133,000	\$133,000	\$0
68	2877	Irdam Coriolis USA	1	1	0	\$130,100	\$130,100	\$0
69	2777	Peregrine Oil & Gas	2	1	1	\$364,438	\$101,202	\$263,236
70	1630	Cheyenne International	1	1	0	\$72,198	\$72,198	\$0
71	2738	Anglo-Suisse Offshore	1	1	0	\$52,350	\$52,350	\$0
72	2537	Tarpon Offshore	6	2	4	\$92,180	\$19,294	\$72,886
73	724	Marathon Oil	3	0	3	\$7,999,901	\$0	\$7,999,901
74	2480	Davis Offshore	1	0	1	\$2,156,507	\$0	\$2,156,507
75	1935	Pioneer Natural Resources	1	0	1	\$1,100,198	\$0	\$1,100,198
76	2826	Crimson Exploration	2	0	2	\$1,069,440	\$0	\$1,069,440
77	2432	Andex Resources	2	0	2	\$918,573	\$0	\$918,573
78	2222	PetroQuest Energy	1	0	1	\$601,050	\$0	\$601,050
79	2822	Centaurus Gulf of Mexico	1	0	1	\$250,000	\$0	\$250,000
80	2349	Magnum Hunter Production	1	0	1	\$162,315	\$0	\$162,315
81	2200	Fairways Offshore	1	0	1	\$157,800	\$0	\$157,800
82	2038	Mako Offshore Exploration	1	0	1	\$116,000	\$0	\$116,000

Appendix G

Sales 198 and 194

Active Bidders

Companies Participating in 20 or More Bids in Sale 198

Company	Co. #	< 200 m	200 - 399 m	400 - 799 m	800 - 1,599 m	1,600+ m	Total	Exposure	Exposure Rank	Exposure per Bid
BP Exploration & Production	2481	32	1	0	29	25	87	\$46,941,948	4	\$539,563
Hunt Oil	64	9	0	2	0	30	41	\$20,787,264	20	\$507,006
Dominion E & P	282	15	0	0	9	14	38	\$63,707,623	2	\$1,676,516
BHP Billiton (Deepwater)	2277	2	1	4	19	4	30	\$16,499,909	22	\$549,997
Hydro Gulf of Mexico	2169	8	0	1	11	8	28	\$33,262,758	9	\$1,187,956
Mariner Energy	818	16	2	6	2	2	28	\$32,853,791	10	\$1,173,350
Woodside Energy (USA)	2407	12	0	0	10	2	24	\$61,292,452	3	\$2,553,852
Amerada Hess	59	1	3	5	14	0	23	\$74,326,050	1	\$3,231,567
Samson Offshore	2397	5	0	0	13	5	23	\$36,348,014	7	\$1,580,348
Anadarko Petroleum	981	0	0	0	5	17	22	\$31,811,904	12	\$1,445,996
Remington Oil and Gas	1704	13	0	1	7	0	21	\$24,696,130	15	\$1,176,006
Noble Energy	2237	0	0	1	14	6	21	\$24,575,720	17	\$1,170,272

Companies Participating in 20 or More Bids in Sale 194

Company	Co. #	< 200 m	200 - 399 m	400 - 799 m	800 - 1,599 m	1,600+ m	Total	Exposure	Exposure Rank	Exposure per Bid
Dominion E & P	282	12	0	1	14	12	39	\$72,046,881	1	\$1,847,356
Remington Oil and Gas	1704	24	2	10	2	0	38	\$20,318,996	5	\$534,710
Chevron USA	78	13	1	2	1	17	34	\$11,778,876	14	\$346,438
Focus Exploration	2790	25	5	1	1	0	32	\$12,622,565	11	\$394,455
Murphy Exploration & Production	2647	0	0	4	15	10	29	\$29,893,728	3	\$1,030,818
LLOG Exploration Offshore	2058	21	0	1	6	0	28	\$37,234,680	2	\$1,329,810
Spinnaker Exploration	2169	2	0	5	11	9	27	\$28,465,303	4	\$1,054,270
Energy Partners	2266	27	0	0	0	0	27	\$17,674,660	7	\$654,617
Magnum Hunter Production	2349	25	1	0	0	0	26	\$6,685,322	27	\$257,128
Tana Exploration	2579	21	0	3	1	0	25	\$20,078,939	6	\$803,158
Exxon Mobil	276	7	0	0	0	13	20	\$7,657,771	23	\$382,889

Appendix H

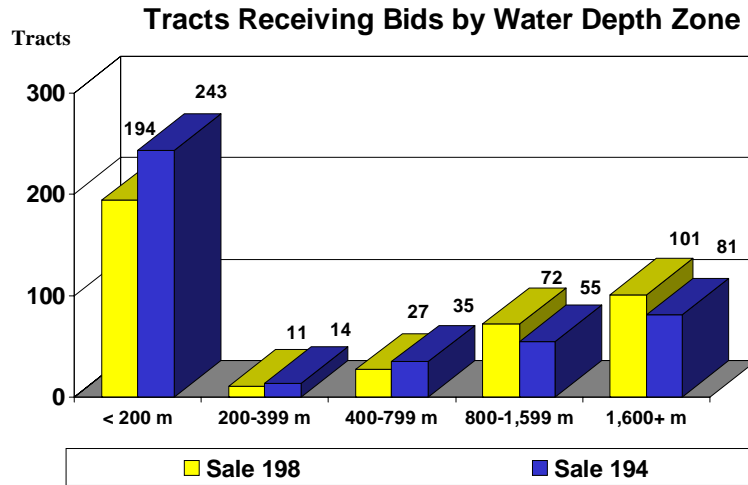
Sales 198 and 194

Comparison of Sales - Graphs

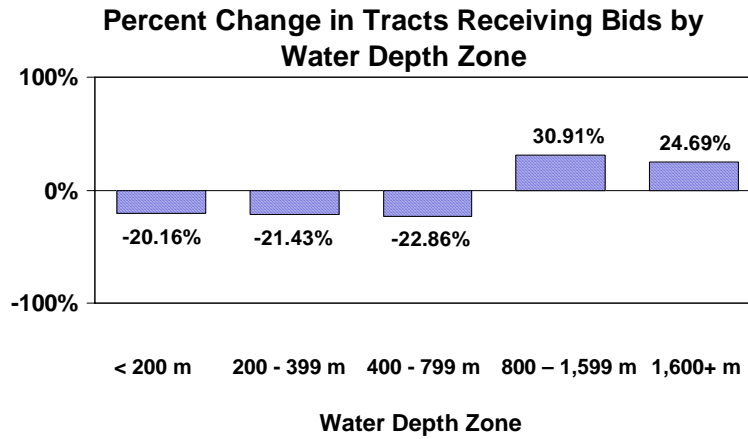
Sale 198 vs. Sales 194 (CGOM Comparison of Results

- In aggregate, 405 tracts received high bids of \$588.31 MM in Sale 198 and 428 tracts received high bids of \$353.96 MM in Sale 194
- Bids per tract increased to 1.75 in Sale 198 from 1.52 in Sale 194
- Sale 198 had 194 tracts in < 200 m receiving high bids of \$168.41 MM vs, 243 tracts and high bids of \$172.31 MM in Sale 194
- Sale 198 had 211 tracts in > 200 m receiving high bids of \$419.90 MM vs. 185 tracts and high bids of \$181.65 MM in Sale 194

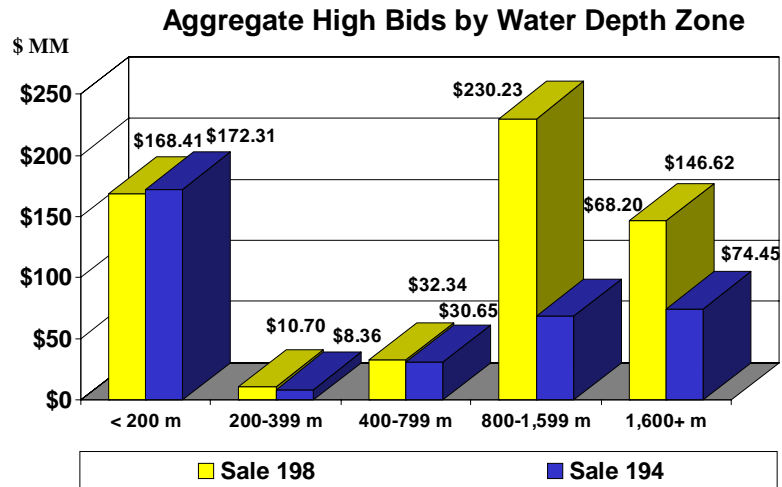
Sale 198 vs. Sale 194 - Tracts



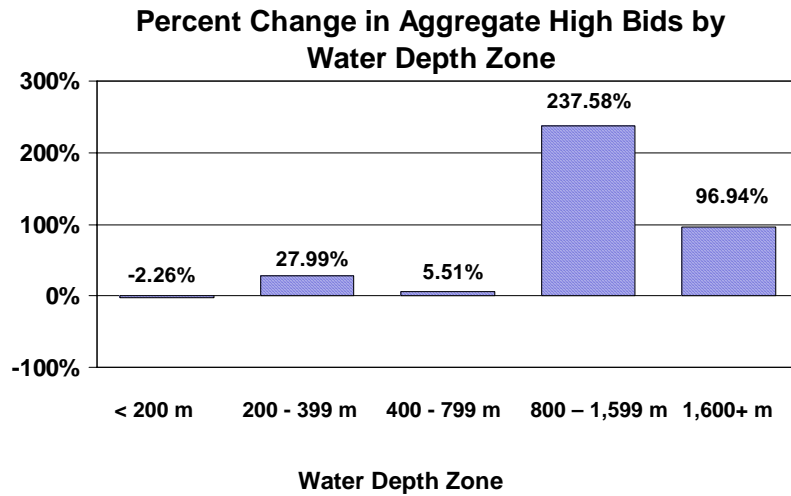
Sale 198 vs. Sale 194 - Tracts



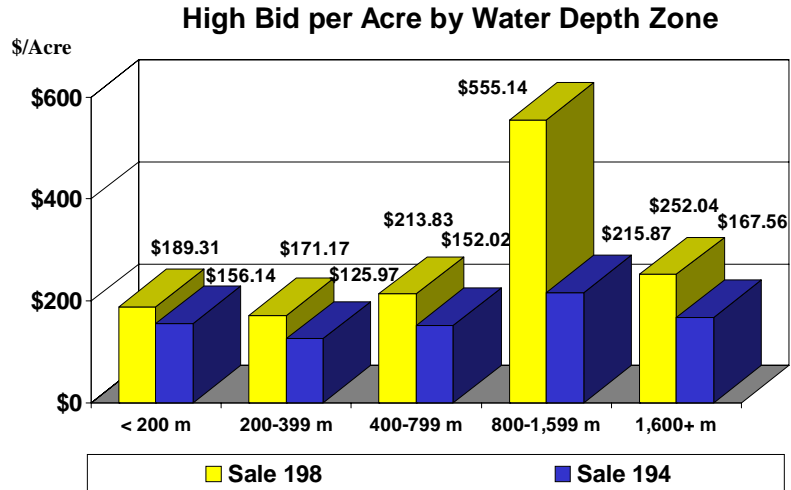
Sale 198 vs. Sale 194 - Bonuses



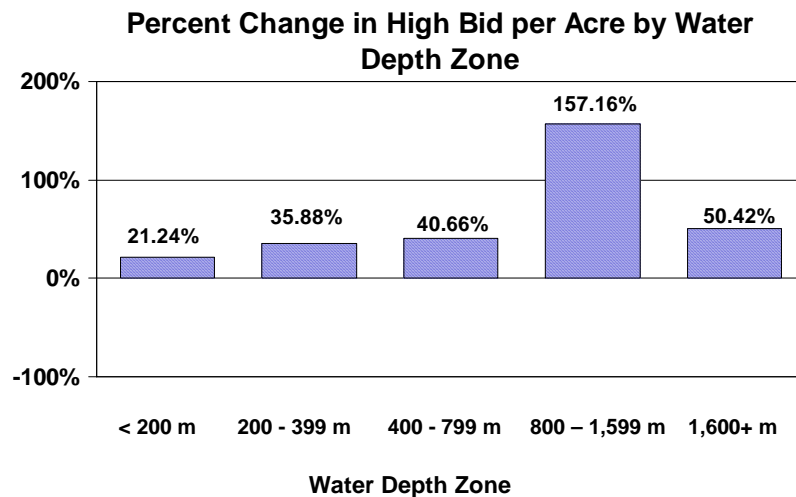
Sale 198 vs. Sale 194 - Bonuses



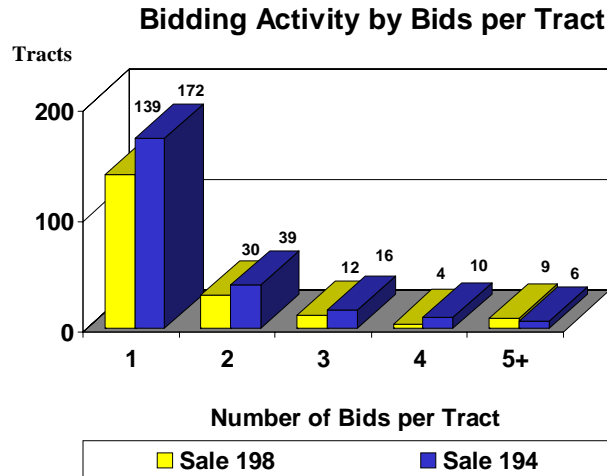
Sale 198 vs. Sale 194 - High Bid per Acre



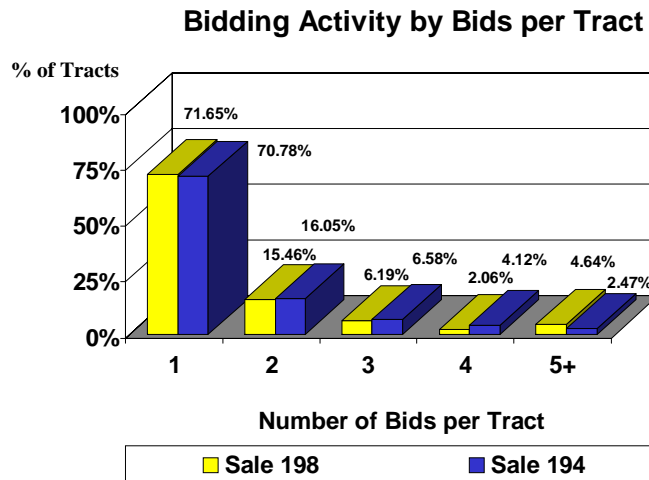
Sale 198 vs. Sale 194 - High Bid per Acre



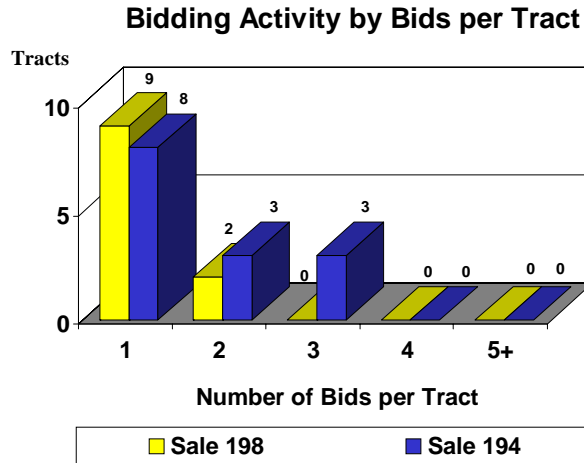
Sale 198 vs. Sale 194 - Tracts < 200 Meters Water Depth



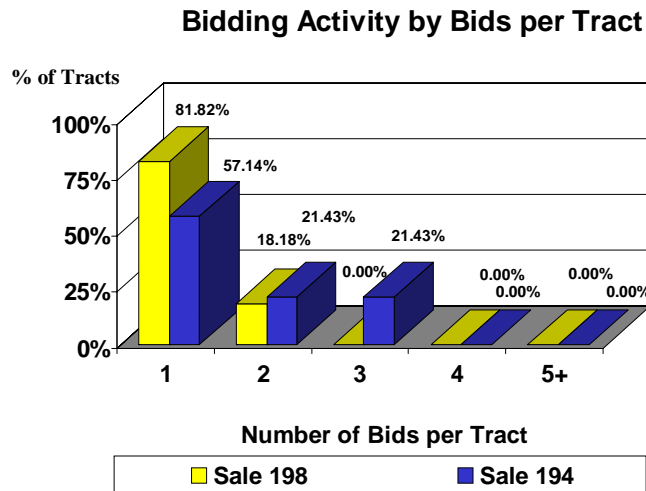
Sale 198 vs. Sale 194 - Tracts < 200 Meters Water Depth



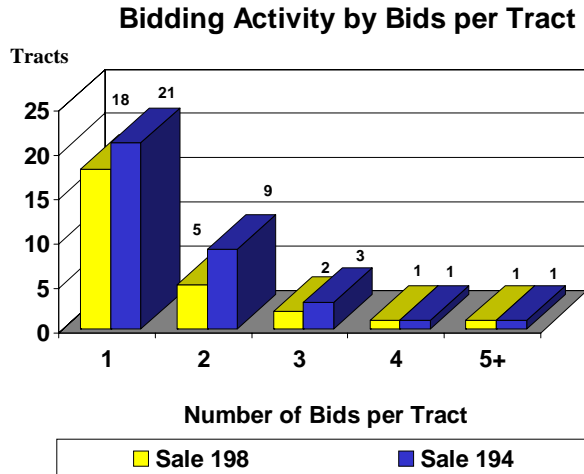
Sale 198 vs. Sale 194 - Tracts in 200 to < 400 Meters Water Depth



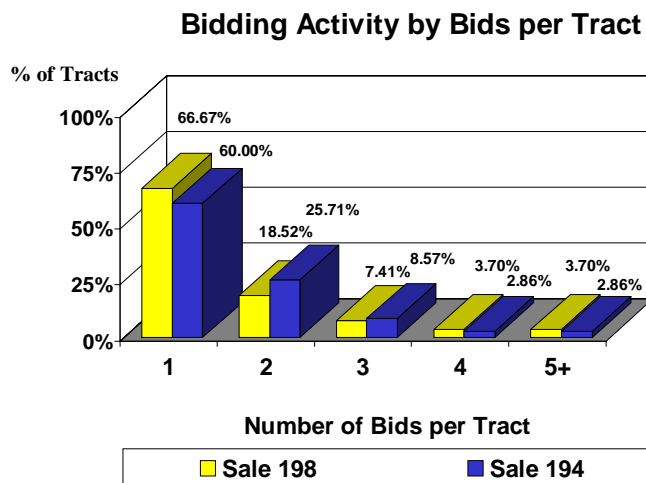
Sale 198 vs. Sale 194 - Tracts in 200 to < 400 Meters Water Depth



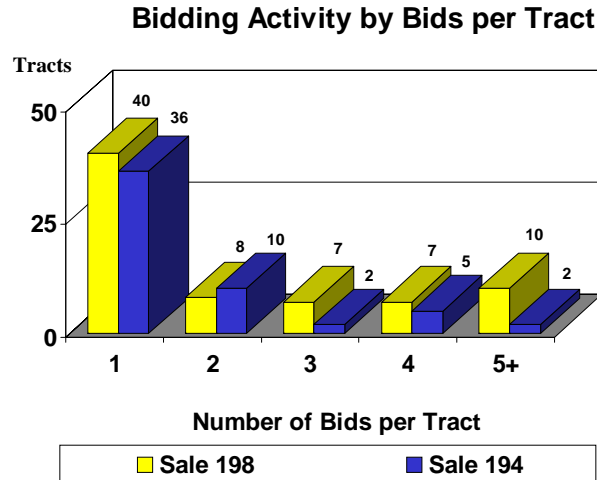
Sale 198 vs. Sale 194 - Tracts in 400 to < 800 Meters Water Depth



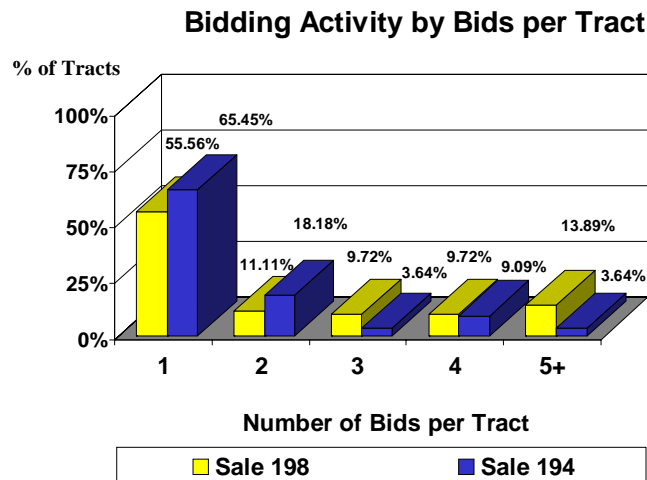
Sale 198 vs. Sale 194 - Tracts in 400 to < 800 Meters Water Depth



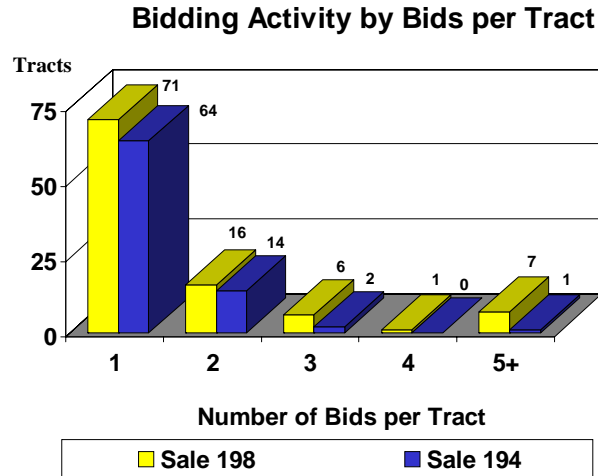
Sale 198 vs. Sale 194 - Tracts in 800 to < 1,600 Meters Water Depth



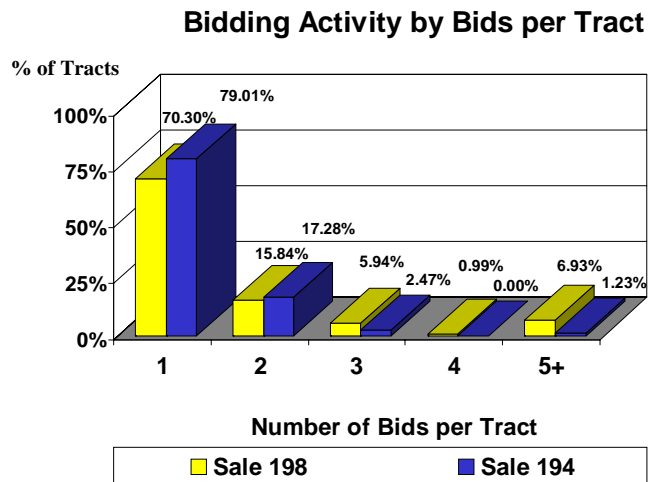
Sale 198 vs. Sale 194 - Tracts in 800 to < 1,600 Meters Water Depth



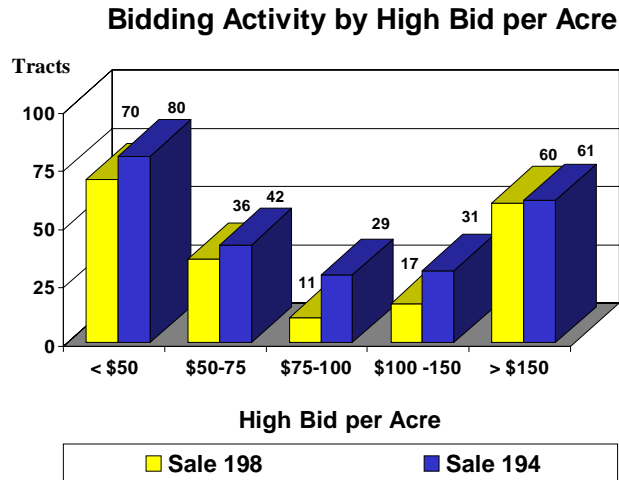
Sale 198 vs. Sale 194 - Tracts in 1,600 or more Meters Water Depth



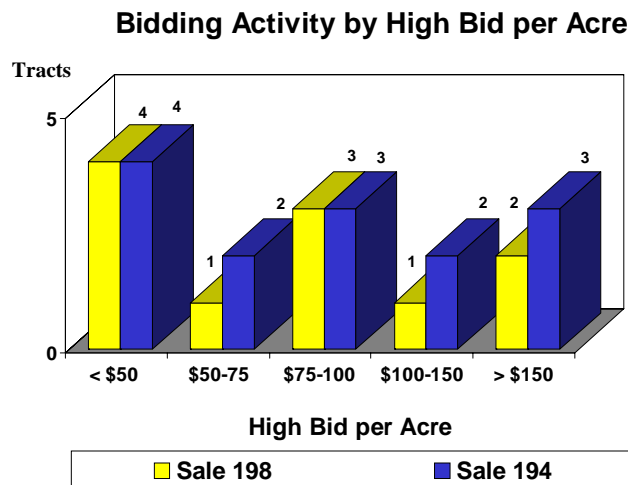
Sale 198 vs. Sale 194 - Tracts in 1,600 or more Meters Water Depth



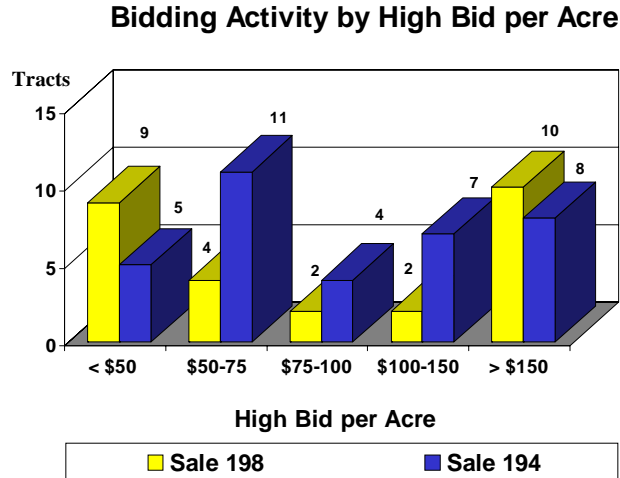
Sale 198 vs. Sale 194 - Tracts < 200 Meters Water Depth



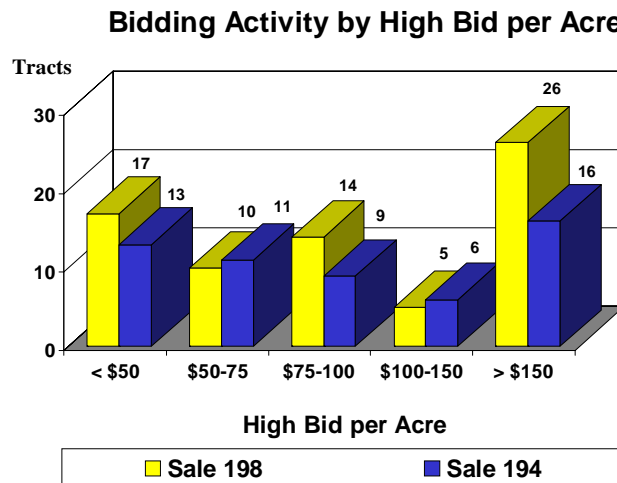
Sale 198 vs. Sale 194 - Tracts in 200 to < 400 Meters Water Depth



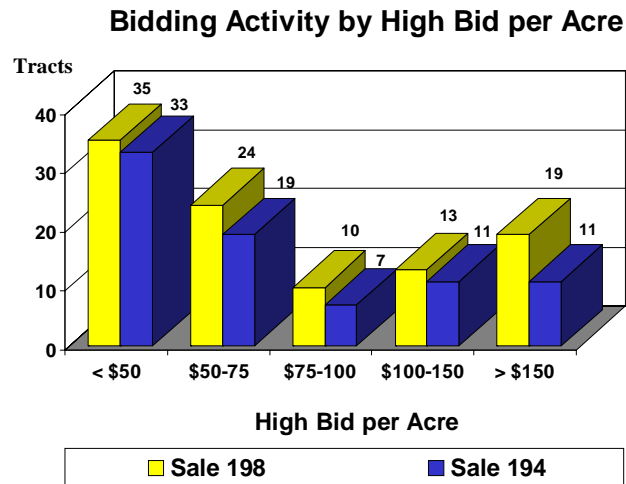
Sale 198 vs. Sale 194 - Tracts in 400 to < 800 Meters Water Depth



Sale 198 vs. Sale 194 - Tracts in 800 to < 1,600 Meters Water Depth



Sale 198 vs. Sale 194 - Tracts in 1,600 or more Meters Water Depth



Appendix I

Sale 198

High Bid Rejections

Sale 198 Rejections

The high bids on 12 tracts were rejected in Sale 198. The rejected blocks received from one to two bids. By water depth category, the rejections were as follows: eight in less than 200 meters, one in 200 to less than 400 meters, one in 1,600 to 2,000 meters, and two in deeper than 2,000 meters.

Table I1. *Sale 198, Rejections in Water Depths Less Than 200 Meters; Royalty Rate = 1/6; Potential Royalty Suspension Volume as prescribed in 30 CFR 203.40 through 203.47 for gas from deep wells, i.e., drilling depth of 15,000 feet or more*

Tract No.	Bids	High Bid	ADV	RAM
G27859	1	\$157,000	\$1,000,000	Not Applicable
G27860	1	\$157,000	\$650,000	Not Applicable
G27877	2	\$257,000	\$1,100,000	Not Applicable
G27901	1	\$257,000	\$1,100,000	Not Applicable
G27911	2	\$457,000	\$1,700,000	\$1,071,333
G27913	2	\$340,400	\$1,800,000	\$1,434,545
G27934	1	\$826,925	\$1,600,000	Not Applicable
G27950	1	\$517,676	\$2,400,000	Not Applicable

Table I2. *Sale 198, Rejection in Water Depths of 200 to < 400 Meters; Royalty Rate = 1/6; Potential Royalty Suspension Volume as prescribed in 30 CFR 203.40 through 203.47 for gas from deep wells, i.e., drilling depth of 15,000 feet or more*

Tract No.	Bids	High Bid	ADV	RAM
G28003	1	\$1,500,777	\$3,300,000	Not Applicable

Table I3. *Sale 198, Rejection in Water Depths of 1,600 to 2000 Meters; Royalty Rate = 1/8; 12 MMBOE Royalty Suspension Volume*

Tract No.	Bids	High Bid	ADV	RAM
G28000	1	\$269,845	\$1,300,000	Not Applicable

Table I4. *Sale 198, Rejections in Water Depths of Deeper than 2,000 Meters;*
Royalty Rate = 1/8; 16 MMBOE Royalty Suspension Volume

Tract No.	Bids	High Bid	ADV	RAM
G28013	1	\$533,186	\$1,200,000	Not Applicable
G28014	1	\$1,001,121	\$2,200,000	Not Applicable

Appendix J

Modifications to the Bid Adequacy Procedures

Bid Adequacy Procedures

[Federal Register: July 12, 1999 (Volume 64, Number 132)]
[Notices]
[Page 37560-37562]
From the Federal Register Online via GPO Access [wais.access.gpo.gov]
[DOCID:fr12jy99-108]

DEPARTMENT OF THE INTERIOR

Minerals Management Service

Modifications to the Bid Adequacy Procedures

AGENCY: Minerals Management Service (MMS), Interior.

ACTION: Notification of procedural change.

SUMMARY: The Minerals Management Service (MMS) has changed a criterion in its existing bid adequacy procedures for ensuring receipt of fair market value on Outer Continental Shelf (OCS) oil and gas leases. The change ensures consistency in the evaluation of tracts.

DATES: This modification is effective July 1, 1999.

FOR FURTHER INFORMATION CONTACT: Dr. Marshall Rose, Chief, Economics Division, at (703) 787-1536.

The revised bid adequacy procedures are described below.

What Definitions Apply to These Procedures?

The *MROV* is a dollar measure of a tract's expected net present value, if that tract is leased in the current sale. The calculation of the *MROV* allows for exploration and economic risk, and includes tax consequences, e.g., depletion of the cash bonus.

The *delayed MROV (DMROV)* is a measure used to determine the size of the high bid needed in the current sale to equalize it with the discounted sum of the bonus and royalties expected in the next sale, less the foregone royalties from the current sale. The bonus for the next sale is computed as the *MROV* associated with the delay in leasing under the projected economic, engineering, and geological leasing receipts conditions, including drainage. If the high bid exceeds the *DMROV*, then the leasing receipts from the current sale are expected to be greater than those from the next sale, even in cases in which the *MROV* exceeds the high bid.

The *Adjusted Delayed Value (ADV)* is the minimum of the MROV and the DMROV.

The *RAM* is the revised arithmetic average measure of the MROV and all qualified bids on a tract that are equal to at least 25 percent of the high bid.

Anomalous bids are all but the highest bid submitted for a tract by the same company (bidding alone or jointly with another company), parent, or subsidiary. These bids are excluded when applying the number of bids rule or any other bid adequacy measure.

Legal bids are those bids which comply with the MMS regulations (30 CFR 256) and the Notice of Sale, e.g., equal or exceed the specified minimum bid. Any illegal bid will be returned to the bidder.

Qualified bids are those bids that are legal and not anomalous.

MONTCAR is a probabilistic, cash flow computer simulation model used to conduct a resource-economic evaluation that results in an estimate of the expected net present value of a tract (or prospect).

Nonviable tracts or prospects are those geographic or geologic configurations of hydrocarbons that are estimated to be uneconomic to produce with the costs and anticipated future prices used in the analysis.

Within the context of our bid adequacy procedures, the term “*unusual bidding patterns*” typically refers to a situation in which two or more companies bid against each other more often than would normally be expected. Companies could agree to bid against each other on certain sets of tracts in a sale so that the number of bids rule would apply for bid acceptance. Other forms of unusual bidding patterns exist as well, and generally involve anti-competitive practices, e.g., if it appears that companies are attempting to avoid bidding against each other in a sale on a set of prospective tracts.

A *confirmed tract* is a previously leased tract having a well(s) which encountered hydrocarbons and may have produced. It contains some oil and/or gas resources whose volume may or may not be known.

A *development tract* is a tract which has nearby productive (past or currently capable) wells with indicated hydrocarbons and which is not interpreted to have a productive reservoir extending under the tract. There should be evidence supporting the interpretation that at least part of the tract is on the same general structure as the proven productive well.

A *drainage tract* is a tract which has a nearby well which is capable of producing oil or gas, and the tract could incur drainage if and when such a well is placed on production. The reservoir, from which the nearby well is capable of producing, is interpreted to extend under the drainage tract to some extent.

A *wildcat tract* is a tract which has neither nearby productive (past or currently capable) wells, nor is interpreted to have a productive reservoir extending under the tract. It has high risk in addition to sparse well control.

Water depth categories for bid adequacy purposes in the Gulf of Mexico are designated as (1) less than 800 meters and (2) 800 meters or more.

If different water depth categories are used for a Gulf of Mexico sale, they will be specified in the sale's final notice. For areas other than the Gulf of Mexico, all tracts will be considered to be in the same water depth category, unless an alternative is specified in the final notice of sale.

What Problem Is Addressed by the Change?

In any OCS lease sale, a limited number of tracts may be reclassified from drainage or development (DD) in Phase 1 of the bid evaluation process to confirmed or wildcat (CW) in Phase 2. (The MMS reclassifies a tract if additional Phase 2 analysis supports a classification different than the one assigned the tract in Phase 1 of the evaluation.) However, under the old bid adequacy procedures, a tract classified as CW in Phase 1 was evaluated under different criteria than a tract that was reclassified as CW in Phase 2. This change ensures the consistent treatment of similarly classified tracts whether they are evaluated in Phase 1 or Phase 2.

What Change Is Being Made?

In Phase 1 of the bid adequacy procedures, the MMS classifies tracts as either CW or DD based on information available at the time of sale. Under the old (February 10, 1999) guidelines, tracts within designated water depth categories that were reclassified from DD to CW in Phase 2 only had to have a third largest bid within 50 percent of the high bid to be accepted. Now, DD tracts reclassified as CW tracts must satisfy the same criteria for acceptance that would have had to be met if they were classified as CW in Phase 1.

To ensure consistency in evaluations, the following change is being made. In Phase 1, for CW tracts receiving three-or-more qualified bids, acceptance under the number of bids rule will apply only if the third largest bid is within 50 percent of the high bid, and if the high bid is in the top 75 percent of high bids on a per acre basis for all three-or-more-bid tracts within designated water depth categories. In Phase 2 of the bid evaluation process, DD tracts that have been reclassified as CW will be subject to the same screening criteria that the CW tracts with three-or-more bids had to meet in Phase 1.

How Are Bids Evaluated?

During the bid review process, we conduct evaluations in a two-phased procedure for bid adequacy determination. We also review bids to ensure that they are for at least the minimum amount specified in the notice of sale and that unusual bidding patterns are not present.

What Happens in Phase 1 of the Bid Adequacy Procedures?

In Phase 1, we partition the tracts receiving bids into three general categories:

1. Those tracts with three-or-more bids, on which competitive market forces can be used to assure fair market value;
2. Those tracts which we identify as being nonviable based on adequate data and maps; and
3. Those tracts which we identify as being viable and on which we have the most detailed and reliable data, including tracts classified as DD.

What Phase 1 Rules Are Applied to All Tracts Receiving Bids?

Six Phase 1 rules are applied to all tracts receiving bids:

1. We accept the highest qualified bid on viable CW tracts receiving three-or-more qualified bids if the third largest bid on the tract is at least 50 percent of the highest qualified bid and if the high bid per acre ranks in the top 75 percent of high bids for all three-or-more-bid tracts within a specified water depth category.
2. We accept the highest qualified bid on CW tracts that we determine to be nonviable.
3. We pass to Phase 2 all tracts that require additional information to make a determination on viability or tract type.
4. We pass to Phase 2 all viable CW tracts receiving one or two qualified bids.
5. We pass to Phase 2 all viable CW tracts receiving three-or-more qualified bids if either the third largest such bid is less than 50 percent of the highest qualified bid or if the high bid per acre ranks in the lowest 25 percent of high bids for all three-or-more-bid tracts in the specified water depth category.
6. We pass to Phase 2 all DD tracts.

How Is the Percentile Ranking of a Tract's High Bid Calculated?

The percentile ranking of a tract's high bid is calculated by multiplying 100 times the ratio of the numerical ordering of the three-or-more-bid tract's high bid to the total number of all three-or-more-bid tracts in the designated water depth. For example, suppose there are 21 total tracts identified in Phase 1 as receiving three-or-more-bids in the designated water depth category of at least 800 meters. All tracts in this set having a high bid among the top 15 high bids would satisfy the 75 percent requirement; the 15th ranked high bid would represent the 71st percentile, i.e., $(100 * (15/21) = 71)$.

Can any Other Procedures Be Used in Phase 1 to Ensure the Receipt of Fair Market Value?

In ensuring the integrity of the bidding process, the Regional Director may identify an unusual bidding pattern at any time during the bid review process, but before a tract's high bid is accepted. If the finding is documented, the Regional Director has discretionary authority, after consultation with the Solicitor, to pass those identified tracts to Phase 2 for further analysis. The Regional Director may eliminate all but the largest of the unusual bids from consideration when applying any bid adequacy rule, may choose not to apply a bid adequacy rule, or may reject the tract's highest qualified bid.

How Long Does it Take To Complete the Phase 1 Procedures?

These procedures are generally completed within 3 weeks of the bid opening. All the leases that will be awarded as a result of the Phase 1 analysis are announced at the end of this period.

How Long Do the Phase 2 Procedures Take?

The Phase 2 bid adequacy determinations are normally completed sequentially over a period ranging between 21 and 90 days after the sale. Leases are awarded as the analysis of bids is completed over this time period. The total evaluation period can be extended, if needed, at the Regional Director's discretion (61 FR 34730, July 3, 1996).

What are the Initial Steps of the Bid Adequacy Process that Are Followed in Phase 2?

Activities to assess bids are undertaken by analyzing, partitioning, and evaluating tracts in two steps:

1. Further mapping and/or analysis is performed to review, modify, and finalize viability determinations and tract classifications.
2. Tracts we identify as being viable must undergo an evaluation to determine if fair market value has been received.

What Decision Rules Are Applied in Phase 2 of the Bid Evaluation Process?

After completing the initial two steps, a series of rules and procedures are followed.

1. We accept the highest qualified bid on newly classified CW tracts having three-or-more qualified bids if its third largest bid is at least 50 percent of the highest qualified bid and if its high bid per acre ranks in the top 75 percent of high bids for all three-or-more-bid tracts that reside within its specified water depth category.
2. We accept the highest qualified bid on all tracts determined to be nonviable.
3. We determine whether any categorical fair market evaluation technique(s) will be used.

If so we:

- A. Evaluate, define, and identify the appropriate threshold measure(s) for bid acceptance.
 - B. Accept all tracts whose individual measures of bid adequacy satisfy the threshold categorical requirements.
4. We conduct a full-scale evaluation, which could include the use of MONTCAR, on all remaining tracts passed to Phase 2 and still awaiting an acceptance or rejection decision.

What Subset of Tracts Comprise the “Remaining Tracts” That Still Need a Phase 2 Acceptance or Rejection Decision?

The remaining tracts include tracts not accepted by a categorical rule that we classify as:

- 1. DD tracts, or
- 2. CW tracts that are viable and received:
 - A. One or two qualified bids, or
 - B. Three-or-more qualified bids, if either its third largest bid is less than 50 percent of the highest qualified bid or the high bid is in the bottom 25 percent of all three-or-more-bid CW tracts within a designated water depth category.

What Procedures Are Followed for Evaluating the Adequacy of Bids on These Tracts?

For these tracts we:

- 1. Accept the highest qualified bid, if it equals or exceeds the tract's ADV.
- 2. Reject the highest qualified bid on DD tracts receiving three-or-more qualified bids, if the high bid is less than one-sixth of the tract's MROV.
- 3. Reject the highest qualified bid on DD tracts receiving one or two qualified bids and on CW tracts receiving only one qualified bid, if the high bid is less than the tract's ADV.

What Happens Next to the Tracts Still Awaiting an Acceptance or Rejection Decision?

At this stage of the process, the tracts still awaiting a decision consist of those having a highest qualified bid that is less than the ADV that are either:

- 1. DD tracts receiving three-or-more qualified bids with the highest bid exceeding one-sixth of the tract's MROV or
- 2. Viable CW tracts that receive two-or-more qualified bids.

From these tracts, we select the following:

- A. DD tracts having three-or-more qualified bids with the third largest bid being at least 25 percent of the highest qualified bid, and
- B. CW tracts having two-or-more qualified bids with the second largest bid being at least 25 percent of the highest qualified bid.

We then compare the highest qualified bid on each of these selected tracts to the tract's RAM. For all these tracts, we:

- 1. Accept the highest qualified bid, if the high bid equals or exceeds the tract's RAM, or
- 2. Reject the highest qualified bid, if the high bid is less than the tract's RAM.

Finally, we identify those tracts that are still awaiting a decision, but did not meet the requirements for comparison to the RAM and we reject the high bid on these tracts.

At this point, the acceptance or rejection decisions are made on all the high bids in the sale. The successful bidders are notified and their leases are awarded after the full payment of the high bid is received. The unsuccessful bidders are notified as well and their bid deposits are returned. Unsuccessful bidders may appeal a bid rejection decision as described in 30 CFR 256.47(e)(3).

Dated: July 1, 1999.

Carolita U. Kallaur,
Associate Director for Offshore Minerals Management.
[FR Doc. 99-17662 Filed 7-9-99; 8:45 am]
BILLING CODE 4310-MR-P

MMS *Securing Ocean Energy & Economic Value for America*



The Department of the Interior Mission

As the Nation's principal conservation agency, the Department of the Interior has responsibility for most of our nationally owned public lands and natural resources. This includes fostering sound use of our land and water resources; protecting our fish, wildlife, and biological diversity; preserving the environmental and cultural values of our national parks and historical places; and providing for the enjoyment of life through outdoor recreation. The Department assesses our energy and mineral resources and works to ensure that their development is in the best interests of all our people by encouraging stewardship and citizen participation in their care. The Department also has a major responsibility for American Indian reservation communities and for people who live in island territories under U.S. administration.



The Minerals Management Service Mission

As a bureau of the Department of the Interior, the Minerals Management Service's (MMS) primary responsibilities are to manage the mineral resources located on the Nation's Outer Continental Shelf (OCS), collect revenue from the Federal OCS and onshore Federal and Indian lands, and distribute those revenues.

Moreover, in working to meet its responsibilities, the **Offshore Minerals Management Program** administers the OCS competitive leasing program and oversees the safe and environmentally sound exploration and production of our Nation's offshore natural gas, oil and other mineral resources. The MMS **Minerals Revenue Management** meets its responsibilities by ensuring the efficient, timely and accurate collection and disbursement of revenue from mineral leasing and production due to Indian tribes and allottees, States and the U.S. Treasury.

The MMS strives to fulfill its responsibilities through the general guiding principles of: (1) being responsive to the public's concerns and interests by maintaining a dialogue with all potentially affected parties and (2) carrying out its programs with an emphasis on working to enhance the quality of life for all Americans by lending MMS assistance and expertise to economic development and environmental protection.