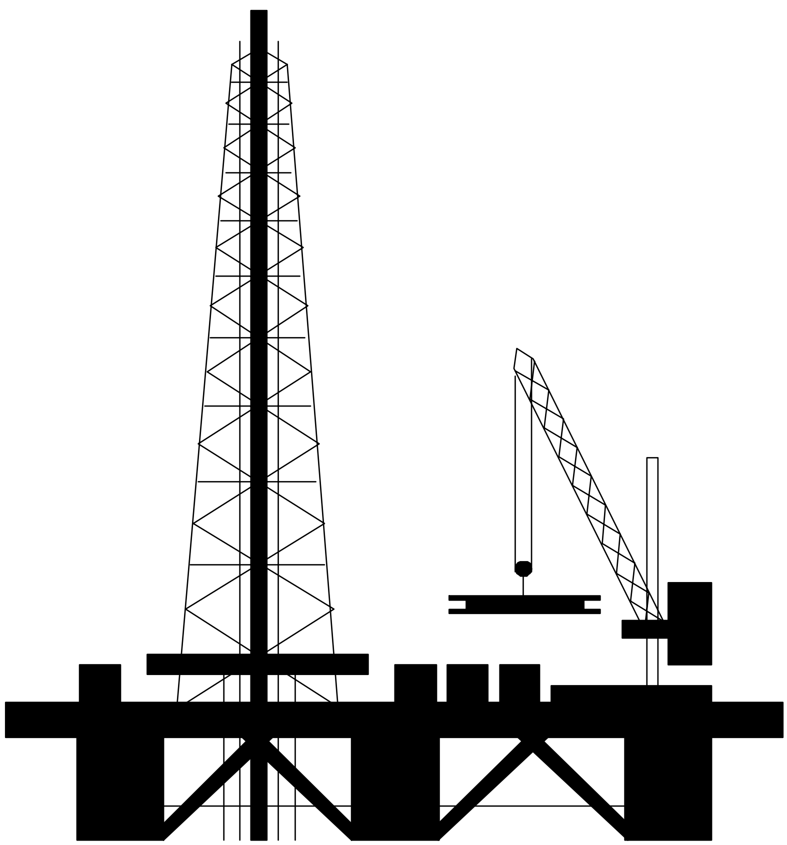
OCS Report
MMS 2005-046

Eastern Gulf of Mexico
Sale 197
March 16, 2005

Sale Summary, Bidding Results and
Related Analyses



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

OCS Report
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Sale Summary, Bidding Results and Related Analyses

Prepared by

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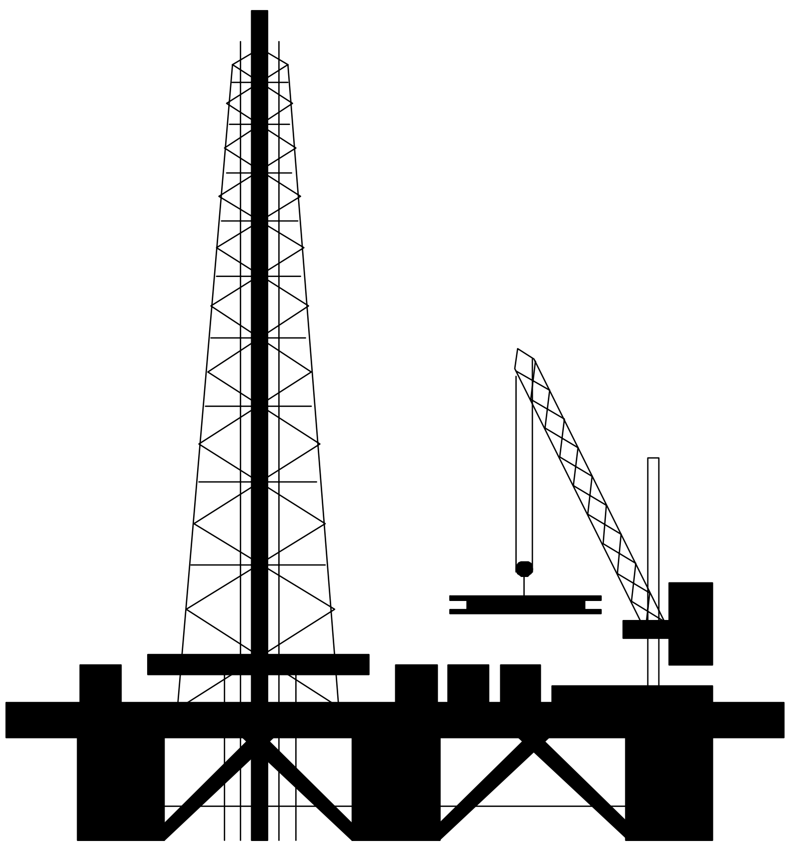

U.S. Department of the Interior
Minerals Management Service
Economics Division

Herndon, VA
July 2005

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Sale Overview

In the Eastern Gulf of Mexico (EGOM), Sale 197 was the third lease offering in the area originally offered in Sale 181 in 2001. Available for leasing in this sale were the remaining 124 blocks in the Sale area that did not receive bids in 2003's Sale 189. In this sale, 12 tracts received one bid each, all of the tracts were in water depths of 1,600 meters or more, and these tracts were eligible for 12 million barrels-oil equivalent (MMBOE) of royalty relief.

Bidding Results

As opposed to other sales in the Gulf of Mexico that are areawide, the number of blocks offered in Sale 197 in the EGOM was limited to 124. The sale's high bids totaled $6,974,531, which yielded an average high bid of $100.90 per acre. After Phase 1 and 2 evaluations for bid adequacy, all high bids submitted in Sale 197 were accepted; however two accepted bids, in amount $473,472, were forfeited. The MMS retained the 20 percent down payment on these tracts.

The bidding activity in Sale 197 resulted in a slight decrease in aggregate high bids and number of blocks receiving bids compared to the previous EGOM sale, Sale 189, which was held on December 10, 2003. In Sale 189, 14 tracts received 16 bids with high bids of $8,376,765.

Sale 197 was typical of other areawide sales in the Gulf of Mexico as more tracts received high bids of less than $100 per acre than those receiving bids greater than that amount. A summary of bidding results by high bid per acre for the sale is presented in table 1 and the bidding results by high bid per acre for the water depth zone offered in Sale 197 are presented in appendix B.

Table 1.—*Bidding Results by High Bid per Acre*

High Bid per Acre	Tracts	Percent of Tracts	Sum of High Bids (MM)	Percent of High Bids
< $50	3	25.00 %	$0.70	10.04 %
$50 - 74.99	5	41.67 %	$1.65	23.67 %
$75 - 99.99	2	16.67 %	$1.02	14.63 %
$100 - 149.99	0	0.00 %	$0.00	0.00 %
$150+	2	16.67 %	$3.60	51.65 %
Total	12	100.00 %	$6.97	100.00 %

Bidding on Royalty Suspension Volume Tracts

The average high bid of $100.90 per acre for this water depth category in Sale 197 was close to the averages observed in 1,600 meters or more in the Central Gulf of Mexico (CGOM- $93.58/acre) and Western Gulf of Mexico (WGOM- $101.42/acre) sales held in 2004. Sale 194, held in the Central Gulf of Mexico for the year 2005, has a higher per acre high bid in the same water depth category; $167.56/acre.

Phase 1 Results

Following the post-sale bid evaluation procedures, high bids on 2 tracts were accepted in Phase 1 of Sale 197. The high bids accepted in Phase 1 accounted for about 17 percent of the tracts, representing 7 percent of the high bids. High bids accepted in Phase 1 were both wildcat or confirmed tracts determined to be non-viable. Each tract had high bids of less than $50 per acre.

Revised Arithmetic Average Measure of Tract (RAM)

The RAM is a secondary bid acceptance criterion that would be applied, if appropriate, in Phase 2 of the Sale 197 bid evaluation process. It may be used for multi-bid tracts with high bids that do not exceed both the Government's Mean range of Value (MROV) and the Adjusted Delayed Value (ADV) of the tract. These measures are explained in detail in appendix E.

For evaluating the high bids on multi-bid tracts that do not exceed the MROV and 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 balance market factors and its own evaluation in determining bid adequacy. However, since there were no multi-bid tracts in Sale 197, the RAM was not used.

Bidding Activity

Nine companies participated in Sale 197 compared to 6 in the previous EGOM Sale 189. In Sale 197, 4 of the companies submitted solo bids and the other 5 companies participated in joint bids, while in Sale 189, there were 7 solo bids and 9 joint bids. In Sale 197, Petrobas America had the largest number of high bids, 4, and spent the most money in the sale, $1.6 million. In sale 189, Murphy Exploration & Production was the most active company in terms of bids submitted with 7, while Shell Offshore Inc., and Nexen Petroleum Offshore U.S.A. Inc., had the greatest aggregate high bids with a total of $4.95 million for their 5 joint bids. Table 2 lists bidders from Sale 197 in order of total amount of their high bids. Also listed in the table are the total number of bids and the number of high bids submitted by the companies. Appendix D contains a summary of bids for all companies that participated in the sale.

Table 2.—*Most Active Bidders by Total Amount of High Bids*
(Ranked in parentheses are the number of bids and high bids.)

Company	Total High Bids	Number of Bids	Sum of High Bids
Petrobas America	4	4	$1,645,056
Helis Oil & Gas Company[1]	1	1	$916,821
Red Willow Offshore[2]	1	1	$916,821
Anadarko Petroleum	3	3	$785,088
Dominion Exploration & Production[2]	1	1	$783,000
Spinnaker Exploration[2]	1	1	$783,000
Devon Energy Production	2	2	$711,050
Newfield Exploration	1	1	$229,958
Houston Energy[2]	1	1	$203,738

[1] Joint bid combination consisted of Helis Oil & Gas Company, Red Willow Offshore, and Houston Energy.
[2] Joint bid combination consisted of Dominion Exploration & Production and Spinnaker Exploration.

Appendix A

Eastern Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 197

Bidding Summary

Eastern Gulf of Mexico
OCS Oil and Gas Lease Sale 197

Sale Day Statistics by Royalty Rate

	12 1/2% Royalty[1]	Sale Total
Tracts Receiving Bids	12	12
Acres Receiving Bids	69,120.00	69,120.00
Sum of High Bids	$6,974,531	$6,974,531
Sum of All Bids	$6,974,531	$6,974,531
Total Number of Bids	12	12
Average Bids	1.00	1.00
Companies Bidding	9	9
Highest Bid per Tract	$2,037,379	$2,037,379
- Tract Number	G27431	G27431
- Number of Bids	1	1
Highest Bid per Acre	$353.71	$353.71
- Tract Number	G27431	G27431
- Number of Bids	1	1
Most Bids	1	1
- Tract Number	All Tracts in Sale	All Tracts in Sale

[1] All "12 1/2 percent Royalty" tracts offered in Sale 189 were in 1,600 or more meters of water with a royalty rate of 1/8, and are eligible for a royalty suspension volume (RSV) of 12 MMBOE per lease.

Appendix B

Eastern Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 197

Bidding by High Bid per Acre

Sale 197

All Tracts - 1/8 Royalty (1,600 or more meters; 12 MMBOE RSV per lease)

High Bid/acre	Tracts	Percent of Tracts	High Bids (MM)	Percent of High Bids
< $50	3	25.00 %	$0.70	10.09 %
$50 - 74.99	5	41.67 %	$1.65	23.62 %
$75 - 99.99	2	16.67 %	$1.02	14.63 %
$100 - 149.99	0	0.00 %	$0.00	0.00 %
$150+	2	16.67 %	$3.60	51.66 %
Total	12	100.00 %	$6.97	100.00 %

Sale 197 (EGOM) Bidding Results

- 12 tracts received 12 bids (1.00 bids/tract)
- High bids were $6.97 MM
- Average high bid per acre was $100.90
- 9 companies submitted bids
- All tracts receiving bids were in water depths of 1,600 meters or more

Appendix C

Revised Arithmetic Average Measure (RAM)

Sale 197, Tracts with Three or More Bids

In Sale 197, there was no tract that received more than one bid.

In Sale 197, a Phase 2 averaging rule, the "Revised Arithmetic Average Measure" (RAM) of tract value was available for use, if needed. 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, 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. With only one-bid tracts, the RAM was not used in the accept/reject decision for any high bids in Sale 197.

Appendix D

Summary of Company Bids

Sale 197 - Company Bids by Total Amount of High Bids

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
1	1207	Petrobas America	4	4	0	$1,645,056	$1,645,056	$0
2	1978	Helis Oil & Gas Company	1	1	0	$916,821	$916,821	$0
3	2668	Red Willow Offshore	1	1	0	$916,821	$916,821	$0
4	981	Anadarko Petroleum	3	3	0	$785,088	$785,088	$0
5	282	Dominion Exploration & Production	1	1	0	$783,000	$783,000	$0
6	2169	Spinnaker Exploration	1	1	0	$783,000	$783,000	$0
7	2421	Devon Energy Production	2	2	0	$711,050	$711,050	$0
8	1364	Newfield Exploration	1	1	0	$229,958	$229,958	$0
9	1999	Houston Energy	1	1	0	$203,738	$203,738	$0

Appendix E

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 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 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.