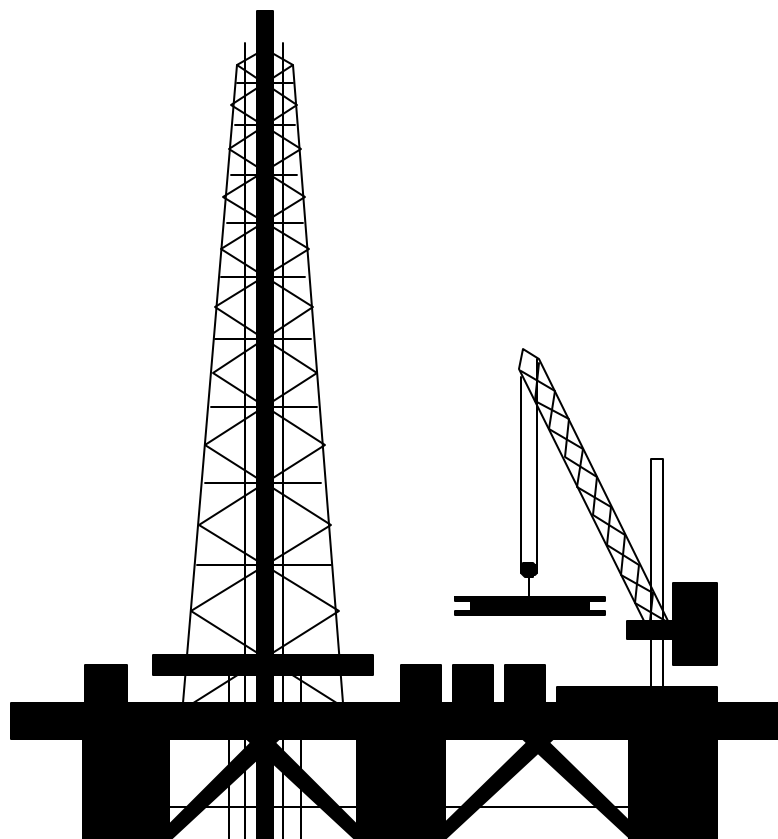


Western Gulf of Mexico Sale 177 August 23, 2000

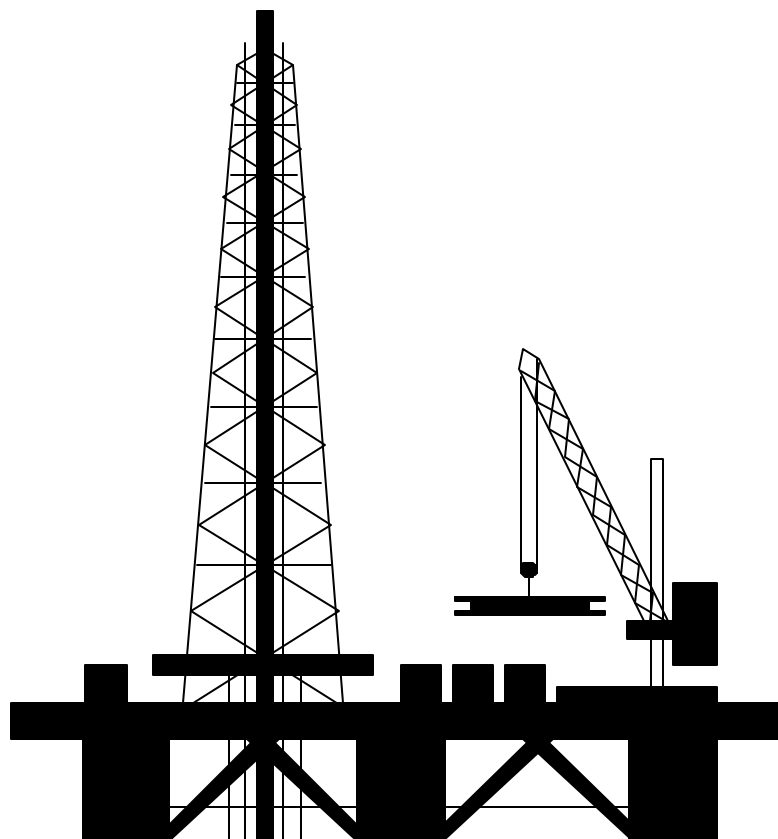
Sale Summary, Bidding Results and
Related Analyses



Western Gulf of Mexico Sale 177 August 23, 2000

Sale Summary, Bidding Results and
Related Analyses

By
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Western Gulf of Mexico

Sale 177 August 23, 2000 Sale Overview

Sale 177 in the Western Gulf of Mexico (WGOM) was the fifth sale in that planning area in which the “new lease” provisions of the Deep Water Royalty Relief Act of 1995 (DWRRA) were applied. In this sale, 226 tracts received 266 bids (an average of 1.18 bids per tract) and 97 of those tracts were in water depths eligible for royalty relief.

Bidding Results

Sale 177, in terms of the number of tracts receiving bids, was almost 50 percent larger than WGOM Sale 174 held in 1999. The increase in aggregate high bids in Sale 177 compared to Sale 174 was relatively large, as they rose 62 percent. In Sale 177, 226 tracts received 266 bids with high bids totaling \$153,660,031.

Bidding results by water depth zone are summarized in Table 1 and 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.	129	\$46.48	160	1.24
200 - 400 m.	6	\$1.60	6	1.00
400 - 800 m.	10	\$9.34	11	1.10
800+ m.	81	\$96.24	89	1.10
Total	226	\$153.66	266	1.18

Bidding activity in Sale 177 resulted in a moderate increase in the number of tracts receiving bids, number of bids, and aggregate high bids compared to the previous WGOM sale (Sale 174, August 25, 1999). In Sale 174, 153 tracts received 177 bids, whereas 226 tracts received 266 bids in Sale 177, resulting in increases of 48 and 50 percent, respectively. In addition, the sum of high bids submitted on tracts receiving bids in Sale 177 increased by about 62 percent compared to Sale 174 (\$153.66 million v. \$94.65 million). The increase in tracts, number of bids, and aggregate high bids was due to higher levels of bidding activity, especially in water depths of less than 200 meters and in 800 meters or more. The amount of competition for tracts was low compared to other post-DWRRA, GOM lease sales. About 87 percent of tracts received single-bids. Two-bid tracts accounted for the next highest percent of tracts receiving bids (about 9

percent). A summary of aggregate bidding results by number of bidders for the sale 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	197	87.17%	\$115.14	74.93%
2	21	9.29%	\$29.74	19.35%
3	6	2.65%	\$6.34	4.13%
4	1	0.44%	\$1.28	0.83%
5	1	0.44%	\$1.16	0.75%
Total	226	100.00%	\$153.66	100.00%

In contrast to many sales in the WGOM, in Sale 177, more tracts received high bids of \$50 or more per acre than those receiving less. In Sale 177, tracts with high bids greater than \$150 per acre accounted for about 60 percent of aggregate high bids, an amount similar to that observed in Sale 174. 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	99	43.81%	\$19.24	12.52%
\$50 - 74.99	42	18.58%	\$14.00	9.11%
\$75 - 99.99	13	5.75%	\$5.91	3.85%
\$100 - 149.99	34	15.04%	\$22.01	14.33%
\$150 +	38	16.81%	\$92.50	60.20%
Total	226	100.00%	\$153.66	100.00%

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

Bidding on Royalty Suspension Volume Tracts

A total of 81 tracts in 800 meters or more that are eligible for DWRRA royalty suspension volumes of 87.5 million barrels of oil equivalent (MMBOE) received bids. These tracts accounted for 36 percent of the tracts in the sale receiving bids and 63 percent of the sale's high bids. To put the magnitude of this bidding activity in perspective, the number of tracts receiving bids in water depths of 800 meters or more in Sale 177 was 27 percent higher and their associated high bids were 56 percent higher than those received in Sale 174. However, compared to Sale 171, the 1998 WGOM sale, the number of tracts receiving bids in the deepest water depth category declined 71 percent and their high bids declined 81 percent. In the water depth categories with smaller royalty suspension volumes, bidding activity in Sale 177 lagged the level observed in Sale 174 for tracts receiving bids, but exceeded Sale 174 in high bids.

In comparing the average high bid per acre by water depth category between Sales 177 and 174, in every category eligible for royalty suspension volumes, the Sale 177 averages were above those observed in Sale 174. In 200-400 meters, Sale 177's average was \$54.36/acre and Sale 174's was \$48.28/acre. In 400-800 meters, Sale 177's average was \$162.11/acre and Sale 174's was \$59.76/acre. Finally, in 800 meters or more, Sale 177's average was \$206.29/acre and Sale 174's was \$167.13/acre. These results suggest that industry continues to perceive greater resource potential and value to exist in the deepest water depth category.

Phase 1 Results

Following the post-sale bid evaluation procedures, which include a modified 3-bid rule, in Phase 1 of Sale 177, high bids were accepted on 51 tracts in water depths less than 200 meters and 18 tracts in water depths eligible for royalty relief. The Phase 1-accepted high bids accounted for about 31 percent of the tracts, representing 14 percent of the high bids. In terms of Phase 1 bid acceptances, the three most successful companies were: Shell Offshore with 11 of 20 high bids accepted, Anadarko Petroleum with 9 of 17 high bids accepted, and PanCanadian Gulf of Mexico with 11 of 16 high bids accepted.

Phase 1-accepted high bids were in only one category of tract. All 69 were wildcat and confirmed tracts determined to be non-viable. No tracts were accepted in Phase 1 by the number of bids rule. The Sale 177 Phase 1 results by number of bidders and high bid per acre are presented in Tables 4 and 5, respectively.

Table 4.—Phase 1 Results by Number of Bids

Bids	Tracts	Percent of Tracts	High Bids (\$ MM)	Percent of High Bids
1	65	94.20%	\$19.85	95.34%
2	3	4.35%	\$0.67	3.22%
3+	1	1.45%	\$0.30	1.44%
Total	69	100.00%	\$20.82	100.00%

Table 5.—Phase 1 Results by High Bid per Acre

High Bid per Acre	Tracts	Percent of Tracts	High Bids (\$ MM)	Percent of High Bids
< \$50	40	57.97%	\$7.65	36.74%
\$50 - 74.99	18	26.09%	\$6.03	28.96%
\$75 - 99.99	4	5.80%	\$1.65	7.93%
\$100 - 149.99	5	7.25%	\$2.87	13.78%
\$150 +	2	2.90%	\$2.62	12.58%
Total	69	100.00%	\$20.82	100.00%

Revised Arithmetic Average Measure of Tract (RAM)

The RAM is a secondary bid acceptance criterion that is used in Phase 2 of the Sale 177 bid evaluation process on multi-bid tracts that have high bids that do 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 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 continue to consider market factors in the evaluation of high bids without the distorting effects of the geometric average evaluation of tract (GAEOT), which often required ADVs well in excess of \$100 million for a high bid to be rejected. Using the RAM, the highest ADV required to reject a high bid on a multi-bid tract in Sale 177 is about \$3.6 million. This value for a lease is not unreasonable relative to high bids observed in this sale.

In Sale 177, seven tracts classified as wildcat and confirmed receiving three or more bids were passed to Phase 2 for evaluation. These tracts, potentially, could have their bid acceptance or rejection decision based on the RAM. After adjusting the number of bids to include only those that are at least 25 percent of a tract’s high bid, four tracts could be eligible for a decision based on the RAM. These four tracts would require ADVs of around \$0.7 million to \$3.6 million for rejection. For one tract (G22228) in Sale 177, the RAM was the decision rule that allowed the high bid to be accepted. Detailed tables of tracts receiving three or more bids by water depth zone are presented in Appendix E.

Bidding Activity

The number of companies participating in Sale 177 increased to 60 from the 41 active in Sale 174, the previous WGOM sale. Four companies submitted bids (either solo or jointly) on 20 or more tracts. Kerr-McGee Oil & Gas Corporation was the most active company in terms of bids submitted with 24. The most apparent high bids, 22, were submitted by Kerr-McGee as well. However, Union Oil Company of California had the greatest aggregate high bids with a total of \$17.6 million.

With only about 13 percent of the tracts receiving bids in the sale being multi-bid tracts, four firms that submitted ten or more bids were the high bidders on every bid they submitted. The four most efficient bidders, in terms of all their bids being high bids, were: CXY Energy Offshore with 20 high bids; PanCanadian Gulf of Mexico with 16 high bids; Amerada Hess with 13 high bids; and Devon Energy Production with 12 high bids.

The ten most active bidders in terms of total amount of high bids are listed in Table 6. 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.

In ranking companies by the high bids submitted, although some companies that were most active in WGOM Sale 174 (August 25, 1999) continued to be among the most active in Sale 177, a number of changes were apparent. For example, four companies (The Houston Exploration Co., Phillips Petroleum, Vastar Resources, and Coastal Oil & Gas USA) that were in the Sale 174 top ten were not ranked among the top 20 participants in Sale 177. Also, one Sale 174 top ten firm (CNG Producing) did not participate in Sale 177.

Appendix G presents a listing of bidding by the most active companies in Sales 177 and 174.

Table 6.—*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
Union Oil - CA	\$17,616,760	22 (2)	16 (5)
Kerr-McGee	\$16,251,470	24 (1)	22 (1)
Amerada Hess	\$16,072,178	13 (9)	13 (9)
CXY Energy Offshore	\$13,086,576	20 (4)	20 (2)
Spinnaker Exploration	\$9,170,029	17 (6)	14 (8)
Pioneer Natural Resources	\$8,088,702	16 (7)	15 (7)
Ocean Energy	\$6,335,620	13 (9)	11 (11)
Murphy E & P	\$5,888,000	11 (12)	8 (12)
PanCanadian GOM	\$5,418,625	16 (7)	16 (5)
Devon Energy Production	\$5,049,094	12 (11)	12 (10)

Sale 177 v. Sale 174

The results of Sale 177 surpassed the results of Sale 174 in every category of bidding activity. The average high bid per acre was \$122.86 in Sale 177 as compared with \$110.49 in Sale 174. In Sale 177, 226 tracts received 266 bids, thus exceeding the 153 tracts that received 177 bids in Sale 174. In addition, the number of bids per tract increased slightly to 1.18 from 1.16 in the previous sale.

The amount of bidding activity in deep water in Sale 177 increased slightly compared to Sale 174. Specifically, the number of tracts potentially eligible for DWRRA royalty suspension volumes (water depth of 200 meters or more) receiving bids increased by about 13 percent, and the high bids on these tracts increased 57 percent. Appendix H presents a graphical comparison of sale results.

In Sale 177, nine tracts with high bids that were rejected in Sale 174 received bids and two Sale 174-rejected tracts (with high bids of \$452,650) did not. The high bids on the nine tracts increased from \$4,048,589 in Sale 174 to \$11,308,196 in Sale 177, an increase in high bids of 151 percent. The number of bids on these nine tracts increased from 12 to 13, a gain of 8 percent. The potential to realize gains in high bids on tracts that were previously rejected highlights the importance of MMS's bid adequacy procedure.

Appendix A

Western Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 177

Bidding Summary

Western Gulf of Mexico OCS Oil and Gas Lease Sale 177

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	135	91	226
Acres Receiving Bids	726,521.38	524,160.00	1,250,681.38
Sum of High Bids	\$48,076,488	\$105,583,543	\$153,660,031
Sum of All Bids	\$57,401,890	\$109,971,723	\$167,373,613
Total Number of Bids	166	100	266
Average Bids	1.23	1.10	1.18
Companies Bidding	48	25	60
Highest Bid per Tract	\$2,437,282	\$10,540,880	\$10,540,880
- Tract Number	22271	22331	22331
- Number of Bids	2	1	1
Highest Bid per Acre	\$423.14	\$1,830.00	\$1,830.00
- Tract Number	22271	22331	22331
- Number of Bids	2	1	1
Most Bids	5	2	5
- Tract Number	22238	9 tracts	22238

Western Gulf of Mexico OCS Oil and Gas Lease Sale 177

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

	<u>16 2/3% w/ROY¹</u>	<u>16 2/3% w/RS²</u>	<u>16 2/3% Total</u>
Tracts Receiving Bids	129	6	135
Acres Receiving Bids	697,065.30	29,456.80	726,521.38
Sum of High Bids	\$46,475,259	\$1,601,229	\$48,076,488
Sum of All Bids	\$55,800,661	\$1,601,229	\$57,401,890
Total Number of Bids	160	6	166
Average Bids	1.24	1.00	1.23
Companies Bidding	46	6	48
Highest Bid per Tract	\$2,437,282	\$527,677	\$2,437,282
- Tract Number	22271	22312	22271
- Number of Bids	2	1	2
Highest Bid per Acre	\$423.14	\$91.61	\$423.14
- Tract Number	22271	22312	22271
- Number of Bids	2	1	2
Most Bids	5	1	5
- Tract Number	22238	6 tracts	22238

¹ "16 2/3% w/ROY" is that category of tracts in less than 200 meters of water with a royalty rate of 1/6 that is not eligible for DWRRR royalty suspension volumes.

² "16 2/3% w/RS" is that category of tracts in 200 to 400 meters of water with a royalty rate of 1/6 that is potentially eligible for a DWRRR royalty suspension volume of 17.5 MMBOE.

Western Gulf of Mexico OCS Oil and Gas Lease Sale 177

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

	<u>12 1/2% w/RS1¹</u>	<u>12 1/2% w/RS2²</u>	<u>12 1/2% Total</u>
Tracts Receiving Bids	10	81	91
Acres Receiving Bids	57,600.00	466,560.00	524,160.00
Sum of High Bids	\$9,337,674	\$96,245,869	\$105,583,543
Sum of All Bids	\$9,693,174	\$100,278,549	\$109,971,723
Total Number of Bids	11	89	100
Average Bids	1.10	1.11	1.10
Companies Bidding	8	24	25
Highest Bid per Tract	\$5,356,800	\$10,540,880	\$10,540,880
- Tract Number	22308	22331	22331
- Number of Bids	2	1	1
Highest Bid per Acre	\$930.00	\$1,830.00	\$1,830.00
- Tract Number	22308	22331	22331
- Number of Bids	2	1	1
Most Bids	2	2	2
- Tract Number	22308	8 tracts	9 tracts

¹ “12 1/2% w/RS1” is that category of tracts in 400 to 800 meters of water with a royalty rate of 1/8 that is potentially eligible for a DWRRA royalty suspension volume of 52.5 MMBOE.

² “12 1/2% w/RS2” is that category of tracts in 800 or more meters of water with a royalty rate of 1/8 that is potentially eligible for a DWRRA royalty suspension volume of 87.5 MMBOE.

Appendix B

Western Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 177

Bidding by Number of Bids

Sale 177

All Tracts

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	197	87.17%	\$115.14	74.93%
2	21	9.29%	\$29.74	19.35%
3	6	2.65%	\$6.34	4.13%
4	1	0.44%	\$1.28	0.83%
<u>5</u>	<u>1</u>	<u>0.44%</u>	<u>\$1.16</u>	<u>0.75%</u>
Total	226	100.00%	\$153.66	100.00%

Tracts with 1/6 Royalty Rate

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	115	85.19%	\$32.42	67.44%
2	12	8.89%	\$6.87	14.30%
3	6	4.44%	\$6.34	13.20%
4	1	0.74%	\$1.28	2.67%
<u>5</u>	<u>1</u>	<u>0.74%</u>	<u>\$1.16</u>	<u>2.40%</u>
Total	135	100.00%	\$48.07	100.00%

Tracts with 1/8 Royalty Rate

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	82	90.11%	\$82.72	78.35%
2	9	9.89%	\$22.86	21.65%
3	0	0.00%	\$0.00	0.00%
4	0	0.00%	\$0.00	0.00%
<u>5</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	91	100.00%	\$105.58	100.00%

Sale 177 by Water Depth Category

1/6 Royalty (<200 meters; no royalty suspension volume [RSV])

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	109	84.50%	\$30.82	66.31%
2	12	9.30%	\$6.87	14.79%
3	6	4.65%	\$6.34	13.65%
4	1	0.78%	\$1.28	2.76%
<u>5</u>	<u>1</u>	<u>0.78%</u>	<u>\$1.16</u>	<u>2.49%</u>
Total	129	100.00%	\$46.47	100.00%

1/6 Royalty (200-400 meters; 17.5 MMBOE RSV)

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	6	100.00%	\$1.60	100.00%
2	0	0.00%	\$0.00	0.00%
3	0	0.00%	\$0.00	0.00%
4	0	0.00%	\$0.00	0.00%
<u>5</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	6	100.00%	\$1.60	100.00%

1/8 Royalty (400-800 meters; 52.5 MMBOE RSV)

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	9	90.00%	\$3.98	42.63%
2	1	10.00%	\$5.36	57.37%
3	0	0.00%	\$0.00	0.00%
4	0	0.00%	\$0.00	0.00%
<u>5</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	10	100.00%	\$9.34	100.00%

1/8 Royalty (800+ meters; 87.5 MMBOE RSV)

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	7	90.12%	\$78.74	81.81%
2	8	9.88%	\$17.50	18.19%
3	0	0.00%	\$0.00	0.00%
4	0	0.00%	\$0.00	0.00%
<u>5</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	81	100.00%	\$96.24	100.00%

Appendix C

Western Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 177

Bidding by High Bid per Acre

Sale 177

All Tracts

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	99	43.81%	\$19.24	12.52%
\$50 - 74.99	42	18.58%	\$14.00	9.11%
\$75 - 99.99	13	5.75%	\$5.91	3.85%
\$100 - 149.99	34	15.04%	\$22.01	14.33%
<u>\$150 +</u>	<u>38</u>	<u>16.81%</u>	<u>\$92.50</u>	<u>60.20%</u>
Total	226	100.00%	\$153.66	100.00%

Tracts with 1/6 Royalty Rate

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	80	59.26%	\$14.65	30.47%
\$50 - 74.99	25	18.52%	\$7.92	16.48%
\$75 - 99.99	10	7.41%	\$4.37	9.09%
\$100 - 149.99	7	5.19%	\$3.49	7.26%
<u>\$150 +</u>	<u>13</u>	<u>9.63%</u>	<u>\$17.64</u>	<u>36.70%</u>
Total	135	100.00%	\$48.07	100.00%

Tracts with 1/8 Royalty Rate

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	19	20.88%	\$4.59	4.34%
\$50 - 74.99	17	18.68%	\$6.08	5.76%
\$75 - 99.99	3	3.30%	\$1.54	1.46%
\$100 - 149.99	27	29.67%	\$18.52	17.54%
<u>\$150 +</u>	<u>25</u>	<u>27.47%</u>	<u>\$74.86</u>	<u>70.90%</u>
Total	91	100.00%	\$105.59	100.00%

Sale 177 by Water Depth Category

1/6 Royalty (<200 meters; no RSV)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	77	59.69%	\$14.07	30.27%
\$50 - 74.99	23	17.83%	\$7.43	15.98%
\$75 - 99.99	9	6.98%	\$3.84	8.27%
\$100 - 149.99	7	5.43%	\$3.49	7.51%
<u>\$150 +</u>	<u>13</u>	<u>10.08%</u>	<u>\$17.64</u>	<u>37.96%</u>
Total	129	100.00%	\$46.47	100.00%

1/6 Royalty (200 - 400 meters; 17.5 MMBOE RSV)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	3	50.00%	\$0.58	36.31%
\$50 - 74.99	2	33.33%	\$0.49	30.74%
\$75 - 99.99	1	16.67%	\$0.53	32.95%
\$100 - 149.99	0	0.00%	\$0.00	0.00%
<u>\$150 +</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>
Total	6	100.00%	\$1.60	100.00%

1/8 Royalty (400 - 800 meters; 52.5 MMBOE RSV)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	4	40.00%	\$0.88	9.42%
\$50 - 74.99	1	10.00%	\$0.29	3.08%
\$75 - 99.99	0	0.00%	\$0.00	0.00%
\$100 - 149.99	4	40.00%	\$2.81	30.13%
<u>\$150 +</u>	<u>1</u>	<u>10.00%</u>	<u>\$5.36</u>	<u>57.37%</u>
Total	10	100.00%	\$9.34	100.00%

1/8 Royalty (800 + meters; 87.5 MMBOE RSV)

High Bid/acre	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
< \$50	15	18.52%	\$3.71	3.85%
\$50 - 74.99	16	19.75%	\$5.79	6.01%
\$75 - 99.99	3	3.70%	\$1.54	1.60%
\$100 - 149.99	23	28.40%	\$15.71	16.32%
<u>\$150 +</u>	<u>24</u>	<u>29.63%</u>	<u>\$69.50</u>	<u>72.21%</u>
Total	81	100.00%	\$96.25	100.00%

Appendix D

Western Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 177

Bidding Results – Graphs

Distribution of High Bids Sale 177 - WGOM

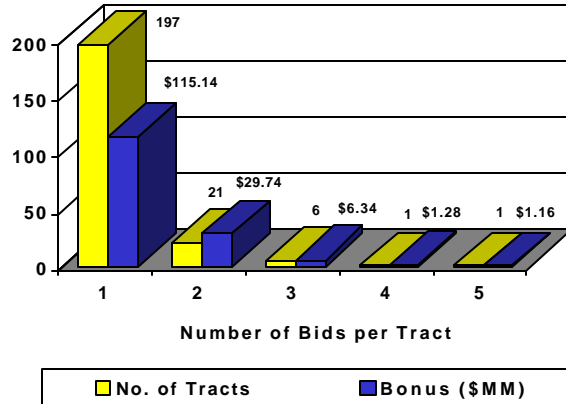
Prepared by:
Economics Division, MMS

Sale 177 (WGOM) - Bidding Results

- 226 tracts received 266 bids (1.18 bids/tract)
- High bids were \$153.66 MM
- Average high bid per acre was \$122.86
- 60 companies submitted bids
- 135 tracts in < 400 meters received bids -
59.73 % of tracts and 31.29 % of high bids
- 91 tracts in 400+ meters received bids -
40.27 % of tracts and 68.71 % of high bids

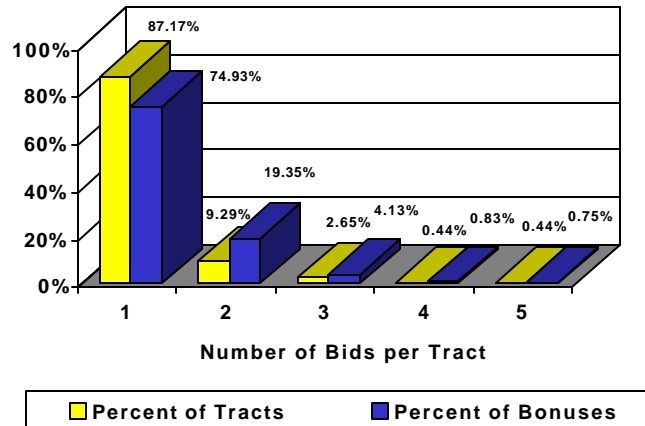
Sale 177 - Aggregate

Bidding Activity by Bids per Tract



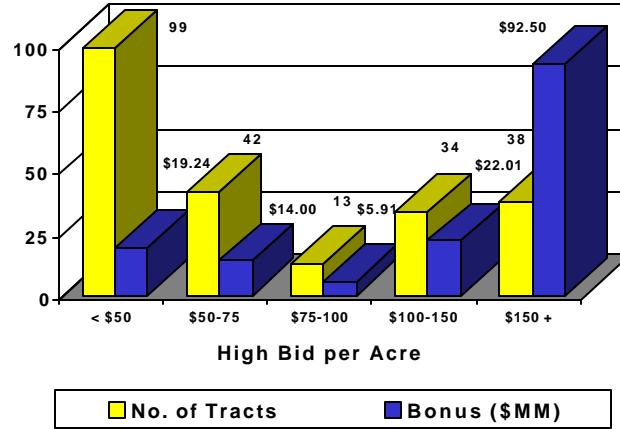
Sale 177 - Aggregate

Bidding Activity by Bids per Tract



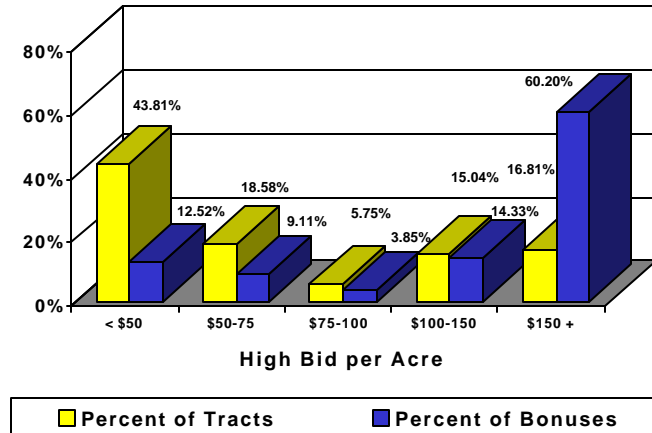
Sale 177 - Aggregate

Bidding Activity by High Bid per Acre



Sale 177 - Aggregate

Bidding Activity by High Bid per Acre



Sale 177

Bidding by Water Depth Category

Prepared by:
Economics Division, MMS

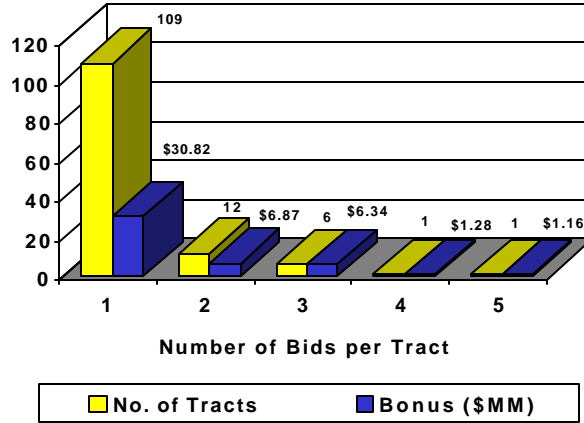
Sale 177 (WGOM)

Bidding by Water Depth Category

- 129 tracts in < 200 meters received 160 bids and high bids of \$46.48 MM (\$66.67/acre)
- 6 tracts in 200-400 meters had 6 bids and high bids of \$1.60 MM (\$54.36/acre)
- 10 tracts in 400-800 meters had 11 bids and high bids of \$9.34 MM (\$162.11/acre)
- 81 tracts in > 800 meters had 89 bids and high bids of \$96.25 MM (\$206.29/acre)

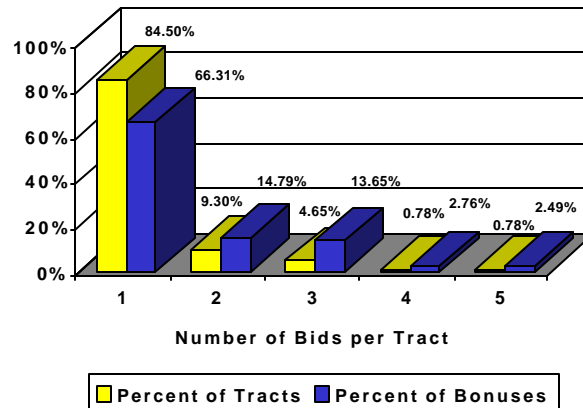
Sale 177 - Tracts in < 200 Meters Water Depth

Bidding Activity by Bids per Tract



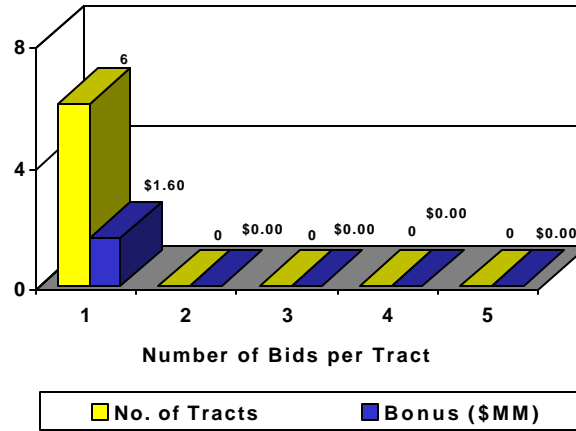
Sale 177 - Tracts in < 200 Meters Water Depth

Bidding Activity by Bids per Tract



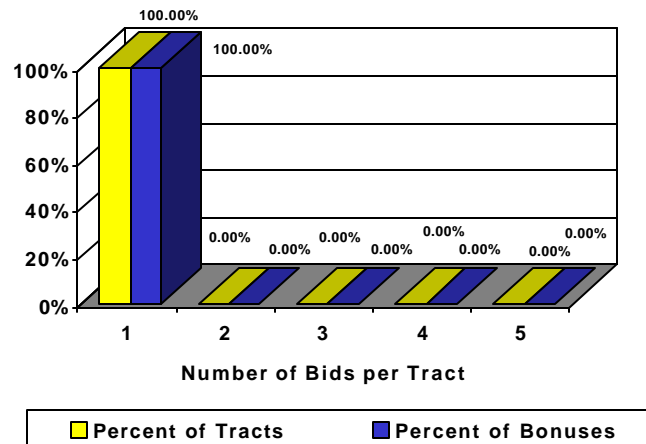
Sale 177 - Tracts in 200-400 Meters Water Depth

Bidding Activity by Bids per Tract



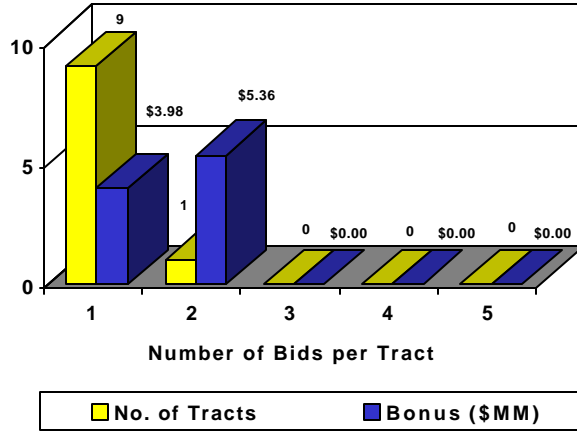
Sale 177 - Tracts in 200-400 Meters Water Depth

Bidding Activity by Bids per Tract



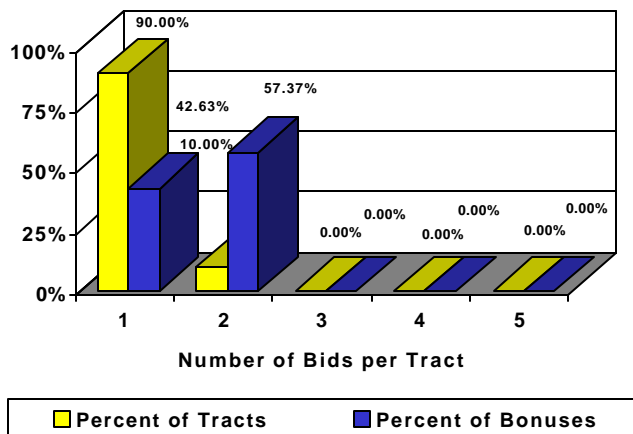
Sale 177 - Tracts in 400-800 Meters Water Depth

Bidding Activity by Bids per Tract



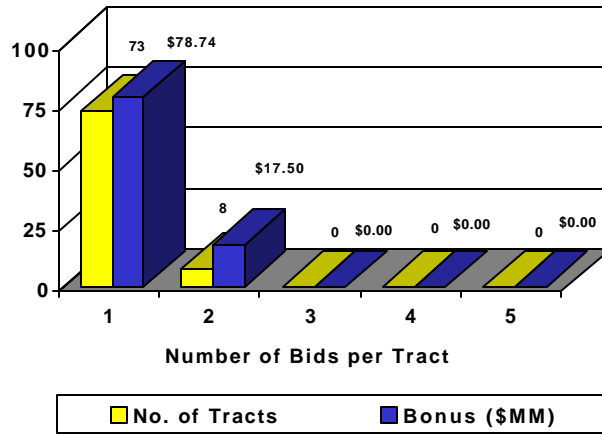
Sale 177 - Tracts in 400-800 Meters Water Depth

Bidding Activity by Bids per Tract



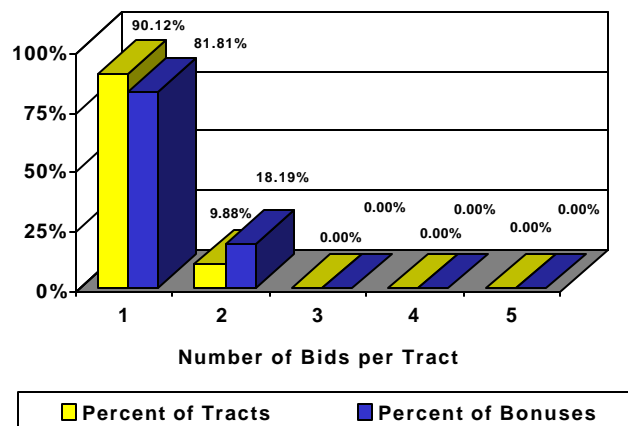
Sale 177 - Tracts in 800+ Meters Water Depth

Bidding Activity by Bids per Tract



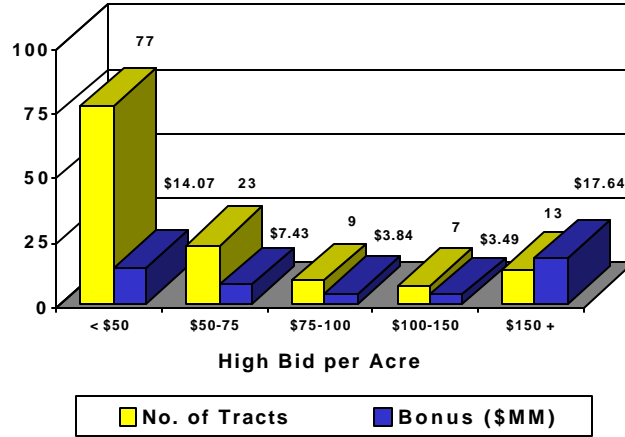
Sale 177 - Tracts in 800+ Meters Water Depth

Bidding Activity by Bids per Tract



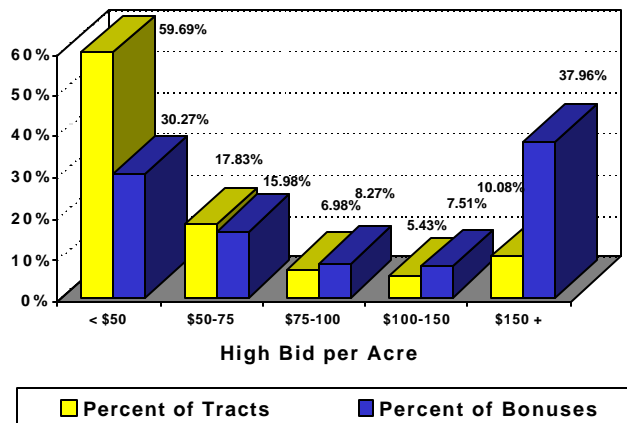
Sale 177 - Tracts in < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



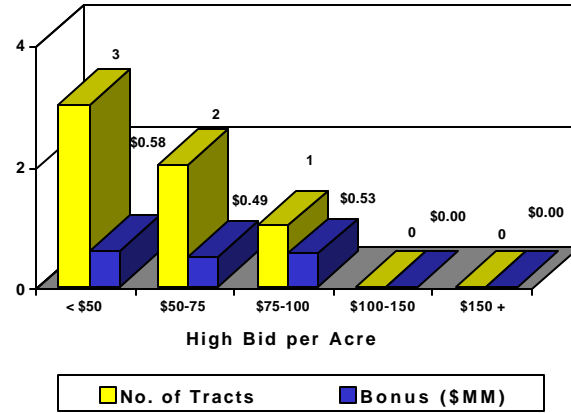
Sale 177 - Tracts in < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



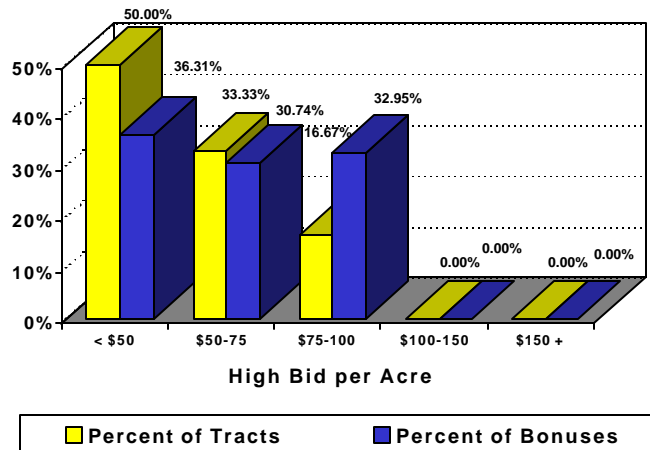
Sale 177 - Tracts in 200-400 Meters Water Depth

Bidding Activity by High Bid per Acre



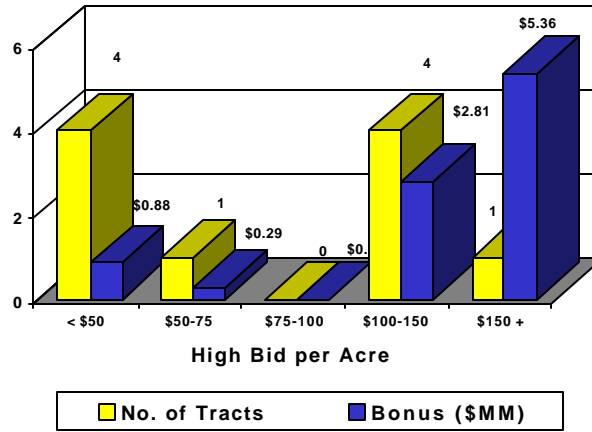
Sale 177 - Tracts in 200-400 Meters Water Depth

Bidding Activity by High Bid per Acre



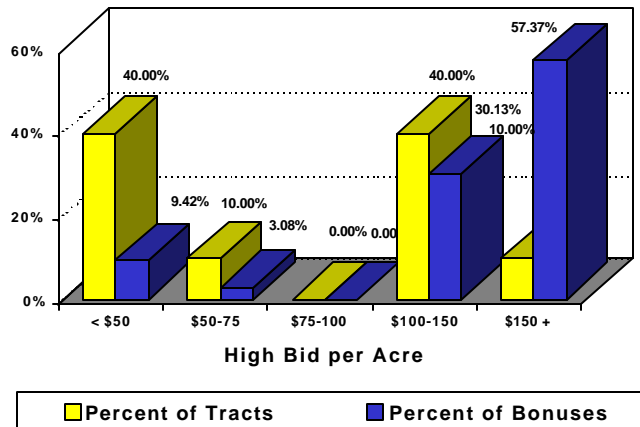
Sale 177 - Tracts in 400-800 Meters Water Depth

Bidding Activity by High Bid per Acre



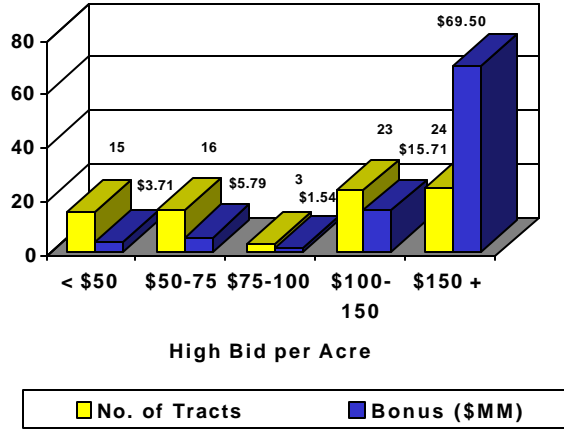
Sale 177 - Tracts in 400-800 Meters Water Depth

Bidding Activity by High Bid per Acre



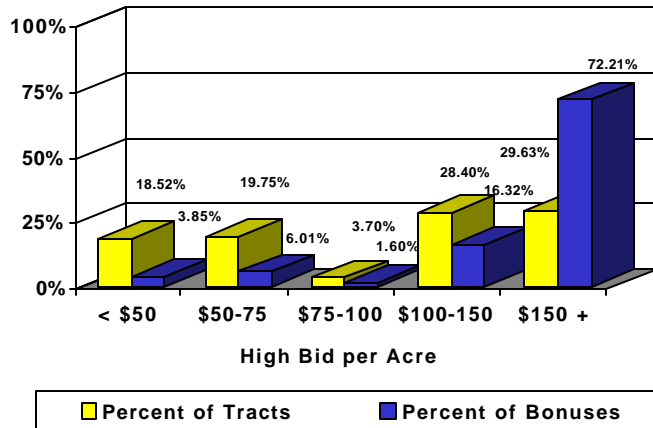
Sale 177 - Tracts in 800+ Meters Water Depth

Bidding Activity by High Bid per Acre



Sale 177 - Tracts in 800+ Meters Water Depth

Bidding Activity by High Bid per Acre



Appendix E

Revised Arithmetic Average Measure (RAM)

Sale 177 - Tracts with Three-or-More Bids

In Sale 177, three or more bids were received on 8 tracts, all confirmed or wildcat. The distribution of those bids by water depth category and third bid as a percent of high bid is presented in Table E1.

Table E1.—*Percent Difference Between a Tract’s High Bid and Third Bid by Water Depth Category*

Category	< 25 %	25 - 50 %	50 - 75 %	> 75 %	Total
< 200 m.	4	3	1	0	8
200 - 400 m.	0	0	0	0	0
400 - 800 m.	0	0	0	0	0
> 800 m.	0	0	0	0	0
Total	4	3	1	0	8

Sale 177 was the seventh sale in which 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. 37560-37562.) In Sale 177, no three-or-more bid tracts met the bid acceptance criteria described above. Thus, there were no Phase 1 acceptances based on this rule.

Sale 177 was also the seventh sale using a modified Phase 2 averaging rule, the “Revised Arithmetic Average Measure” (RAM) of tract value. The RAM is a secondary bid acceptance rule that is used on multi-bid tracts if the Government’s value of the tract (ADV) exceeds the high bid. The RAM is an arithmetic average of a tract’s high bid, ADV, 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, the high bid is accepted and if the RAM exceeds the high bid, the high bid is rejected.

For the seven tracts passed to Phase 2 for further evaluation that potentially could use the RAM as the bid acceptance decision rule, the ADVs that would be needed to reject a tract's high bid using the RAM were calculated. Using the RAM, three tracts need an ADV of more than \$2 million, one would need an ADV of about \$0.66 million, and three tracts would not be eligible for the RAM because all of their losing bids were less than 25 percent of the high bid. These results are presented in Table E2.

Table E2.—*ADV 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.	1	3	0	0	4
200 - 400 m.	0	0	0	0	0
400 - 800 m.	0	0	0	0	0
> 800 m.	0	0	0	0	0
Total	1	3	0	0	4

Sale 174 – Tracts with Three or More Bids Passed to Phase 2

Table E3.—*Tracts in < 200 Meters; no Royalty Suspension Volume*

Tract	High Bid	No. of Bids	3 rd Bid as % of High Bid	Adjusted No. of Bids	ADV to Reject w/RAM
G22228	\$1,000,808	3	27.26%	3	\$2,379,924
G22236	\$1,055,275	3	14.69%	1	Not Applicable
G22238	\$1,155,000	5	35.64%	3	\$2,130,650
G22239	\$1,355,500	3	10.75%	1	Not Applicable
G22246	\$357,120	3	41.94%	3	\$664,600
G22247	\$2,263,000	3	7.64%	2	\$3,616,334
G22262	\$1,282,000	4	16.19%	1	Not Applicable

The RAM was used in the acceptance of the high bid on tract G22228. Although the ADV on the tract was \$1.5 million, which exceeded the high bid, the high bid was accepted because it exceeded the tract's RAM of \$863,827.

Appendix F

Summary of Company Bids

Sale 177 - Company Bids by Total Amount of High Bids

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
1	3	Union Oil - California	22	16	6	\$18,792,640	\$17,616,760	\$1,175,880
2	2219	Kerr-McGee Oil & Gas	24	22	2	\$16,569,710	\$16,251,470	\$318,240
3	59	Amerada Hess	13	13	0	\$16,072,178	\$16,072,178	\$0
4	2079	CXY Energy Offshore	20	20	0	\$13,086,576	\$13,086,576	\$0
5	2169	Spinnaker Exploration	17	14	3	\$9,595,309	\$9,170,029	\$425,280
6	1935	Pioneer Natural Resources	16	15	1	\$8,158,902	\$8,088,702	\$70,200
7	1777	Ocean Energy	13	11	2	\$6,653,860	\$6,335,620	\$318,240
8	1689	Murphy Exploration	11	8	3	\$6,784,370	\$5,888,000	\$896,370
9	2190	PanCanadian GOM	16	16	0	\$5,418,625	\$5,418,625	\$0
10	2421	Devon Energy	12	12	0	\$5,049,094	\$5,049,094	\$0
11	981	Anadarko Petroleum	18	17	1	\$5,072,000	\$4,716,200	\$355,800
12	689	Shell Offshore	22	20	2	\$4,724,000	\$4,359,000	\$365,000
13	1500	Elf Exploration	8	8	0	\$3,089,999	\$3,089,999	\$0
14	560	Seneca Resources	3	2	1	\$3,226,846	\$2,808,564	\$418,282
15	818	Mariner Energy	1	1	0	\$2,603,000	\$2,603,000	\$0
16	771	Texaco Exploration	6	6	0	\$2,586,240	\$2,586,240	\$0
17	2117	Enterprise Oil GOM	5	4	1	\$2,711,000	\$2,483,000	\$228,000
18	730	Walter Oil & Gas	4	4	0	\$2,190,000	\$2,190,000	\$0
19	1551	Sante Fe Snyder	2	2	0	\$2,041,525	\$2,041,525	\$0
20	1513	Callon Petroleum	8	8	0	\$1,989,900	\$1,989,900	\$0
21	1046	The Houston Exploration Co.	8	7	1	\$2,034,192	\$1,888,492	\$145,700
22	1904	Burlington Resources	8	8	0	\$1,716,666	\$1,716,666	\$0
23	56	Phillips Petroleum	4	4	0	\$1,662,264	\$1,662,264	\$0
24	1855	Vastar Resources	3	2	1	\$2,376,045	\$1,466,379	\$909,666
25	2375	Duke Energy Hydrocarbons	5	4	1	\$1,493,563	\$1,350,674	\$142,889
26	2401	Westport Resources	4	3	1	\$2,191,390	\$1,268,640	\$922,750
27	1958	Maxus Exploration	2	2	0	\$1,004,700	\$1,004,700	\$0
28	1482	Nippon Oil Exploration USA	1	1	0	\$998,800	\$998,800	\$0
29	185	Samedan Oil	4	4	0	\$942,900	\$942,900	\$0
30	846	Hall-Houston Oil	2	2	0	\$940,000	\$940,000	\$0

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
31	1	Conoco	2	2	0	\$889,050	\$889,050	\$0
32	282	Dominion E & P	4	1	3	\$1,266,850	\$813,300	\$453,550
33	1978	The Wm. G. Helis Co.	5	4	1	\$821,411	\$744,296	\$77,115
34	2025	Coastal Oil & Gas USA	4	4	0	\$651,420	\$651,420	\$0
35	1385	Chieftain International (US)	7	3	4	\$1,788,472	\$647,542	\$1,140,930
36	2312	McMoRan Oil & Gas	1	1	0	\$527,677	\$527,677	\$0
37	1138	El Paso Production (Gulf)	3	2	1	\$749,980	\$498,320	\$251,660
38	1001	IP Petroleum	1	1	0	\$482,232	\$482,232	\$0
39	48	Forest Oil	5	3	2	\$1,019,700	\$432,375	\$587,325
40	1732	Cockrell Oil & Gas	1	1	0	\$353,178	\$353,178	\$0
41	2018	Basin Exploration	1	1	0	\$342,178	\$342,178	\$0
42	1364	Newfield Exploration	2	1	1	\$809,000	\$304,500	\$504,500
43	2417	Arena Energy	3	2	1	\$393,500	\$279,500	\$114,000
44	2222	PetroQuest Energy One	6	3	3	\$641,980	\$238,675	\$403,305
45	2291	Juniper Energy	1	1	0	\$230,000	\$230,000	\$0
46	1831	Louis Dreyfus Natural Gas	2	2	0	\$225,432	\$225,432	\$0
47	105	Apache Corporation	1	1	0	\$201,000	\$201,000	\$0
48	1624	TDC Energy	1	1	0	\$188,000	\$188,000	\$0
49	2349	Magnum Hunter Production	1	1	0	\$171,850	\$171,850	\$0
50	2388	Alan C. Prigge & Assoc.	1	1	0	\$146,325	\$146,325	\$0
51	2416	Denbury Resources	2	1	1	\$240,500	\$126,500	\$114,000
52	1999	Houston Energy	5	4	1	\$89,060	\$82,256	\$6,804
53	2139	Shell Deepwater	2	0	2	\$1,660,000	\$0	\$1,660,000
54	1704	Remington Oil & Gas	3	0	3	\$673,087	\$0	\$673,087
55	2383	Millennium Offshore	1	0	1	\$257,000	\$0	\$257,000
56	1832	Forcenergy	1	0	1	\$256,982	\$0	\$256,982
57	2453	Luxor Energy	1	0	1	\$221,200	\$0	\$221,200
58	2397	Samson Offshore	1	0	1	\$149,760	\$0	\$149,760
59	2449	Contango Oil & Gas	1	0	1	\$142,564	\$0	\$142,564
60	2424	Juneau Exploration	1	0	1	\$7,503	\$0	\$7,503

Appendix G

Sales 177, 174, and 171

Active Bidders

Companies Participating in 10 or More Bids in Sale 177

Company	Co. Code	< 200 m.	200-400 m.	400-800 m.	800 + m.	Total	Exposure (\$MM)	Exposure Rank	Exposure per Bid
Kerr-McGee Oil & Gas	2219	0	0	5	19	24	\$16.57	2	\$690,405
Union Oil - California	3	14	2	0	6	22	\$18.79	1	\$854,211
Shell Offshore	689	22	0	0	0	22	\$4.72	12	\$214,727
CXY Energy Offshore	2079	0	0	4	16	20	\$13.09	4	\$654,329
Anadarko Petroleum	981	6	1	0	11	18	\$5.07	10	\$281,778
Spinnaker Exploration	2169	11	1	1	4	17	\$9.60	5	\$564,430
Pioneer Natural Resources	1935	12	0	2	2	16	\$8.16	6	\$509,931
PanCanadian GOM	2194	13	0	2	1	16	\$5.42	9	\$338,664
Amerada Hess	59	0	0	1	12	13	\$16.07	3	\$1,236,321
Ocean Energy	1777	1	0	0	12	13	\$6.65	8	\$511,835
Devon Energy	2421	5	0	0	7	12	\$5.05	11	\$420,758
Murphy Exploration	1689	3	1	0	7	11	\$6.78	7	\$616,761

G-1

Companies Participating in 7 or More Bids in Sale 174

Company	Co. Code	< 200 m.	200-400 m.	400-800 m.	800 + m.	Total	Exposure (\$MM)	Exposure Rank	Exposure per Bid
Kerr-McGee Oil & Gas	2219	0	2	5	31	38	\$33.98	1	\$894,244
Coastal Oil & Gas USA	2025	16	3	0	0	19	\$4.65	7	\$244,674
Union Oil Co. – California	3	5	3	0	9	17	\$9.16	2	\$538,999
Spinnaker Exploration	2169	4	0	2	9	15	\$7.05	3	\$470,246
CNG Producing	282	3	0	1	5	9	\$6.31	4	\$700,727
Vastar Resources	1855	5	0	0	3	8	\$4.79	6	\$598,701
The Houston Exploration Co.	1046	8	0	0	0	8	\$3.14	11	\$392,183
Murphy Exploration & Production	1689	1	0	2	4	7	\$4.79	5	\$684,850
Exxon Corporation	276	0	0	0	7	7	\$1.75	12	\$249,857
Ocean Energy	1777	7	0	0	0	7	\$1.30	15	\$186,418

Companies Participating in 15 or More Bids in Sale 171

Company	Co. Code	< 200 m.	200-400 m.	400-800 m.	800 + m.	Total	Exposure (\$MM)	Exposure Rank	Exposure per Bid
Union Oil - California	3	11	4	0	69	84	\$193.06	1	\$2,298,333
Texaco Exploration and Production	771	2	0	1	69	72	\$57.60	2	\$800,000
Sonata Exploration GOM	1138	5	0	6	26	37	\$10.38		\$280,541
Burlington Resources Offshore	1904	0	0	0	35	35	\$36.91	5	\$1,054,571
Vastar Resources	1855	8	0	6	18	32	\$39.98	3	\$1,249,375
Amerada Hess	59	0	0	0	19	19	\$16.68		\$877,895
Kerr-McGee	2219	0	0	0	18	18	\$16.43		\$912,778
Seagull Energy E&P	1956	1	0	2	15	18	\$23.35	7	\$1,297,222
Shell Deepwater Development	2139	0	0	1	17	18	\$21.97	8	\$1,220,556
Pennzoil Exploration and Production	1750	1	2	2	11	16	\$7.80		\$487,500
Exxon Asset Management Corp.	2295	0	0	1	15	16	\$9.50		\$593,750
British-Borneo Petroleum	1431	0	0	0	15	15	\$19.62	10	\$1,308,000
Other Bidders of Note:									
Marathon Oil	724	0	0	0	6	6	\$36.93	4	\$6,155,000
Chevron U.S.A.	78	0	0	0	4	4	\$30.00	6	\$7,500,000
Sun Operating	1022	0	0	0	11	11	\$20.08	9	\$1,825,455

Appendix H

Sales 177 and 174

Comparison of Sales - Graphs

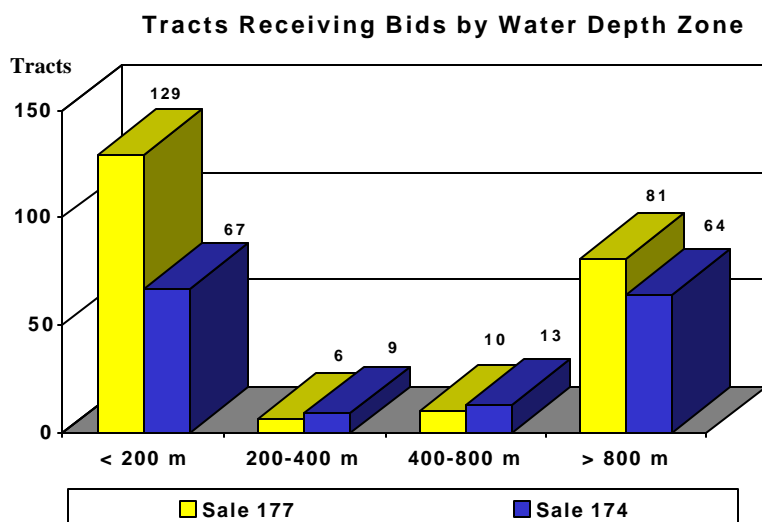
Sale 177 v. Sale 174

Prepared by:
Economics Division, MMS

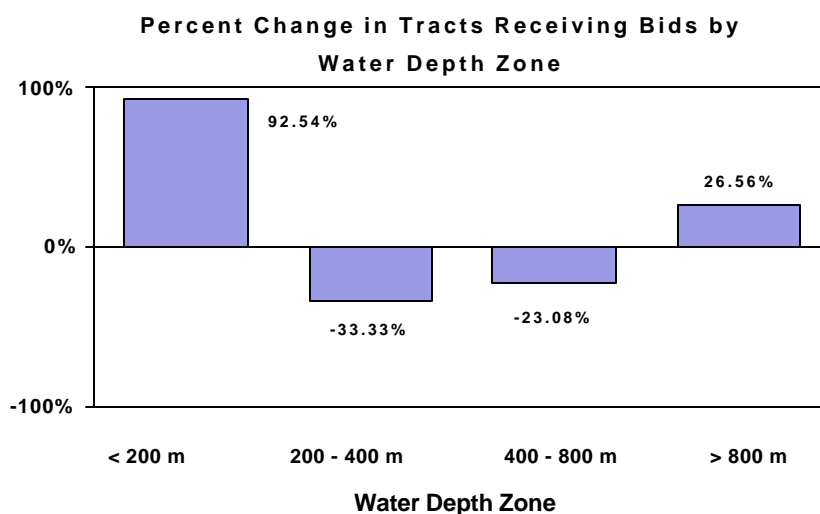
Sale 177 - Sale 174 (WGOM) Comparison of Results

- In aggregate, 226 tracts received high bids of \$153.66 MM in Sale 177 and 153 tracts received high bids of \$94.65 MM in Sale 174
- Bids per tract increased from 1.16 to 1.18 in Sale 177
- Sale 177 had 129 tracts in < 200 m. receiving high bids of \$46.48 MM v. 67 tracts and high bids of \$26.30 MM in Sale 174
- Sale 177 had 97 tracts in > 200 m. receiving high bids of \$107.12 MM v. 86 tracts and high bids of \$68.35 MM in Sale 174

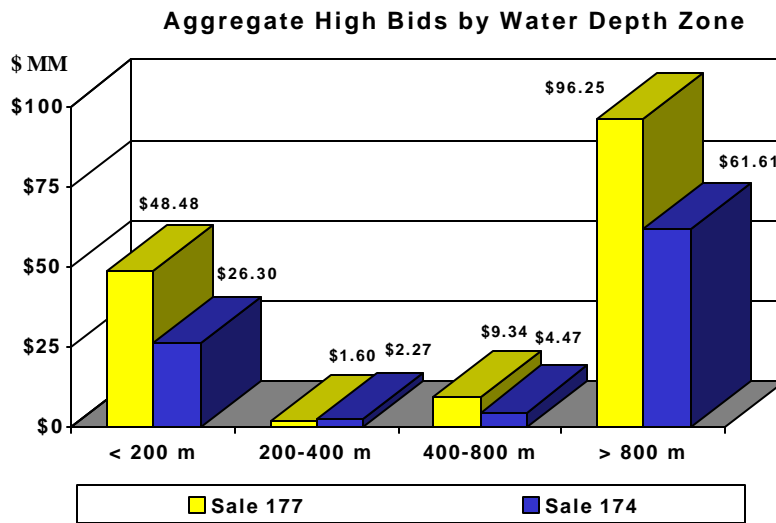
Sale 177 v. Sale 174 - Tracts



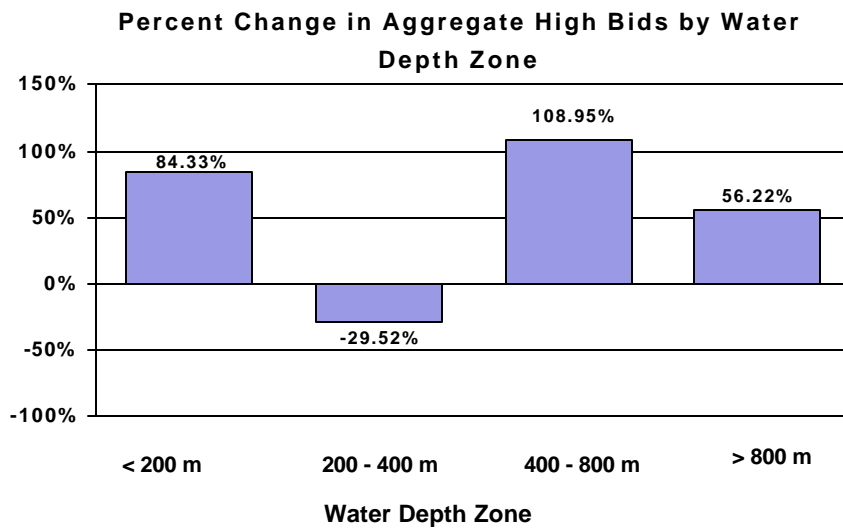
Sale 177 v. Sale 174 - Tracts



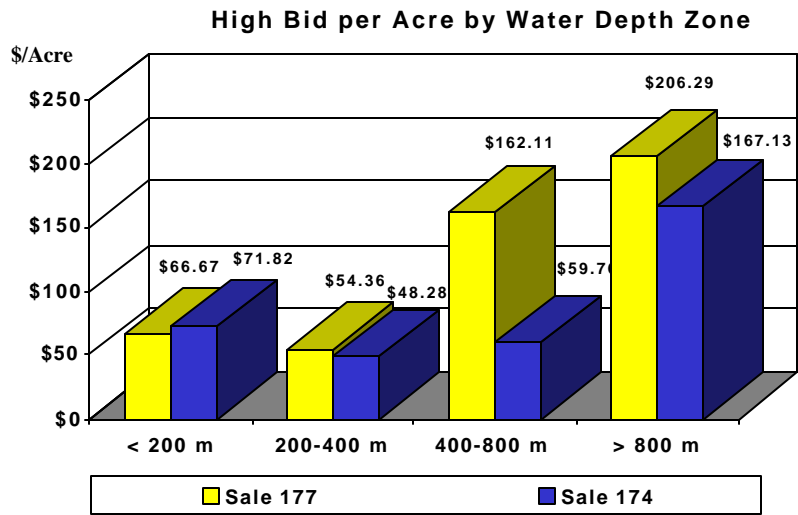
Sale 177 v. Sale 174 - Bonuses



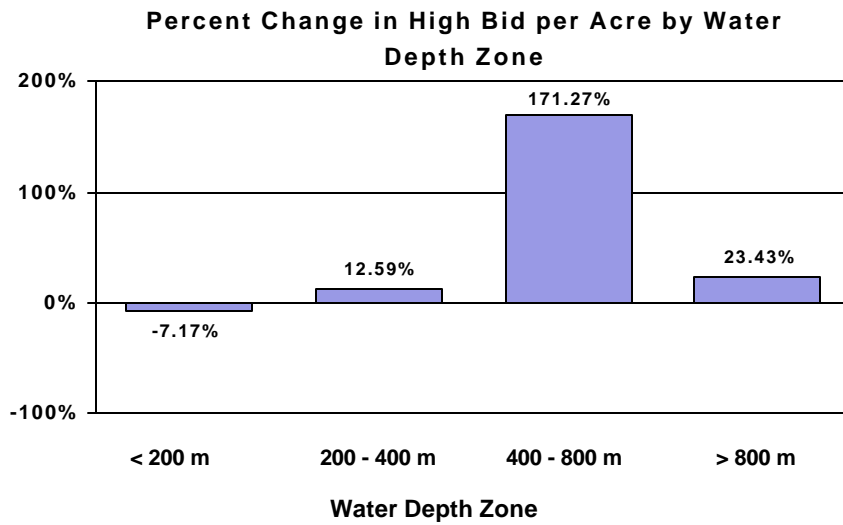
Sale 177 v. Sale 174 - Bonuses



Sale 177 v. Sale 174 - High Bid per Acre

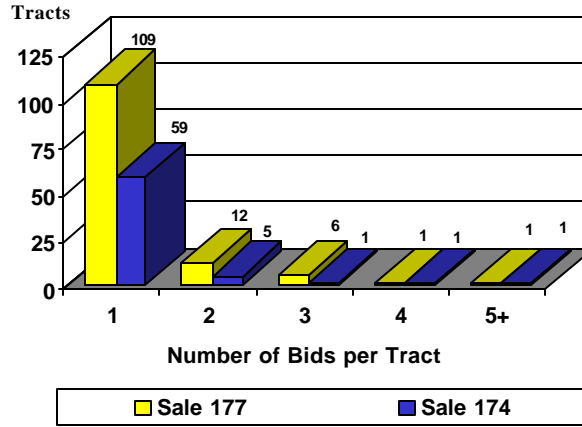


Sale 177 v. Sale 174 - High Bid per Acre



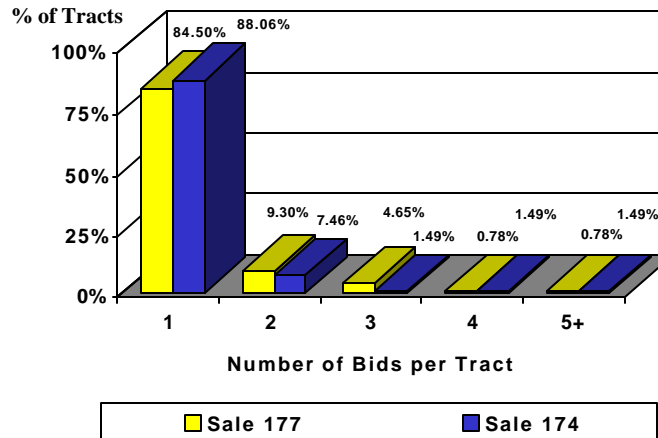
Sale 177 v. Sale 174 - Tracts < 200 Meters Water Depth

Bidding Activity by Bids per Tract

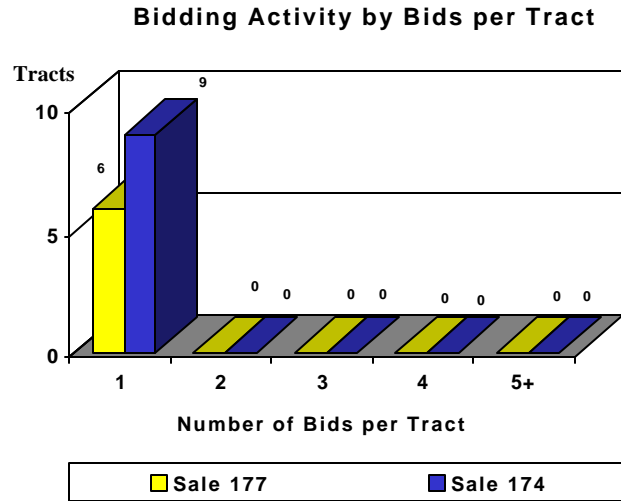


Sale 177 v. Sale 174 - Tracts < 200 Meters Water Depth

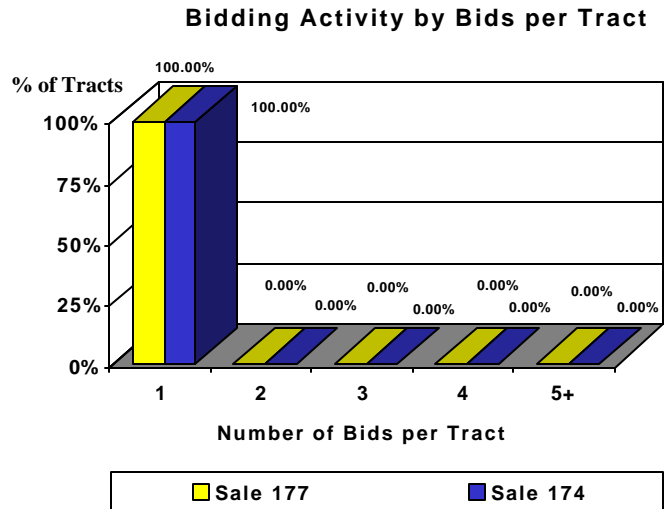
Bidding Activity by Bids per Tract



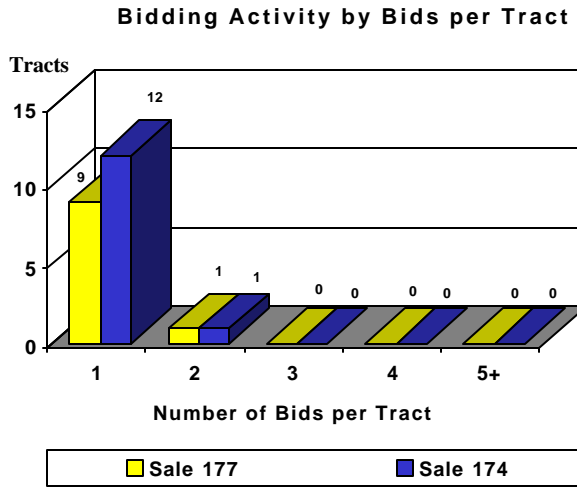
Sale 177 v. Sale 174 - Tracts in 200 to 400 Meters Water Depth



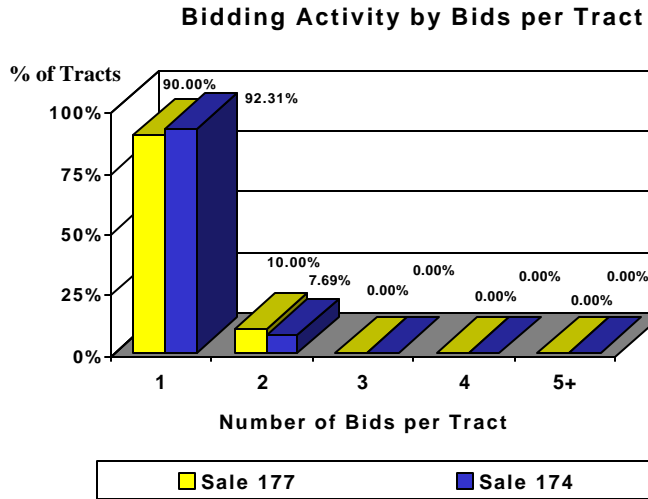
Sale 177 v. Sale 174 - Tracts in 200 to 400 Meters Water Depth



Sale 177 v. Sale 174 - Tracts in 400 to 800 Meters Water Depth

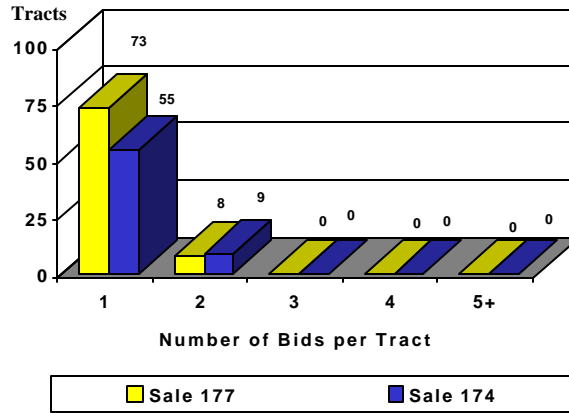


Sale 177 v. Sale 174 - Tracts in 400 to 800 Meters Water Depth



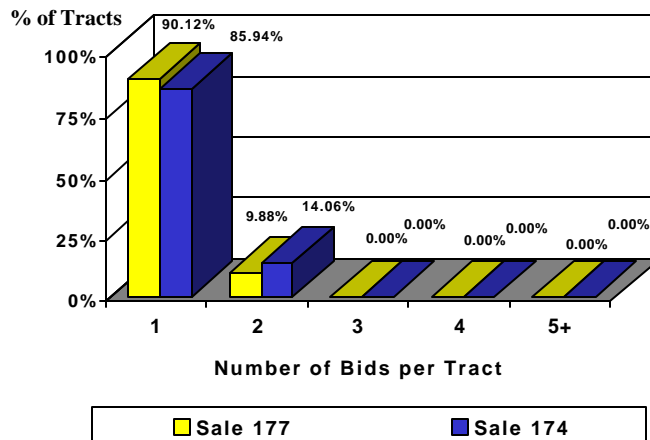
Sale 177 v. Sale 174 - Tracts in 800+ Meters Water Depth

Bidding Activity by Bids per Tract



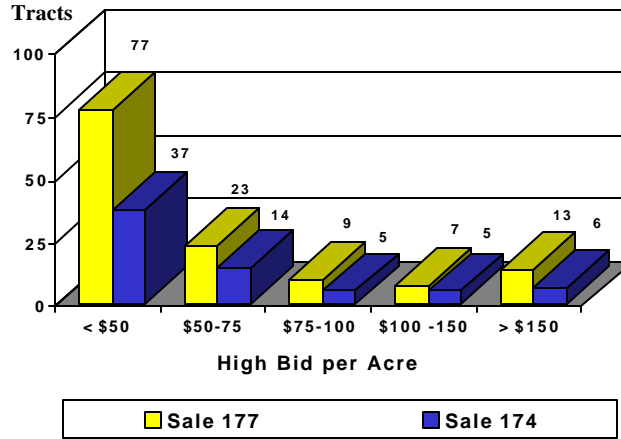
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Bidding Activity by Bids per Tract



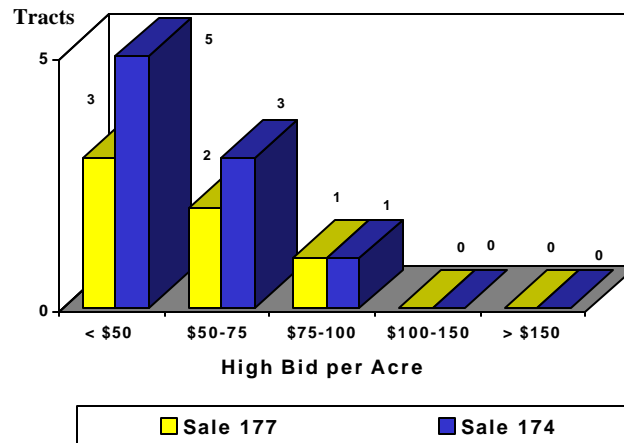
Sale 177 v. Sale 174 - Tracts < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



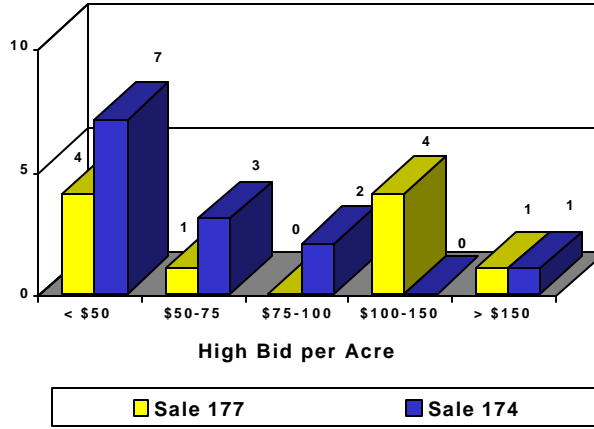
Sale 177 v. Sale 174 - Tracts in 200 to 400 Meters Water Depth

Bidding Activity by High Bid per Acre



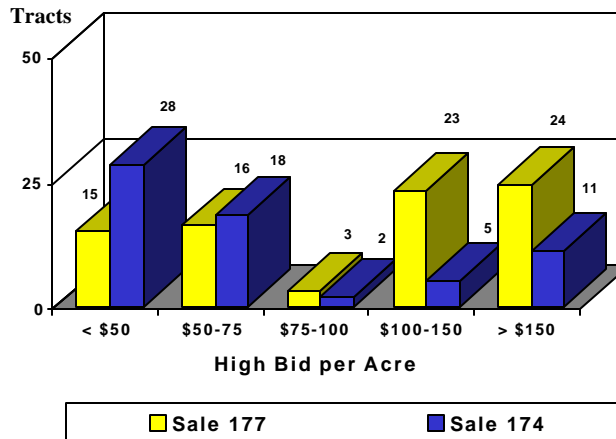
Sale 177 v. Sale 174 - Tracts in 400 to 800 Meters Water Depth

Bidding Activity by High Bid per Acre



Sale 177 v. Sale 174 - Tracts in 800+ Meters Water Depth

Bidding Activity by High Bid per Acre



Appendix I

High Bid Rejections

Sale 177 Rejections

High bids on seven tracts were rejected in Sale 177. Six of the rejected blocks received one bid and one was a two-bid tract. By water depth category, the rejections were as follows: four in less than 200 meters and three in 800 meters or more.

Table I1.—*Sale 177 Rejections in Water Depths Less than 200 Meters Royalty Rate = 1/6; No Royalty Suspension Volume*

Tract No.	Bids	High Bid	ADV	RAM
22237	1	\$475,000	\$1,400,000	NA
22260	1	\$150,176	\$840,000	NA
22261	1	\$150,176	\$670,000	NA
22274	1	\$162,855	\$830,000	NA

Table I2.—*Sale 174 Rejections in Water Depths 800 Meters or More Royalty Rate = 1/8; 87.5 MMBOE Royalty Suspension Volume*

Tract No.	Bids	High Bid	ADV	RAM
22338	1	\$1,324,299	\$2,400,000	NA
22348	2	\$998,800	\$3,300,000	\$1,546,600
22363	1	\$1,371,456	\$3,300,000	NA

Appendix J

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.

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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 been 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

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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



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.