

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

**ANNUAL REPORT TO CONGRESS
FISCAL YEAR 2000**

**U.S. Department of the Interior
Minerals Management Service
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Introduction

This report analyzes the two Gulf of Mexico (GOM) Outer Continental Shelf (OCS) oil and gas lease sales held in Fiscal Year (FY) 2000 pursuant to section 8 of the OCS Lands Act (OCSLA) [43 U.S.C. 1337].

The report's objectives are to review bidding results in FY 2000 and to present the schedule of lease sales for FY 2001. Cash bonus bidding with both 1/6- and 1/8-royalty rates was used in each GOM sale with a \$25 per acre minimum bid requirement in water depths less than 800 meters and a \$37.50 per acre minimum bid in water depths of 800 meters or more. In addition, to comply with the Deep Water Royalty Relief Act of 1995 (DWRRA) in the GOM, potential royalty suspension volumes for leases by water depth category were set as follows:

- (1) 17.5 million barrels of oil equivalent in water depths of 200 to 400 meters;
- (2) 52.5 million barrels of oil equivalent in water depths of 400 to 800 meters; and
- (3) 87.5 million barrels of oil equivalent in water depths of 800 meters or more.

Review of FY 2000 Lease Sales and Bidding Systems

Two OCS lease sales were held in FY 2000: Sale 175, Central Gulf of Mexico (CGOM) and Sale 177, Western Gulf of Mexico (WGOM).

In the two GOM sales, 7,992 tracts (about 43 million acres) were offered, and 570 tracts (3.0 million acres) received bids. Of the tracts receiving bids, 97.0 percent (553 tracts) were leased. Sale results for the fiscal year are summarized in Table 1.

Table 1. Bidding Results for FY 2000 Lease Sales

	Sale 175 – CGOM (3/15/00)	Sale 177 – WGOM (8/23/00)	Total – FY 2000 (2 Sales)
Tracts Offered	4,203	3,789	7,992
- Receiving Bids	344	226	570
- Leased	334	219	553
- Rejected	2.91 %	3.10 %	3.00 %
Bids Received	469	266	735
Average Bids/Tract	1.36	1.18	1.29
Sum of All Bids	\$454,929,870	\$167,373,613	\$622,303,483
Sum of High Bids	\$300,567,675	\$153,660,031	\$454,227,706

Overall bidding results by royalty rate and DWRRA water depth zone for the GOM sales held in FY 2000 are shown in Table 2. As in previous GOM sales, a water-depth criterion was used to assign royalty rates. In the GOM, a fixed 1/6-royalty was specified in water depths of less than 400 meters and a fixed 1/8-royalty was specified in water depths of 400 meters or more. However, for water depths of 200 meters or more, DWRRA-specified royalty relief volumes, listed previously, apply on new leases.

Table 2 indicates that the majority of tracts receiving bids in FY 2000 GOM sales were shallow water tracts with 1/6-royalty rates. These tracts received a lower number of average bids per tract than deepwater tracts with 1/8-royalty rates. In addition, the average high bid per tract for the 1/8-royalty tracts was about 225 percent higher than that observed for the 1/6-royalty tracts. The 1/6-royalty tracts (less than 400 meters) accounted for 60.5 percent of tracts receiving bids, 61.3 percent of tracts leased, and 32.0 percent of high bids received in the two FY 2000 GOM lease sales. Conversely, the 1/8-royalty tracts (400 meters or more) accounted for 39.5 percent of tracts receiving bids, 38.7 percent of tracts leased, and 68.0 percent of high bids received. As shown in Table 3, the mean high bid of \$0.80 million per tract receiving a bid was an increase of 8.1 percent compared to the FY 1999 sales.

Table 2. GOM Lease Sale Bidding Results for FY 2000 by Royalty Rate

FY 2000 (2 Lease Sales)	Fixed 1/6-Royalty		Fixed 1/8-Royalty		Total
	Less than 200 meters	200 to 400 meters	400 to 800 meters	More than 800 meters	
Tracts Offered	2,790	242	440	4,520	7,992
- Receiving Bids	331	14	28	197	570
- Leased	325	14	28	186	553
Bids Received	425	14	33	263	735
Average Bids/Tract	1.28	1.00	1.18	1.34	1.29
Tracts with Multiple Bids	20.85 %	0.00 %	17.86 %	18.78 %	19.47%
Sum of High Bids (\$MM)	\$141.38	\$4.12	\$23.90	\$284.83	\$454.23
Mean High Bid (\$MM)	\$0.43	\$0.29	\$0.85	\$1.45	\$0.80

Table 3. Mean High Bid (\$ millions) per Tract (FY 1990 - FY 2000), GOM Sales

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

Bidding Systems

In November 1995, the DWRRA was passed, which requires use of bidding systems that allow for royalty suspension volumes for new fields in water depths greater than 200 meters for leases awarded in the CGOM and WGOM lease sales that occur prior to November 28, 2000. Thus, in the FY 2000 oil and gas lease sales in the GOM, the royalty rates continued to be those used in the past, but in water depths of 200 meters or more, royalty suspension volumes were provided at the depth-specific rates mandated in the DWRRA since FY 1996. However, after three years of high levels of leasing activity in water depths of 200 meters or more in FY 1996 through FY 1998, bidding interest in the water depth categories covered by the DWRRA declined markedly in FY 1999 before recovering a bit in FY 2000.

Schedule of FY 2001 Lease Sales

Lease sales scheduled for FY 2001 under the 5-year leasing program are listed in the table below.

Lease Sale (Date)	Bidding Systems
Sale 178 - CGOM (March 2001)	Cash bonus, fixed 1/6-royalty Cash bonus, fixed 1/6-royalty with royalty suspension volume for natural gas production from deep wells Cash bonus, fixed 1/6-royalty with royalty suspension volume dependent on water depth category Cash bonus, fixed 1/8-royalty with royalty suspension volume dependent on water depth category
Sale 180 - WGOM (August 2001)	Cash bonus, fixed 1/6-royalty Cash bonus, fixed 1/6-royalty with royalty suspension volume for natural gas production from deep wells Cash bonus, fixed 1/6-royalty with royalty suspension volume dependent on water depth category Cash bonus, fixed 1/8-royalty with royalty suspension volume dependent on water depth category