

Central Gulf of Mexico Sale 175 March 15, 2000

Sale Summary, Bidding Results and Related Analyses

By
Larry Slaski

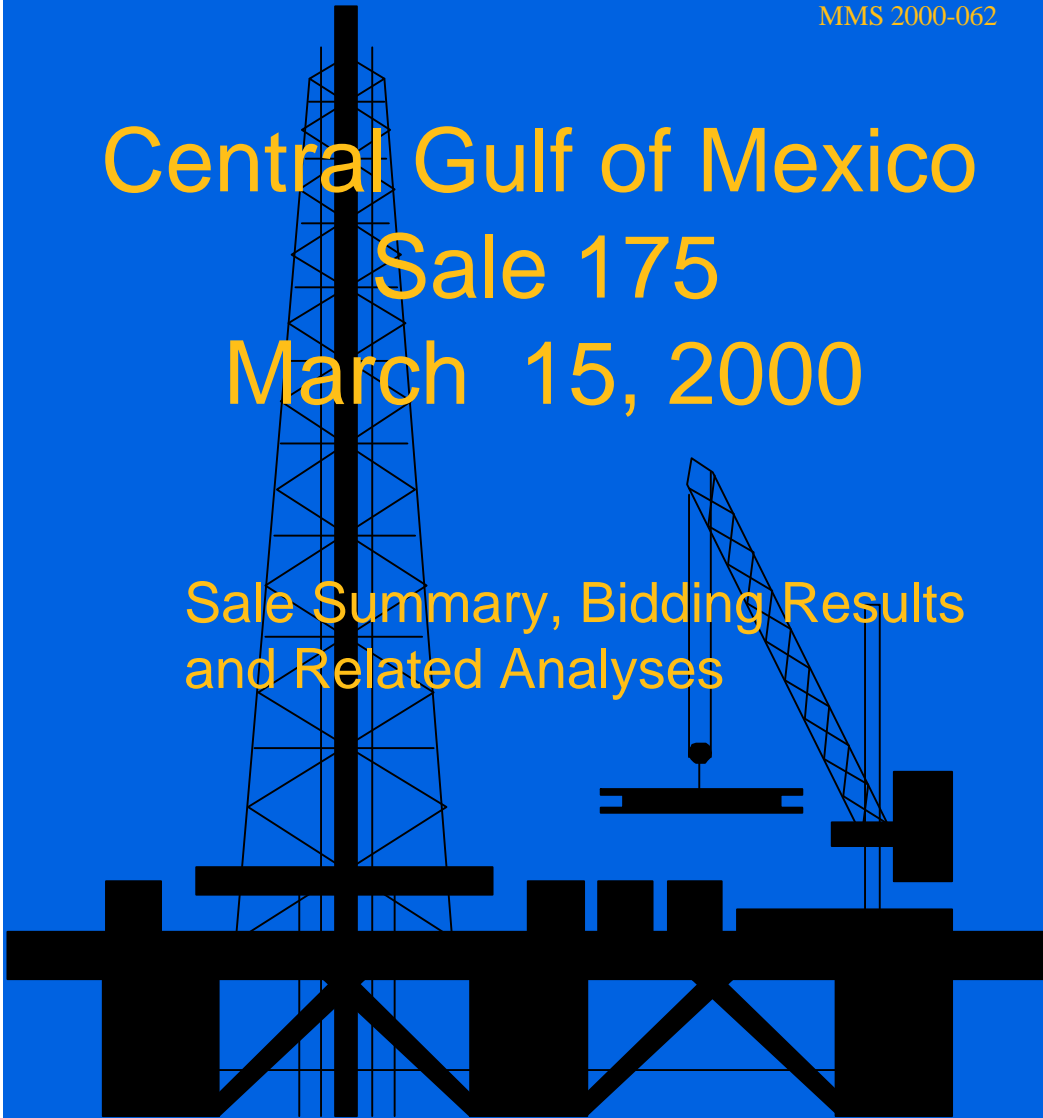
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Central Gulf of Mexico Sale 175 March 15, 2000

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Prepared by: Economics Division / MMS

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Table of Contents

Sale Overview

Appendices:

- A. Sale 175 Bidding Summary
- B. Sale 175 Bidding by Number of Bids
- C. Sale 175 Bidding by High Bid per Acre
- D. Sale 175 Bidding Results - Graphs
- E. Sale 175 RAM
- F. Sale 175 Summary of Company Bids
- G. Sales 175 and 172 Active Bidders
- H. Sale 175 and 172 Comparison of Sales - Graphs
- I. Sale 175 High Bid Rejections
- J. Sale 175 Revised Bid Adequacy Procedures

Sale 175

Central Gulf of Mexico

March 15, 2000

**Sale 175, Central Gulf of Mexico
March 15, 2000**

Sale 175 in the Central Gulf of Mexico (CGOM) was the fifth sale in that planning area in which the new lease provisions of the Deep Water Royalty Relief Act of 1995 (DWRRA) applied. In this sale, 344 tracts received 469 bids (an average of 1.36 bids per tract) and 142 of those tracts were in water depths eligible for royalty relief.

In Sale 175, revised bid adequacy procedures were in effect. The revision involved a modification of the “three-bid rule” that is used to accept high bids on confirmed or wildcat tracts in Phase 1 of the bid evaluation process. Now, to be accepted in Phase 1 by the three-bid-rule, the confirmed or wildcat tract has to receive three or more bids with the third largest bid being at least 50 percent of the high bid and, in addition, the high bid must also rank 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. (As established by the *Federal Register* notice published on July 12, 1999, the designated categories in the Gulf of Mexico are: water depths of less than 800 meters and water depths of 800 meters or more, unless other categories are specified in a sale’s final notice.)

As a result of this modification, one tract with a high bid that previously would have been accepted in Phase 1, had the bids passed to Phase 2 for further evaluation.

Bidding Results

Sale 175 was almost 50 percent larger than last year’s sale in the CGOM (Sale 172). Sale 175 had a relatively large increase in number of tracts receiving bids, number of bids, and aggregate high bids compared to Sale 172. In Sale 175, 344 tracts received 469 bids with high bids totaling \$300,567,675.

Three factors that probably contributed to the observed level of bidding activity in Sale 175 were: oil prices, the relatively large number of newly relinquished/expired leases in shallow water, and recent large discoveries in deep water. At the time of the sale, oil prices were near a 10-year high. In addition, the number of tracts in water depths less than 200 meters that were available for leasing increased to 1,153 from 837 the previous year. Finally, the recent discovery of the “Crazy Horse” field in the Mississippi Canyon protraction diagram encouraged bidding activity in its vicinity.

This is the last sale in the CGOM in which the mandatory DWRRA royalty suspension volumes (RSV) in water depths of 200 meters or greater will be available. Thus, in water depths of 200 meters or more, 142 tracts received high bids of \$205,665,407 compared to 101 tracts with high bids of \$138,826,866 in Sale 172, the previous sale in this planning area. 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.	202	\$ 94.90	265	1.31
200 - 400 m.	8	\$ 2.52	8	1.00
400 - 800 m.	18	\$ 14.56	22	1.22
800+ m.	116	\$ 188.59	174	1.50
Total	344	\$ 300.57	469	1.36

Bidding activity in Sale 175 resulted in a large increase in the number of tracts receiving bids, number of bids, and aggregate high bids compared to the previous CGOM sale (Sale 172, March 17, 1999). In Sale 172, 207 tracts received 272 bids, whereas 344 tracts received 469 bids in Sale 175, resulting in increases of about 66 and 72 percent, respectively. In addition, the sum of high bids submitted on tracts receiving bids in Sale 175 increased by about 75 percent compared to Sale 172 (\$300.57 million v. \$171.80 million). The increase in tracts, number of bids, and aggregate high bids was especially large in water depths of less than 200 meters.

The amount of competition for tracts was similar to the previous CGOM lease sale. In Sale 175, about 76 percent of tracts received single-bids. This category of tract continues to represent the largest percent of total high bids (about 45 percent). Of the tracts receiving bids, about 77 percent of tracts with 1/6 royalty rates (< 400 meters water depth) and 75 percent of tracts with 1/8 royalty rates (400 meters or more) received only one bid. Two-bid tracts account for the next highest percent of tracts receiving bids (about 17 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

Bids	Tracts	Percent of Tracts	High Bids (\$ MM)	Percent of High Bids
1	262	76.16%	\$136.77	45.50%
2	59	17.15%	\$61.23	20.37%
3	16	4.65%	\$23.99	7.98%
4	3	0.87%	\$17.79	5.92%
5+	4	1.16%	\$60.78	20.22%
Total	344	100.00%	\$300.57	100.00%

As opposed to many prior sales in the CGOM, in Sale 175, the majority of tracts (62 percent) received high bids of \$50 or more per acre. However, the minimum bid in water depths of 800 meters or more was \$37.50 per acre in this sale, thus limiting the opportunity for bids of less than \$50 per acre to some extent. The sizeable minority of tracts (38 percent) that received high bids of less than \$50 per acre, represented about 8 percent of the total high bids received. In Sale 175, tracts with high bids greater than \$150 per acre accounted for almost 75 percent of aggregate high bids, a slight increase from 73 percent in Sale 172.

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	132	38.37%	\$24.61	8.19%
\$50 - \$74.99	73	21.22%	\$22.46	7.47%
\$75 - 99.99	29	8.43%	\$13.34	4.44%
\$100 - 149.99	26	7.56%	\$15.57	5.18%
\$150 +	84	24.42%	\$224.60	74.73%
Total	344	100.00%	\$300.57	100.00%

Bidding on Royalty Suspension Volume Tracts

Compared to recent sales, Sale 175 had a relatively low level of bidding on tracts in water depths of 800 meters or more. A total of 116 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 about 34 percent of the tracts in the sale receiving bids and almost 63 percent of the sale's high bids.

In comparing the average high bid per acre by royalty suspension volume-water depth category between Sales 175 and 172, in only the 200-400 meter category did the Sale 172 averages exceed those of Sale 175. In less than 200 meters, Sale 175's average was \$99.51/acre v. \$68.09/acre in Sale 172. In 200-400 meters, Sale 175's average was \$57.10/acre and Sale 172's was \$180.92/acre. In 400-800 meters, Sale 175's average was \$140.41/acre and Sale 172's was \$44.28/acre. In 800 meters or more, Sale 175's average was \$284.49/acre and Sale 172's was \$255.22/acre.

Phase 1 Results

Following the revised post-sale evaluation procedures, in Phase 1 of Sale 175, high bids were accepted on 78 tracts in water depths less than 200 meters and 32 tracts in water depths eligible

for royalty relief. These Phase 1 accepted high bids accounted for about 38.6 percent of the tracts representing 22.4 percent of the high bids in water depths less than 200 meters. In water depths eligible for DWRRA new lease, royalty suspension volumes, about 22.5 percent of the tracts and 19.1 percent of the high bids were accepted in Phase 1. In terms of Phase 1 bid acceptances, EEX Corporation was the most successful company as 13 of its 22 high bids were accepted.

All Phase 1 accepted high bids were wildcat or confirmed tracts determined to be non-viable, except for four acceptances by the “three-bid” rule. The Sale 175 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	98	89.10%	\$25.94	42.81%
2	6	5.45%	\$5.05	8.33%
3	6	5.45%	\$29.61	48.86%
Total	110	100.00%	\$60.60	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	61	55.45%	\$10.77	17.77%
\$50 - 74.99	25	22.73%	\$7.41	12.23%
\$75 - 99.99	7	6.36%	\$3.22	5.32%
\$100 - 149.99	3	2.73%	\$1.02	1.68%
\$150 +	14	12.73%	\$38.18	63.00%
Total	110	100.00%	\$60.60	100.00%

Revised Arithmetic Average Measure of Tract

For evaluating the high bids on multi-bid tracts that do not exceed the MROV, the RAM is applied to:

- (a) drainage or development tracts having three or more qualified bids with the third largest bid being at least 25 percent of the tract’s high bid and
- (b) confirmed or wildcat tracts having two or more qualified bids with the second largest 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, otherwise, the high bid is rejected.

Use of the RAM allows the MMS to consider market factors in the evaluation of high bids. Using the RAM, the highest MROV required to reject a high bid on a multi-bid tract in Sale 175 was about \$50 million. This value for a lease is high, but not unreasonable relative to high bids observed in the sale.

In Sale 175, 17 tracts classified as wildcat or 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, 14 tracts could be eligible for a decision based on the RAM. Of those, four would require an MROV less than \$1 million for rejection, seven would require MROV's between \$1-5 million, and the remaining three would require an MROV of more than \$15 million for rejection. 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 175 decreased to 63 from 67 that were active in Sale 172, the previous CGOM sale. Eight companies submitted bids (either solo or jointly) on 20 or more tracts, with Vastar Resources being the most active company in terms of bids submitted with 42. The most apparent high bids, 33, were submitted by Anadarko Petroleum and the largest total amount of high bids, \$61 million, was submitted by Exxon Asset Management Company on 11 tracts.

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.

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
Exxon Asset Management	\$61,000,000	14 (13)	11 (12)
Anadarko Petroleum	\$24,891,450	34 (3)	33 (1)
Marathon Oil	\$20,955,986	18 (10)	13 (10)
Vastar Resources	\$17,862,464	42 (1)	27 (2)
Shell Deepwater	\$17,321,020	13 (15)	9 (20)
CNG Producing	\$16,004,013	24 (5)	14 (8)
Union Oil Co. – Calif.	\$12,746,856	17 (11)	10 (16)
Murphy Exploration	\$11,836,763	22 (6)	14 (8)
Kerr-McGee Oil & Gas	\$10,120,288	19 (9)	19 (6)
Samedan Oil	\$9,833,200	22 (6)	16 (7)

In ranking companies by the number of total bids submitted, although some companies that were most active in CGOM Sale 172 (March 15, 1999) continued to be among the most active in Sale 175, a number of changes were apparent. For example, six companies ranked in the top ten in CGOM Sale 175 as well as in Sale 172. At the same time, one company that was in the Sale 172 top ten was not ranked among the top 25 participants in Sale 175 and two Sale 172 top ten companies did not bid in Sale 175.

The ten most active companies in Sale 172 (listed from first to tenth) with their rank in terms of number of bids submitted in Sale 175 are: Sonat Exploration GOM – did no bid; Vastar Resources – 1st; Samedan – 6th; Murphy Exploration - 6th; Kerr-McGee Oil & Gas - 9th; Spinnaker Exploration – 4th; BHP Petroleum (Deepwater) – did not bid; Callon Petroleum - 52nd; CNG Producing – 5th; and Union Oil Co. – Calif. - 11th. In terms of number of bids submitted, Vastar Resources moved into the first spot in Sale 175 from the second position in Sale 172.

Appendix G presents a listing of bidding by the most active companies in Sales 175 and 172.

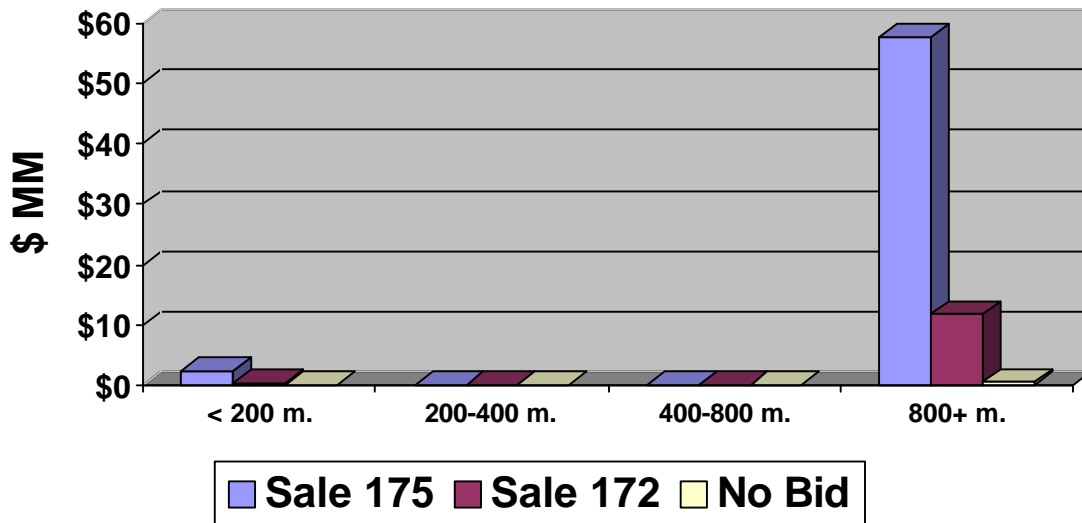
Sale 175 v. Sale 172

Sale 175 was a much larger sale than Sale 172. In Sale 175, 344 tracts received 469 bids. This was an increase in number of tracts receiving bids of 66 percent and in number of bids by 72 percent. The average number of bids per tract increased to 1.36 in Sale 175 from 1.31 in Sale 172. In addition, the average high bid per acre was \$170.35 in Sale 175 compared with \$161.64 in Sale 172, an increase of about 5.4 percent.

The amount of bidding activity in deep water in Sale 175 increased compared to Sale 172. Specifically, the number of tracts potentially eligible for DWRRA royalty suspension volumes (water depth of 200 meters or more) that received bids increased by 40.6 percent. High bids on these tracts increased 48.1 percent and average high bid per tract in this category increased 5.7 percent. Appendix H presents a graphical comparison of sale results.

In Sale 175, 15 tracts that were rejected in Sale 172 received bids and one Sale 172 rejected tract (with a high bid of \$535,680) did not. The high bids on the 15 tracts increased from \$12,694,871 in Sale 172 to \$60,054,698 in Sale 175, an increase in high bids of 373 percent. The number of bids on these tracts increased from 24 to 30, an increase of 25 percent.

Sale 172 Rejected Bids, Sale 175 Bids, and Sale 175 No Bid



Appendix A

Sale 175

Bidding Summary

Central Gulf of Mexico
OCS Oil and Gas Lease Sale 175

Table A1. Sale Day Statistics by Royalty Rate

	16.67% Royalty	12.5% Royalty	Sale Total
Tracts Receiving Bids	210	134	344
Acres Receiving Bids	997,811.89	766,577.48	1,764,389.37
Sum of High Bids	\$97,424,054	\$203,143,621	\$300,567,675
Sum of All Bids	\$114,774,216	\$340,155,654	\$454,929,870
Total Number of Bids	273	196	469
Average Bids	1.30	1.46	1.36
Companies Bidding	54	28	63
Highest Bid per Tract	\$4,187,500	\$23,000,000	\$23,000,000
Tract Number	21647	21770	21770
Number of Bids	3	8	8
Highest Bid per Acre	\$940.16	\$3,993.06	\$3,993.06
Tract Number	21657	21770	21770
Number of Bids	2	8	8
Most Bids	4	8	8
Tract Number	21592	21764,21765,21770	21764,21765, 21770
Number of Tracts	1	3	3

Central Gulf of Mexico
OCS Oil and Gas Lease Sale 175

Table A2. Sale Day Statistics for 16.67% Royalty Rate Tracts

	16.67% w/ROY ¹	16.67% w/RS ²	16.67% Total
Tracts Receiving Bids	202	8	210
Acres Receiving Bids	953,648.23	44,163.66	997,811.89
Sum of High Bids	\$94,902,268	\$2,521,786	\$97,424,054
Sum of All Bids	\$112,252,430	\$2,521,786	\$114,774,216
Total Number of Bids	265	8	273
Average Bids	1.31	1.00	1.30
Companies Bidding	52	6	54
Highest Bid per Tract	\$4,187,500	\$634,000	\$4,187,500
Tract Number	21647	21736	21647
Number of Bids	3	1	3
Highest Bid per Acre	\$940.16	\$110.07	\$940.16
Tract Number	21657	21736	21657
Number of Bids	2	1	2
Most Bids	4	1	4
Tract Number	21592	21736,21738,21739 21740,21742,21744 21748,21756	21592
Number of Tracts	1	8	1

¹ “16.67% 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 DWRRA royalty suspension volumes.

² “16.67% 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 DWRRA royalty suspension volume of 17.5 MMBOE.

Central Gulf of Mexico
OCS Oil and Gas Lease Sale 175

Table A3. Sale Day Statistics for 12.5% Royalty Rate Tracts

	12.5% w/RS1 ³	12.5% w/RS2 ⁴	12.5% Total
Tracts Receiving Bids	18	116	134
Acres Receiving Bids	103,680.00	662,897.48	766,577.48
Sum of High Bids	\$14,557,819	\$188,585,802	\$203,143,621
Sum of All Bids	\$16,477,819	\$323,677,835	\$340,155,654
Total Number of Bids	22	174	196
Average Bids	1.22	1.50	1.46
Companies Bidding	15	23	28
Highest Bid per Tract	\$6,177,787	\$23,000,000	\$23,000,000
Tract Number	21734	21770	21770
Number of Bids	2	8	8
Highest Bid per Acre	\$1,072.53	\$3,993.06	\$3,993.06
Tract Number	21734	21770	21770
Number of Bids	2	8	8
Most Bids	2	8	8
Tract Number	21734, 21758 21759, 21762	21764,21765,21770	21764,21765,21770
Number of Tracts	4	3	3

³ “12.5% 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 DWRRR royalty suspension volume of 52.5 MMBOE.

⁴ “12.5% 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 DWRRR royalty suspension volume of 87.5 MMBOE.

Appendix B

Sale 175

Bidding by Number of Bids

Sale 175

All Tracts

<u>No. of Bids</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
1	262	76.16%	\$136.77	45.50%	\$102.54
2	59	17.15%	\$61.23	20.37%	\$198.42
3	16	4.65%	\$23.99	7.98%	\$289.58
4	3	0.87%	\$17.79	5.92%	\$1,109.10
<u>5+</u>	<u>4</u>	<u>1.16%</u>	<u>\$60.78</u>	<u>20.22%</u>	<u>\$2,637.93</u>
Total	344	100.00%	\$300.57	100.00%	\$170.35

Tracts with 1/6 Royalty Rate

<u>No. of Bids</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
1	161	76.67%	\$56.95	58.45%	\$75.19
2	36	17.14%	\$27.05	27.77%	\$153.58
3	12	5.71%	\$12.52	12.85%	\$209.36
4	1	0.48%	\$0.90	0.93%	\$199.81
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$0.00</u>
Total	210	100.00%	\$97.42	100.00%	\$97.64

Tracts with 1/8 Royalty Rate

<u>No. of Bids</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
1	101	75.37%	\$79.82	39.29%	\$138.46
2	23	17.16%	\$34.18	16.83%	\$293.56
3	4	2.99%	\$11.47	5.65%	\$497.85
4	2	1.49%	\$16.89	8.31%	\$1,465.98
<u>5+</u>	<u>4</u>	<u>2.99%</u>	<u>\$60.78</u>	<u>29.92%</u>	<u>\$2,637.93</u>
Total	134	100.00%	\$203.14	100.00%	\$265.00

Sale 175 by Water Depth Category

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

<u>No. of Bids</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
1	153	75.74%	\$54.43	57.35%	\$76.31
2	36	17.82%	\$27.05	28.50%	\$153.58
3	12	5.94%	\$12.52	13.20%	\$209.36
4	1	0.50%	\$0.90	0.95%	\$199.81
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$0.00</u>
Total	202	100.00%	\$94.90	100.00%	\$99.51

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

<u>No. of Bids</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
1	8	100.00%	\$2.52	100.00%	\$57.10
2	0	0.00%	\$0.00	0.00%	\$0.00
3	0	0.00%	\$0.00	0.00%	\$0.00
4	0	0.00%	\$0.00	0.00%	\$0.00
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$0.00</u>
Total	8	100.00%	\$2.52	100.00%	\$57.10

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

<u>No. of Bids</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
1	14	77.78%	\$6.28	43.13%	\$77.86
2	4	22.22%	\$8.28	56.87%	\$359.34
3	0	0.00%	\$0.00	0.00%	\$0.00
4	0	0.00%	\$0.00	0.00%	\$0.00
<u>5+</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$0.00</u>
Total	18	100.00%	\$14.56	100.00%	\$140.41

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

<u>No. of Bids</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
1	87	75.00%	\$73.55	39.00%	\$148.32
2	19	16.38%	\$25.90	13.74%	\$236.70
3	4	3.45%	\$11.47	6.08%	\$497.85
4	2	1.72%	\$16.89	8.96%	\$1,465.98
<u>5+</u>	<u>4</u>	<u>3.45%</u>	<u>\$60.78</u>	<u>32.23%</u>	<u>\$2,637.93</u>
Total	116	100.00%	\$188.59	100.00%	\$284.49

Appendix C

Sale 175

Bidding by High Bid per Acre

Sale 175

All Tracts

<u>High Bid/Acre</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
< \$50	132	38.37%	\$24.61	8.19%	\$36.72
\$50 - 74.99	73	21.22%	\$22.46	7.47%	\$59.47
\$75 - 99.99	29	8.43%	\$13.34	4.44%	\$86.89
\$100 - 149.99	26	7.56%	\$15.57	5.18%	\$121.11
<u>\$150 +</u>	<u>84</u>	<u>24.42%</u>	<u>\$224.60</u>	<u>74.73%</u>	<u>\$516.70</u>
Total	344	100.00%	\$300.57	100.00%	\$170.35

Tracts with 1/6 Royalty Rate

<u>High Bid/Acre</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
< \$50	95	45.24%	\$16.17	16.59%	\$35.38
\$50 - 74.99	42	20.00%	\$11.88	12.20%	\$59.71
\$75 - 99.99	15	7.14%	\$6.27	6.44%	\$86.14
\$100 - 149.99	19	9.05%	\$10.85	11.13%	\$116.00
<u>\$150 +</u>	<u>39</u>	<u>18.57%</u>	<u>\$52.25</u>	<u>53.64%</u>	<u>\$297.78</u>
Total	210	100.00%	\$97.42	100.00%	\$97.64

Tracts with 1/8 Royalty Rate

<u>High Bid/Acre</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
< \$50	37	27.61%	\$8.44	4.15%	\$39.90
\$50 - 74.99	31	23.13%	\$10.57	5.20%	\$59.21
\$75 - 99.99	14	10.45%	\$7.06	3.48%	\$87.56
\$100 - 149.99	7	5.22%	\$4.72	2.33%	\$134.74
<u>\$150 +</u>	<u>45</u>	<u>33.58%</u>	<u>\$172.35</u>	<u>84.84%</u>	<u>\$664.92</u>
Total	134	100.00%	\$203.14	100.00%	\$265.00

Sale 175 by Water Depth Category

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

<u>High Bid/Acre</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
< \$50	91	45.05%	\$15.46	16.29%	\$35.47
\$50 - 74.99	40	19.80%	\$11.25	11.85%	\$60.00
\$75 - 99.99	14	6.93%	\$5.73	6.03%	\$85.36
\$100 - 149.99	18	8.91%	\$10.21	10.76%	\$116.38
<u>\$150 +</u>	<u>39</u>	<u>19.31%</u>	<u>\$52.25</u>	<u>55.06%</u>	<u>\$297.78</u>
Total	202	100.00%	\$94.90	100.00%	\$99.51

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

<u>High Bid/Acre</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
< \$50	4	50.00%	\$0.71	27.99%	\$33.41
\$50 - 74.99	2	25.00%	\$0.63	25.14%	\$55.03
\$75 - 99.99	1	12.50%	\$0.55	21.73%	\$95.14
\$100 - 149.99	1	12.50%	\$0.63	25.14%	\$110.07
<u>\$150 +</u>	<u>0</u>	<u>0.00%</u>	<u>\$0.00</u>	<u>0.00%</u>	<u>\$0.00</u>
Total	8	100.00%	\$2.52	100.00%	\$57.10

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

<u>High Bid/Acre</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
< \$50	9	50.00%	\$1.82	12.47%	\$35.02
\$50 - 74.99	3	16.67%	\$0.96	6.56%	\$55.28
\$75 - 99.99	2	11.11%	\$1.03	7.07%	\$89.40
\$100 - 149.99	1	5.56%	\$0.60	4.12%	\$104.17
<u>\$150 +</u>	<u>3</u>	<u>16.67%</u>	<u>\$10.16</u>	<u>69.77%</u>	<u>\$587.80</u>
Total	18	100.00%	\$14.56	100.00%	\$140.41

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

<u>High Bid/Acre</u>	<u>Tracts</u>	<u>Percent of Tracts</u>	<u>High Bids (\$MM)</u>	<u>Percent of High Bids</u>	<u>High Bid per Acre</u>
< \$50	28	24.14%	\$6.62	3.51%	\$41.07
\$50 - 74.99	28	24.14%	\$9.62	5.10%	\$59.64
\$75 - 99.99	12	10.34%	\$6.03	3.20%	\$87.26
\$100 - 149.99	6	5.17%	\$4.12	2.19%	\$140.75
<u>\$150 +</u>	<u>42</u>	<u>36.21%</u>	<u>\$162.19</u>	<u>86.00%</u>	<u>\$670.43</u>
Total	116	100.00%	\$188.59	100.00%	\$284.49

Appendix D

Sale 175

Bidding Results - Graphs

Distribution of High Bids Sale 175 - CGOM

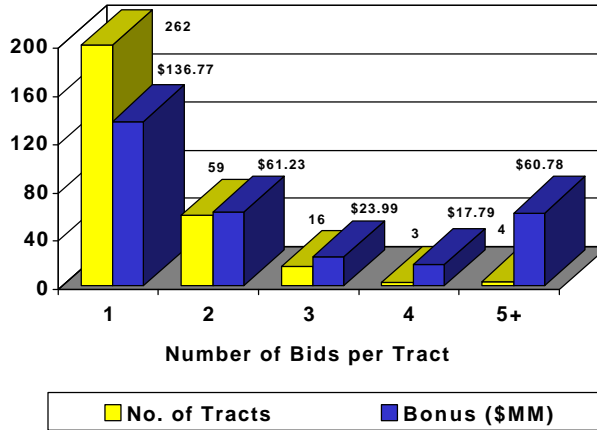
Prepared by:
Economics Division, MMS

Sale 175 (CGOM) - Bidding Results

- 344 tracts received 469 bids (1.36 bids/tract)
- High bids were \$300.57 MM
- Average high bid per acre was \$170.35
- 63 companies submitted bids
- 210 tracts in < 400 meters received bids
 - 61.05 % of tracts and 32.41 % of high bids
- 134 tracts in 400+ meters received bids
 - 38.95 % of tracts and 67.59 % of high bids

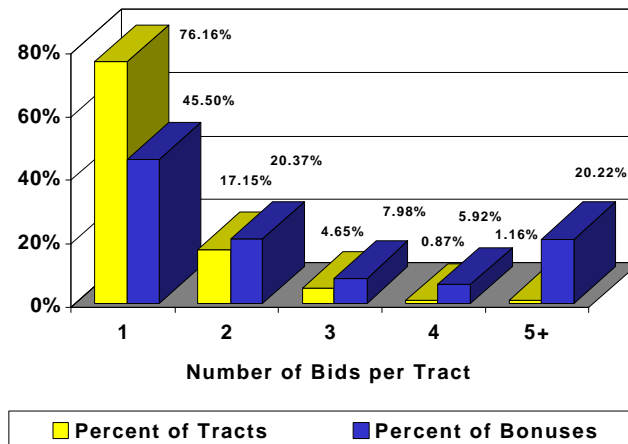
Sale 175 - Aggregate

Bidding Activity by Bids per Tract



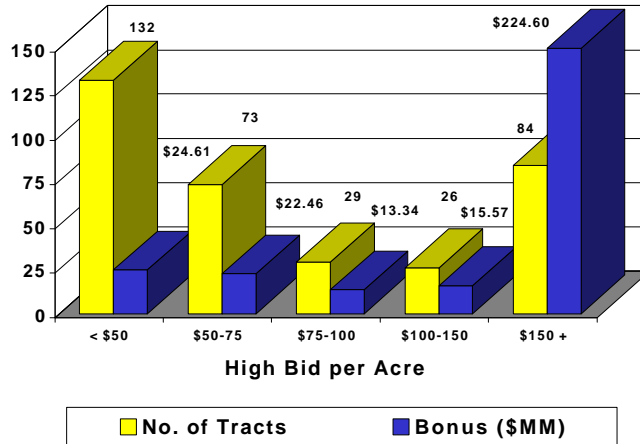
Sale 175 - Aggregate

Bidding Activity by Bids per Tract



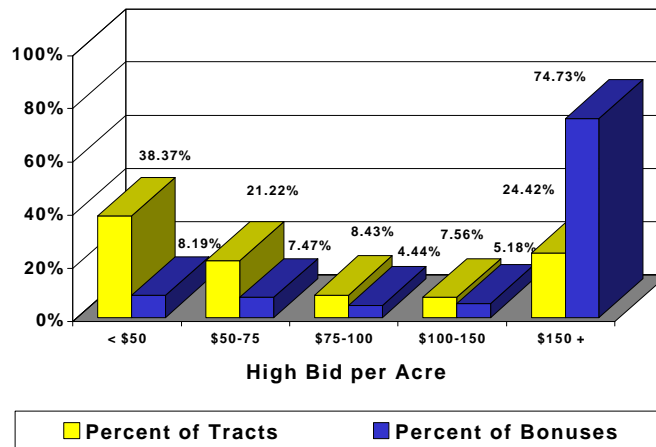
Sale 175 - Aggregate

Bidding Activity by High Bid per Acre



Sale 175 - Aggregate

Bidding Activity by High Bid per Acre



Sale 175

Bidding by Water Depth Category

Prepared by:
Economics Division, MMS

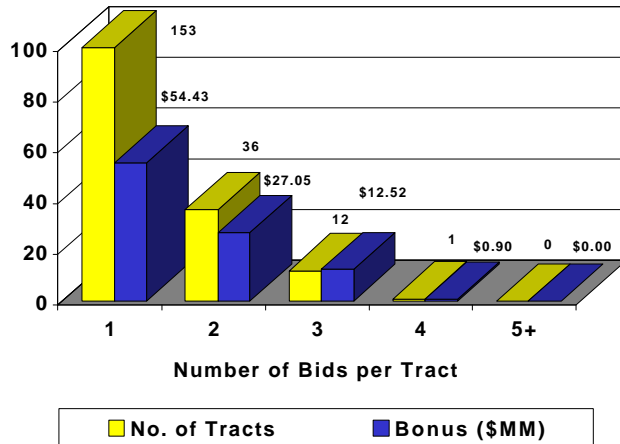
Sale 175 (CGOM)

Bidding by Water Depth Category

- 202 tracts in < 200 meters received 265 bids and high bids of \$94.90 MM (\$99.51/acre)
- 8 tracts in 200-400 meters had 8 bids and high bids of \$2.52 MM (\$57.10/acre)
- 18 tracts in 400-800 meters had 22 bids and high bids of \$14.56 MM (\$140.41/acre)
- 116 tracts in > 800 meters had 174 bids and high bids of \$188.59 MM (\$284.49/acre)

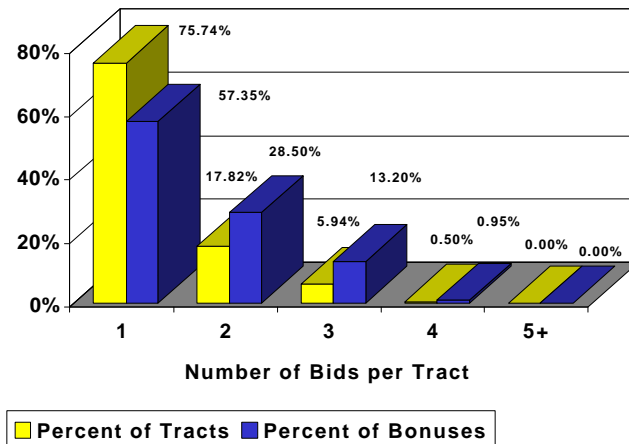
Sale 175 - Tracts in < 200 Meters Water Depth

Bidding Activity by Bids per Tract



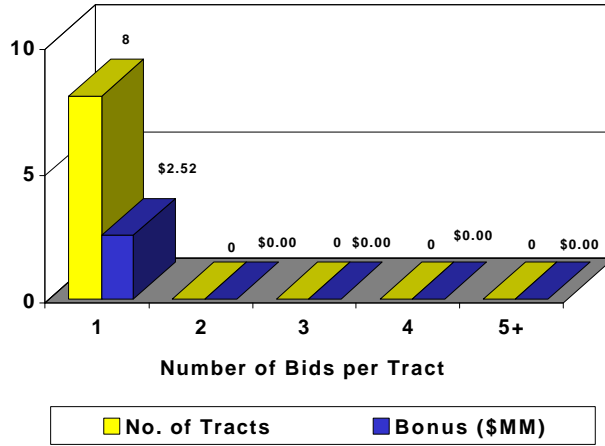
Sale 175 - Tracts in < 200 Meters Water Depth

Bidding Activity by Bids per Tract



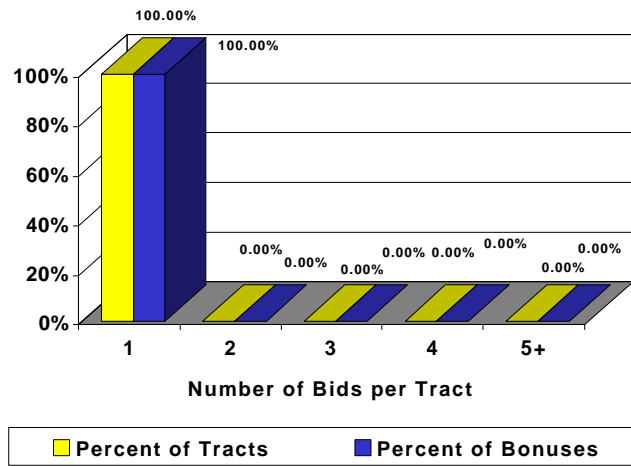
Sale 175 - Tracts in 200-400 Meters Water Depth

Bidding Activity by Bids per Tract



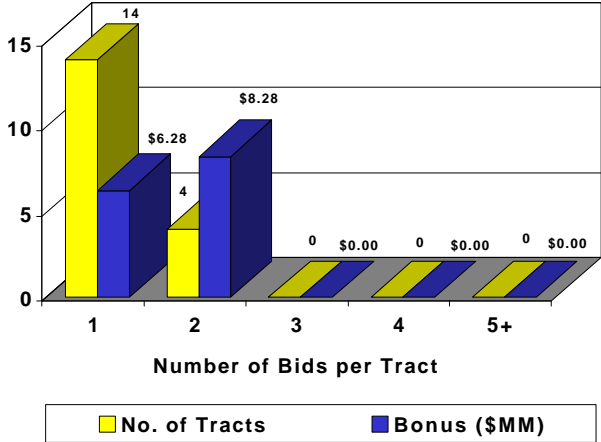
Sale 175 - Tracts in 200-400 Meters Water Depth

Bidding Activity by Bids per Tract



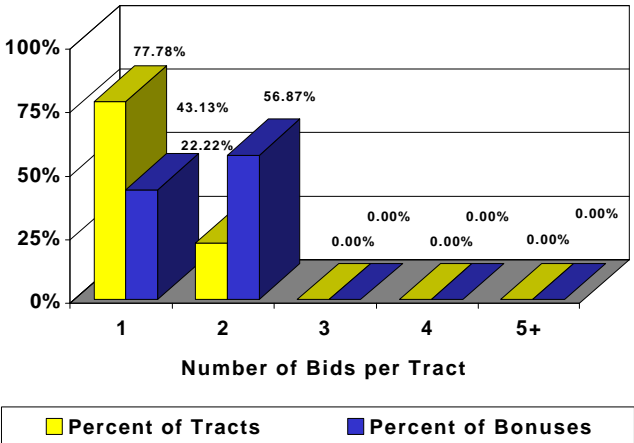
Sale 175 - Tracts in 400-800 Meters Water Depth

Bidding Activity by Bids per Tract



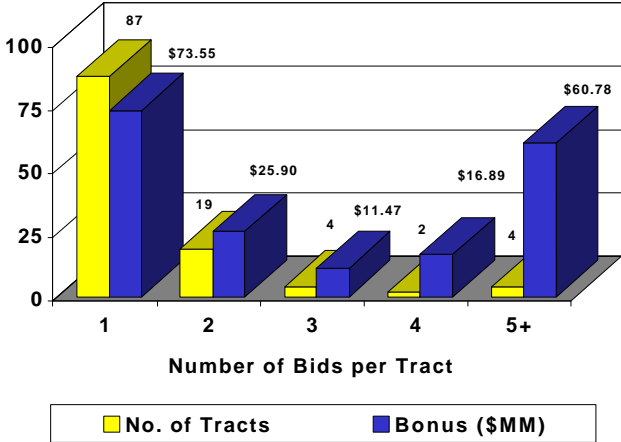
Sale 175 - Tracts in 400-800 Meters Water Depth

Bidding Activity by Bids per Tract



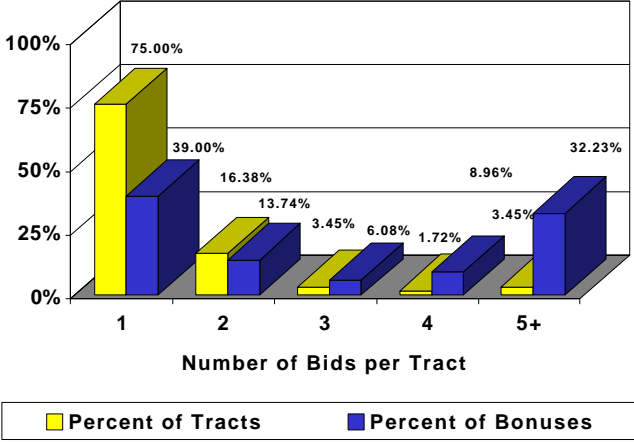
Sale 175 - Tracts in 800+ Meters Water Depth

Bidding Activity by Bids per Tract



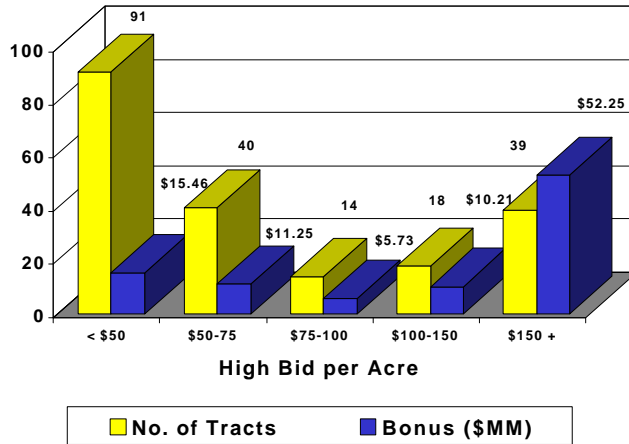
Sale 175 - Tracts in 800+ Meters Water Depth

Bidding Activity by Bids per Tract



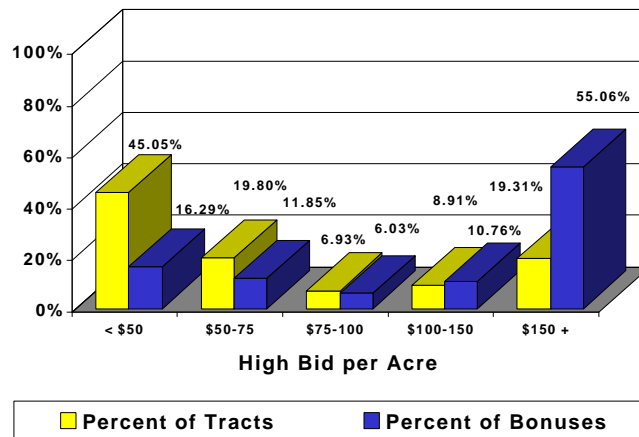
Sale 175 - Tracts in < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



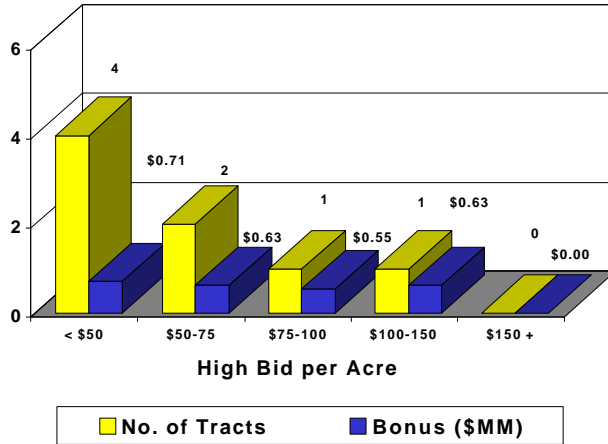
Sale 175 - Tracts in < 200 Meters Water Depth

Bidding Activity by High Bid per Acre



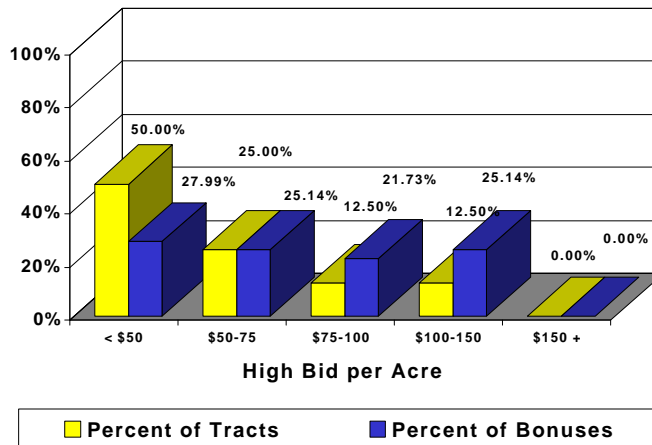
Sale 175 - Tracts in 200-400 Meters Water Depth

Bidding Activity by High Bid per Acre



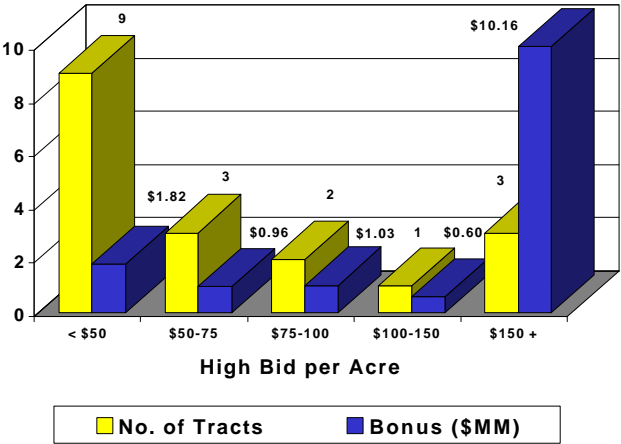
Sale 175 - Tracts in 200-400 Meters Water Depth

Bidding Activity by High Bid per Acre



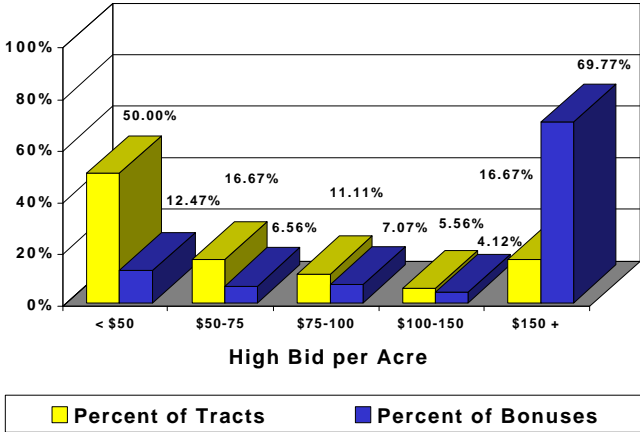
Sale 175 - Tracts in 400-800 Meters Water Depth

Bidding Activity by High Bid per Acre



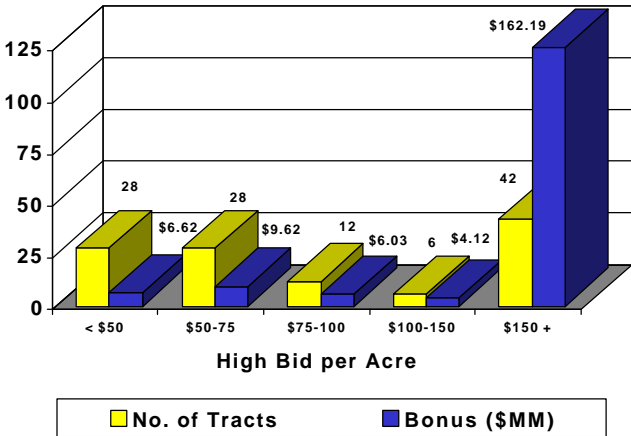
Sale 175 - Tracts in 400-800 Meters Water Depth

Bidding Activity by High Bid per Acre



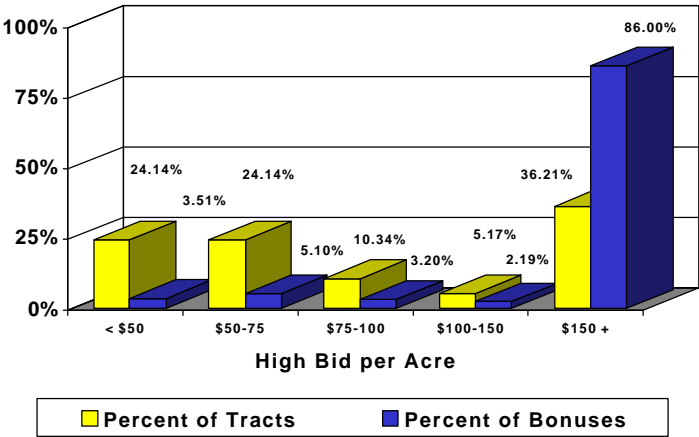
Sale 175 - Tracts in 800+ Meters Water Depth

Bidding Activity by High Bid per Acre



Sale 175 - Tracts in 800+ Meters Water Depth

Bidding Activity by High Bid per Acre



Appendix E

Sale 175

RAM

Sale 175 – Tracts with Three or More Bids

In Sale 172, three or more bids were received on 23 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. Of the 23 blocks with 3 or more bids, 5 had third largest bids within 50 percent of the high bid and 8 had third bids that were not at least 25 percent of the high bid.

Table E1. Percent Difference Between a Tract’s High Bid and Third Largest Bid
By Water Depth Category

Category	< 25 %	25 – 50 %	50 – 75 %	> 75 %	Total
< 200 m.	4	8	1	0	13
200–400 m.	0	0	0	0	0
400-800 m.	0	0	0	0	0
> 800 m.	4	2	3	1	10
Total	8	10	4	1	23

Sale 175 was the third sale in which a secondary screen was used for Phase 1 acceptance of high bids on confirmed or wildcat tracts receiving three or more bids. Under this rule, high bids on wildcat and confirmed tracts are accepted in Phase 1 if: (1) the third highest bid is at least 50 percent of the high bid and (2) the high is in the top 75 percent of high bids for that category of tract in the specified water depth zone. In Sale 175, four tracts had high bids that satisfied both conditions to qualify for Phase 1 acceptance.

Sale 175 was the sixth sale in which the Phase 2 averaging rule, the “Revised Arithmetic Average Measure” (RAM) of tract value was used. The RAM is a secondary bid acceptance rule that is used on multi-bid tracts if the Government’s value of the tract (MROV) exceeds the high bid. The RAM is arithmetic average of a tract’s high bid, MROV, and all other bids that are at least 25 percent of the high bid. If a bid on a tract is not at least 25 percent of the high bid, that bid is considered an outlier and not included in the RAM calculation. Thus, the adjusted number of bids on a tract for the RAM calculation can be less than the total number of bids that a tract receives.

For those tracts on which the RAM is used as the bid acceptance rule, if the RAM is less than the tract’s high bid, the high bid is accepted and if the RAM exceeds the high bid, the high bid is rejected. The revised bid evaluation process was described in a notice of procedural changes relative to “Modifications in the Bid Adequacy Procedures” that was published in the *Federal Register* on July 14, 1997 (Volume 62, Number 134).

Seventeen tracts passed to Phase 2 for further evaluation that potentially could use the RAM as the bid acceptance decision rule. After adjusting the number of bids to include only those that are at least 25 percent of a tract's high bid, 14 tracts could be eligible for a decision based on the RAM. Of those, four would require an MROV less than \$1 million for rejection, seven would require MROV's between \$1-5 million, and the remaining three would require an MROV of more than \$15 million for rejection. These results are summarized in Table E2.

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

Category	< \$1 MM	\$1-5 MM	\$5-10 MM	> \$10 MM	Total
< 200 m.	4	5	0	0	9
> 800 m.	0	2	0	3	5
Total	4	7	0	3	14

Sale 175 – 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	MROV to Reject w/RAM
21532	\$537,544	3	49.44%	3	\$985,133
21569	\$807,800	3	30.96%	3	\$1,639,281
21572	\$937,000	3	19.53%	2	\$1,635,420
21587	\$578,000	3	32.49%	3	\$1,115,101
21614	\$353,970	3	47.99%	3	\$679,394
21615	\$838,000	3	42.37%	3	\$1,742,908
21707	\$441,900	3	34.66%	3	\$955,846
21728	\$656,640	3	31.22%	3	\$1,411,236
21729	\$353,685	3	66.73%	3	\$588,896

Table E4. Tracts in 800 or More Meters; 87.5 MMBOE Royalty Suspension Volume

Tract	High Bid	No. of Bids	3 rd Bid as % of High Bid	Adjusted No. of Bids	MROV to Reject w/RAM
21796	\$2,689,000	3	13.31%	2	\$4,439,116
21820	\$3,203,136	3	10.24%	2	\$4,650,773
21794	\$7,578,000	4	25.31%	3	\$17,268,590
21765	\$22,000,000	8	31.27%	3	\$50,676,301
21770	\$23,000,000	8	19.50%	2	\$35,873,631

Appendix F

Sale 175

Summary of Company Bids

Sale 175 - Summary of Company Bids by Total Amount of High Bids

<u>Rank</u>	<u>Company #</u>	<u>Company Name</u>	<u>Total</u>	<u>High</u>	<u>Losers</u>	<u>Total Exposed</u>	<u>Total High Bids</u>	<u>Total Unsuccessful</u>
1	2295	Exxon Asset Management	14	11	3	\$65,300,000	\$61,000,000	\$4,300,000
2	981	Anadarko Petroleum	34	33	1	\$24,976,950	\$24,891,450	\$85,500
3	724	Marathon Oil	18	13	5	\$50,962,355	\$20,955,986	\$30,006,369
4	1855	Vastar Resources	42	27	15	\$28,583,718	\$17,862,464	\$10,721,254
5	2139	Shell Deepwater	13	9	4	\$30,950,216	\$17,321,020	\$13,629,196
6	282	CNG Producing	24	14	10	\$20,876,123	\$16,004,013	\$4,872,110
7	3	Union Oil - California	17	10	7	\$14,475,460	\$12,746,856	\$1,728,604
8	1689	Murphy Exploration	22	14	8	\$16,214,397	\$11,836,763	\$4,377,634
9	2219	Kerr-McGee Oil & Gas	19	19	0	\$10,120,288	\$10,120,288	\$0
10	185	Samedan Oil	22	16	6	\$11,600,850	\$9,833,200	\$1,767,650
11	78	Chevron USA	37	26	11	\$26,242,605	\$9,819,208	\$16,423,397
12	560	Seneca Resources	10	7	3	\$9,266,820	\$8,357,974	\$908,846
13	2169	Spinnaker Exploration	30	21	9	\$10,794,383	\$8,186,352	\$2,608,031
14	1680	BP Exploration	16	10	6	\$18,355,049	\$6,086,919	\$12,268,130
15	2018	Basin Exploration	12	10	2	\$5,708,157	\$5,399,705	\$308,452
16	2148	Westport Oil & Gas	13	12	1	\$4,295,800	\$4,189,600	\$106,200
17	730	Walter Oil & Gas	13	11	2	\$4,872,870	\$4,155,850	\$717,020
18	2079	CXY Energy Offshore	13	10	3	\$4,549,217	\$3,933,057	\$616,160
19	1385	Chieftain International (US)	14	11	3	\$4,070,244	\$3,679,900	\$390,344
20	771	Texaco Exploration	7	4	3	\$9,998,208	\$3,643,776	\$6,354,432
21	59	Amerada Hess	11	9	2	\$5,869,635	\$3,511,275	\$2,358,360
22	2025	Coastal Oil & Gas USA	14	7	7	\$5,287,885	\$3,123,060	\$2,164,825
23	2211	EEX Corporation	22	21	1	\$3,242,753	\$3,111,525	\$131,228
24	2421	Devon Energy	12	11	1	\$3,103,360	\$2,933,505	\$169,855
25	1138	El Paso Production (Gulf)	6	6	0	\$2,891,536	\$2,891,536	\$0
26	2401	Equitable Production (Gulf)	5	3	2	\$2,622,456	\$2,232,250	\$390,206
27	2277	BHP Petroleum (Deepwater)	6	3	3	\$3,815,953	\$2,160,325	\$1,655,628
28	1704	Remington Oil & Gas	8	8	0	\$1,941,780	\$1,941,780	\$0
29	1001	IP Petroleum	5	4	1	\$3,330,632	\$1,591,716	\$1,738,916
30	2117	Enterprise Oil GOM	9	9	0	\$1,324,200	\$1,324,200	\$0
31	1513	Callon Petroleum	2	2	0	\$1,061,650	\$1,061,650	\$0
32	2312	McMoRan Oil & Gas	1	1	0	\$1,037,774	\$1,037,774	\$0

<u>Rank</u>	<u>Company #</u>	<u>Company Name</u>	<u>Total</u>	<u>High</u>	<u>Losers</u>	<u>Total Exposed</u>	<u>Total High Bids</u>	<u>Total Unsuccessful</u>
33	231	Pogo Producing	6	6	0	\$1,037,431	\$1,037,431	\$0
34	1935	Pioneer Natural Resources	2	2	0	\$1,027,098	\$1,027,098	\$0
35	2268	Bois d'Arc Offshore	4	4	0	\$950,300	\$950,300	\$0
36	1834	Stone Energy	3	2	1	\$1,250,000	\$950,000	\$300,000
37	1832	Forcenergy	5	5	0	\$808,199	\$808,199	\$0
38	1819	ATP Oil & Gas	2	1	1	\$995,600	\$807,800	\$187,800
39	1777	Ocean Energy	6	4	2	\$1,424,750	\$694,250	\$730,500
40	105	Apache Corporation	1	1	0	\$628,296	\$628,296	\$0
41	2248	Agip Petroleum	5	4	1	\$658,697	\$583,146	\$75,551
42	64	Hunt Oil	6	4	2	\$940,600	\$568,800	\$371,800
43	2349	Magnum Hunter Production	13	7	6	\$1,500,443	\$563,543	\$936,900
44	689	Shell Offshore	3	3	0	\$560,750	\$560,750	\$0
45	1904	Burlington Resources	6	2	4	\$7,499,997	\$478,547	\$7,021,450
46	1978	The Wm. G. Helis Co.	5	4	1	\$830,697	\$461,836	\$368,861
47	2330	Cheniere Energy	8	5	3	\$923,850	\$400,913	\$522,937
48	2397	Samson Offshore	8	5	3	\$923,850	\$400,913	\$522,937
49	1364	Newfield Exploration	3	2	1	\$674,000	\$318,000	\$356,000
50	1103	EOG Resources	1	1	0	\$292,500	\$292,500	\$0
51	1732	Cockrell Oil & Gas	1	1	0	\$281,877	\$281,877	\$0
52	276	Exxon Mobil	1	1	0	\$266,948	\$266,948	\$0
53	2190	PanCanadian GOM	5	5	0	\$239,600	\$239,600	\$0
54	2189	Bellwether Exploration	4	2	2	\$411,666	\$233,134	\$178,532
55	48	Forest Oil	4	2	2	\$814,500	\$232,125	\$582,375
56	1046	The Houston Exploration Co.	2	1	1	\$632,687	\$212,583	\$420,104
57	1551	Sante Fe Snyder	1	1	0	\$202,298	\$202,298	\$0
58	145	J. M. Huber	1	1	0	\$153,475	\$153,475	\$0
59	222	Aviara Energy	3	1	2	\$656,010	\$138,503	\$517,507
60	2222	PetroQuest Energy One	5	2	3	\$432,965	\$77,375	\$355,590
61	1999	Houston Energy	4	4	0	\$52,461	\$52,461	\$0
62	1	Conoco	4	0	4	\$20,000,000	\$0	\$20,000,000
63	2066	Ridgelake Energy	1	0	1	\$115,000	\$0	\$115,000

Appendix G

Sales 175 and 172

Active Bidders

Companies Participating in 10 or More Bids in Sale 172

<u>Company Name</u>	<u>Co. Code</u>	<u><200 m.</u>	<u>200 - 400 m.</u>	<u>400 - 800 m.</u>	<u>800+ m.</u>	<u>Total</u>	<u>Total Exposed</u>	<u>Exposure Rank</u>	<u>Exposure per Bid</u>
Sonat Exploration GOM	1138	27	0	0	1	28	\$7,811,120	10	\$278,969
Vastar Resources	1855	6	0	0	18	24	\$14,777,933	3	\$615,747
Samedan	185	7	2	0	11	20	\$2,687,575		\$134,379
Murphy Exploration	1689	1	2	1	15	19	\$8,711,874	9	\$458,520
Kerr-McGee Oil & Gas	2219	1	1	0	16	18	\$17,091,546	2	\$949,530
Spinnaker Exploration	2169	7	0	1	8	16	\$7,466,923		\$466,683
BHP Petroleum (Deepwater)	2277	0	0	1	13	14	\$8,898,701	8	\$635,622
Callon Petroleum	1513	0	0	1	12	13	\$2,859,176		\$219,937
CNG Producing	282	4	1	0	6	11	\$9,960,517	6	\$905,502
Union Oil - California	3	6	0	1	3	10	\$11,809,735	4	\$1,180,974
Amerada Hess	59	1	0	0	9	10	\$6,798,766		\$679,877
Burlington Resources	1904	1	0	0	9	10	\$4,974,542		\$497,454

Other Bidders of Note:

Elf Exploration	1500	0	0	0	9	9	\$21,421,084	1	\$2,380,120
Mariner Energy	818	0	0	0	4	4	\$10,096,225	5	\$2,524,056
Marathon	724	0	0	0	6	6	\$9,501,181	7	\$1,583,530

Companies Participating in 14 or More Bids in Sale 175

<u>Company Name</u>	<u>Co. Code</u>	<u><200 m.</u>	<u>200 - 400 m.</u>	<u>400 - 800 m.</u>	<u>800+ m.</u>	<u>Total</u>	<u>Total Exposed</u>	<u>Exposure Rank</u>	<u>Exposure per Bid</u>
Vastar Resources	1855	6	0	2	34	42	\$28,583,718	4	\$680,565
Chevron USA	78	19	0	0	18	37	\$26,242,605	5	\$709,260
Anadarko Petroleum	981	25	0	7	2	34	\$24,976,950	6	\$734,616
Spinnaker Exploration	2169	9	1	0	20	30	\$10,794,383	13	\$359,813
CNG Producing	282	6	0	0	18	24	\$20,876,123	7	\$869,838
Murphy Exploration	1689	3	0	1	18	22	\$16,214,397	10	\$737,018
Samedan Oil	185	13	1	1	7	22	\$11,600,850	12	\$527,311
EEX Corporation	2211	17	0	5	0	22	\$3,242,753	27	\$147,398
Kerr-McGee Oil & Gas	2219	1	0	0	18	19	\$10,120,288	14	\$532,647
Marathon Oil	724	0	0	2	16	18	\$50,962,355	2	\$2,831,242
Union Oil - California	3	6	0	1	10	17	\$14,475,460	11	\$851,498
BP Exploration	1680	0	2	1	13	16	\$18,355,049	9	\$1,147,191
Exxon Asset Management	2295	0	1	3	10	14	\$65,300,000	1	\$4,664,286
Coastal Oil & Gas USA	2025	13	1	0	0	14	\$5,287,885	20	\$377,706
Chieftain International (US)	1385	12	0	2	0	14	\$4,070,244	24	\$290,732

Appendix H

Sales 175 and 172

Comparison of Sales – Graphs

Sale 175 v. Sale 172

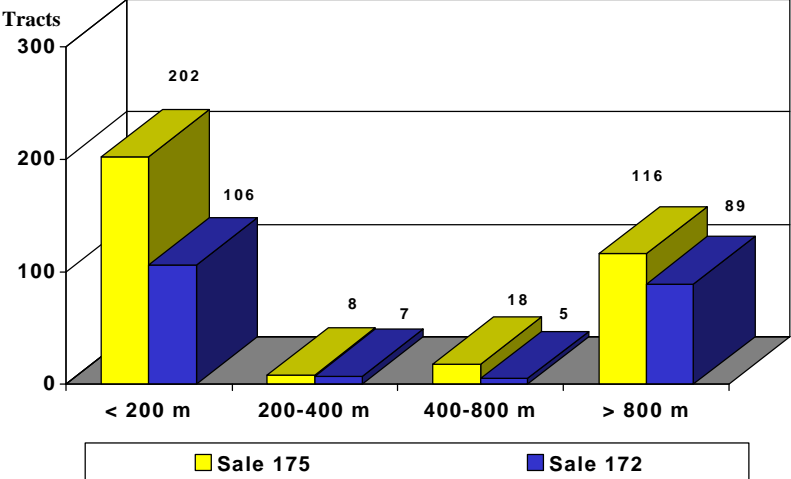
Prepared by:
Economics Division, MMS

Sale 175 - Sale 172 (CGOM) Comparison of Results

- In aggregate, 344 tracts received high bids of \$300.57 MM in Sale 175 and 207 tracts received high bids of \$171.80 MM in Sale 172
- Bids per tract increased from 1.31 to 1.36 in Sale 172
- Sale 175 had 202 tracts in < 200 m. receiving high bids of \$94.90 MM v. 106 tracts and high bids of \$32.98 MM in Sale 172
- Sale 175 had 142 tracts in > 200 m. receiving high bids of \$205.67 MM v. 101 tracts and high bids of \$138.82 MM in Sale 172

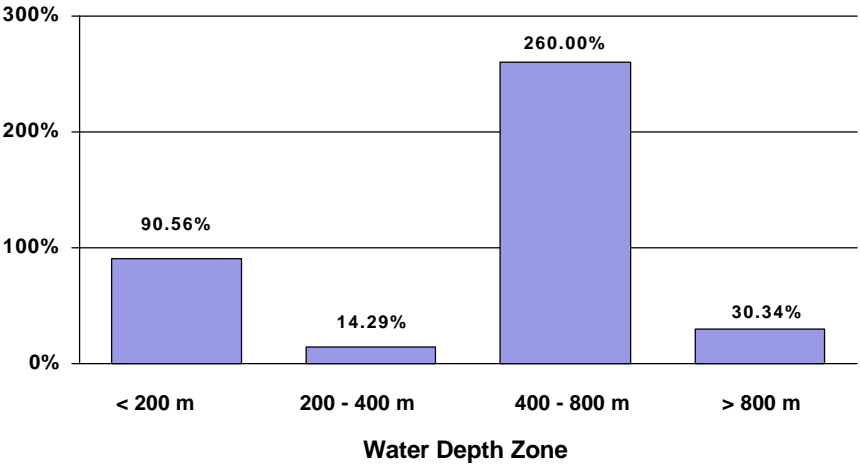
Sale 175 v. Sale 172 - Tracts

Tracts Receiving Bids by Water Depth Zone

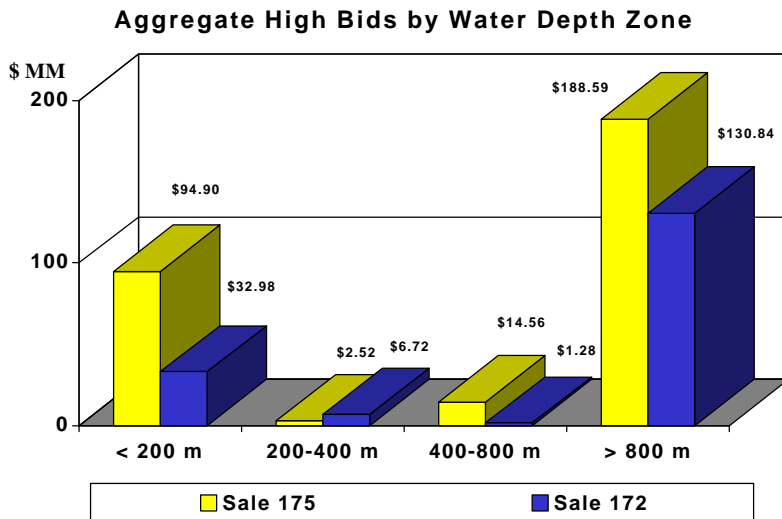


Sale 175 v. Sale 172 - Tracts

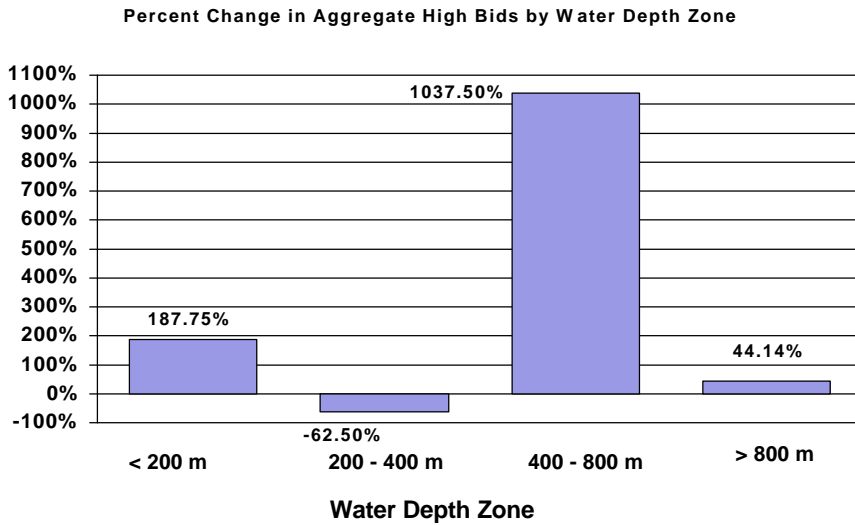
Percent Change in Tracts Receiving Bids by Water Depth Zone



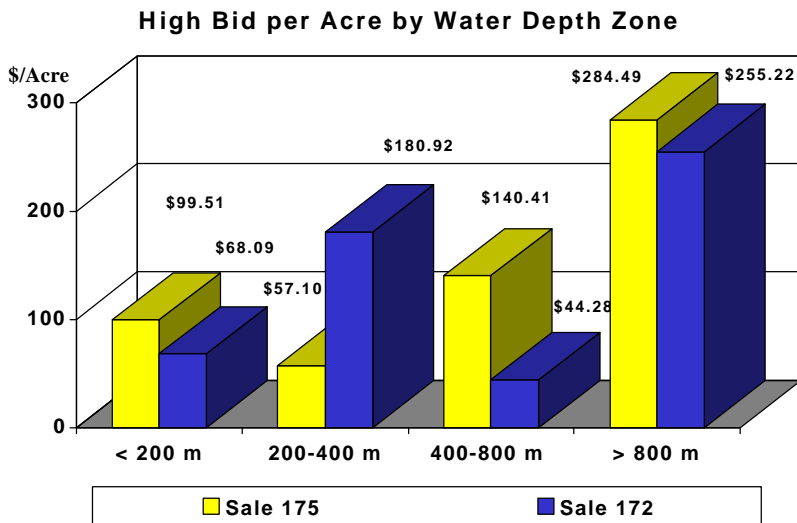
Sale 175 v. Sale 172 - Bonuses



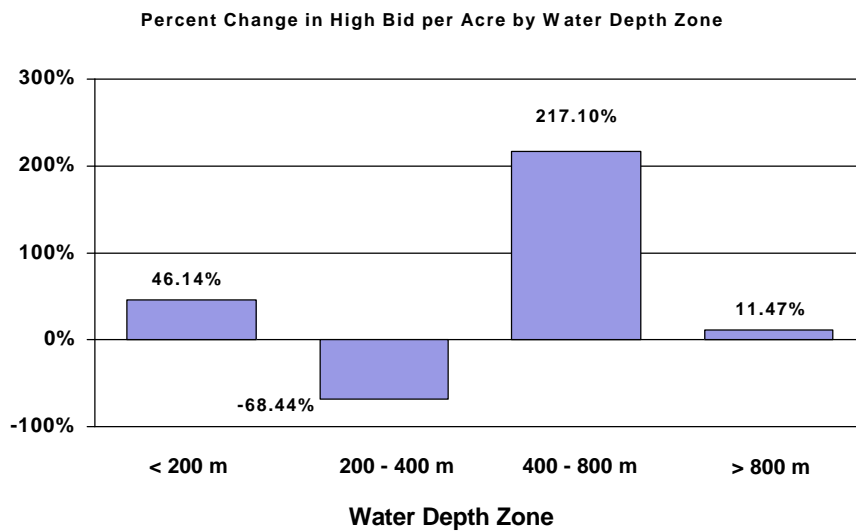
Sale 175 v. Sale 172 - Bonuses



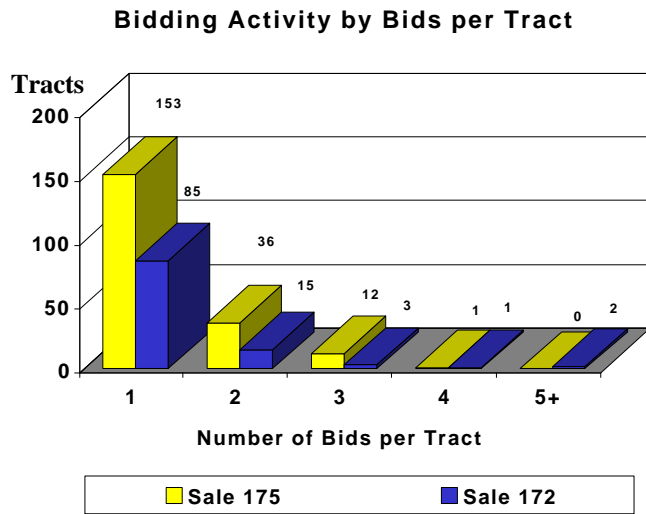
Sale 175 v. Sale 172 - High Bid per Acre



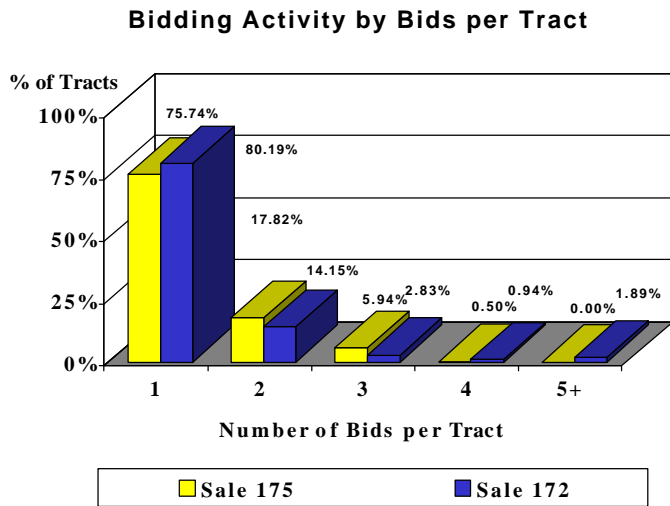
Sale 175 v. Sale 172 - High Bid per Acre



Sale 175 v. Sale 172 - Tracts in Less than 200 Meters Water Depth

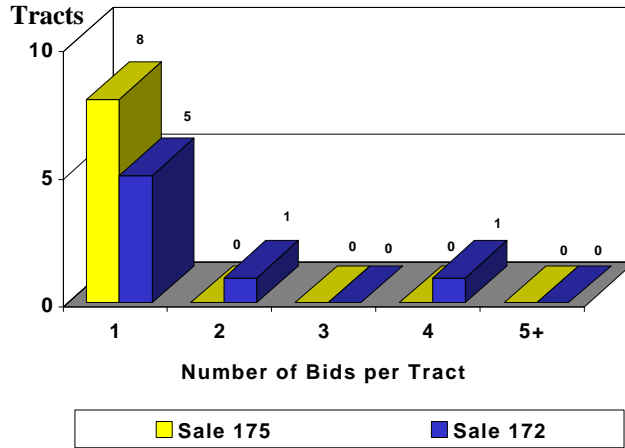


Sale 175 v. Sale 172 - Tracts in Less than 200 Meters Water Depth



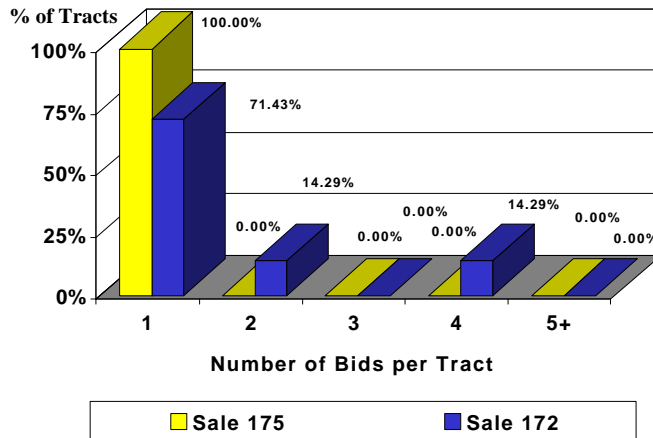
Sale 175 v. Sale 172 - Tracts in 200 to 400 Meters Water Depth

Bidding Activity by Bids per Tract

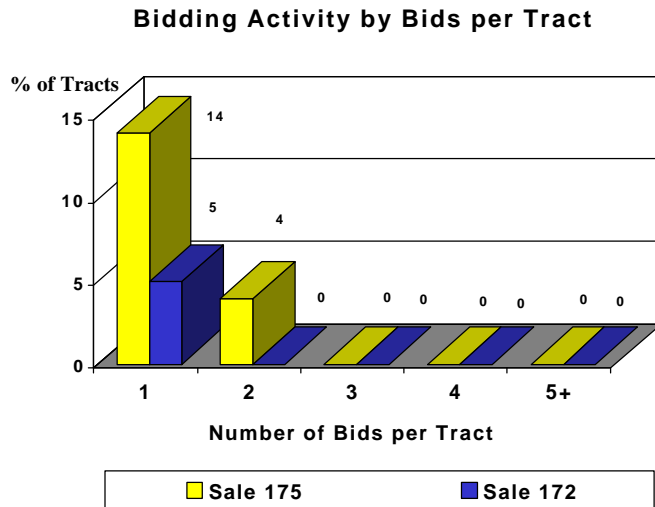


Sale 175 v. Sale 172 - Tracts in 200 to 400 Meters Water Depth

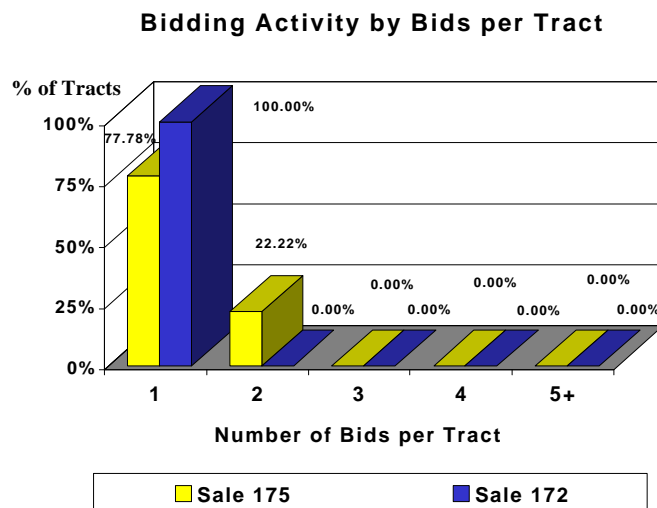
Bidding Activity by Bids per Tract



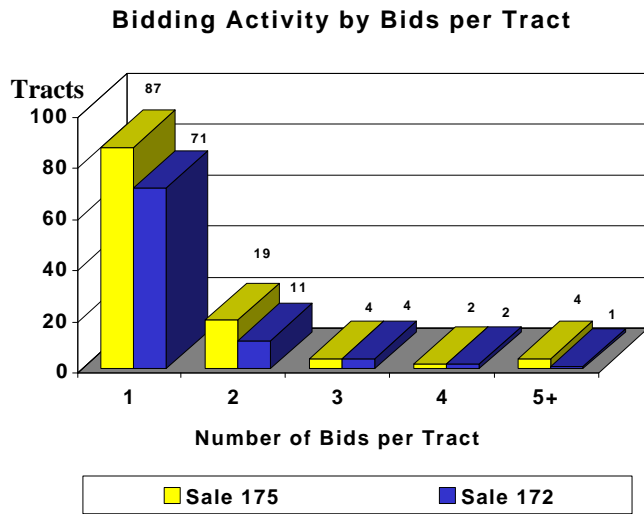
Sale 175 v. Sale 172 - Tracts in 400 to 800 Meters Water Depth



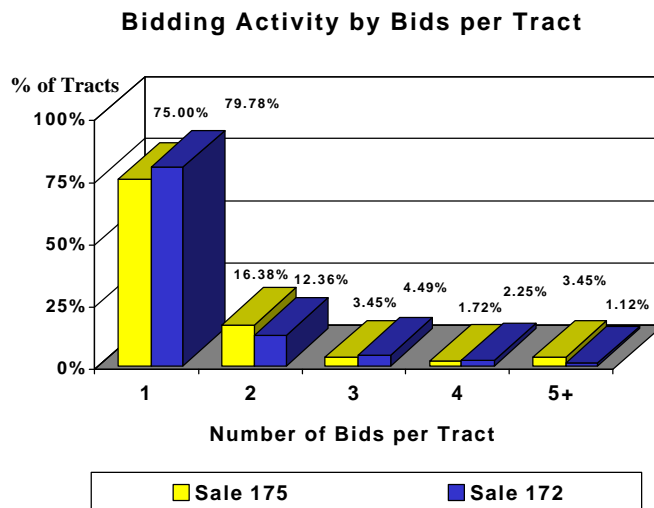
Sale 175 v. Sale 172 - Tracts in 400 to 800 Meters Water Depth



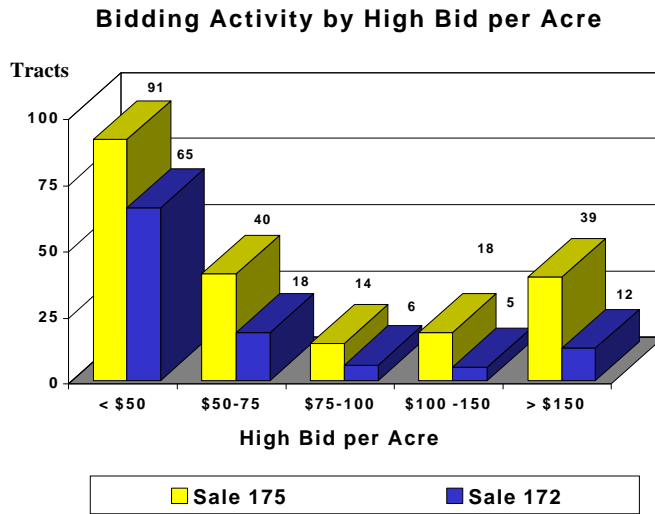
Sale 175 v. Sale 172 - Tracts in More than 800 Meters Water Depth



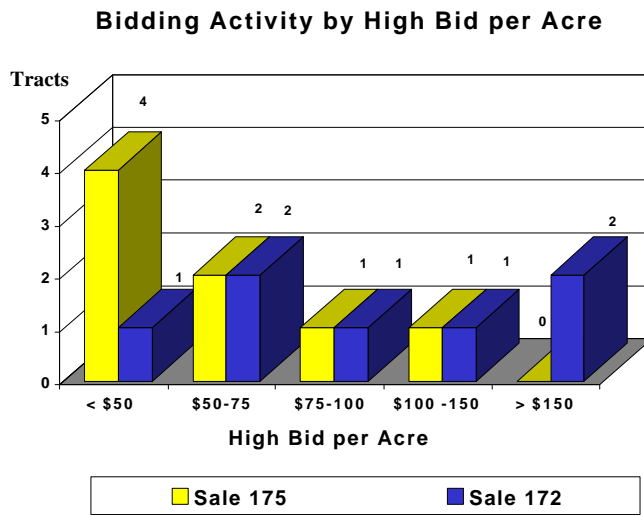
Sale 175 v. Sale 172 - Tracts in More than 800 Meters Water Depth



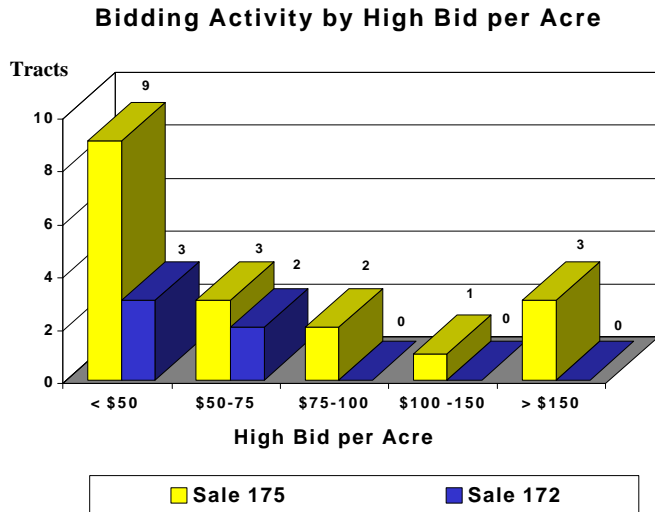
Sale 175 v. Sale 172 - Tracts in Less than 200 Meters Water Depth



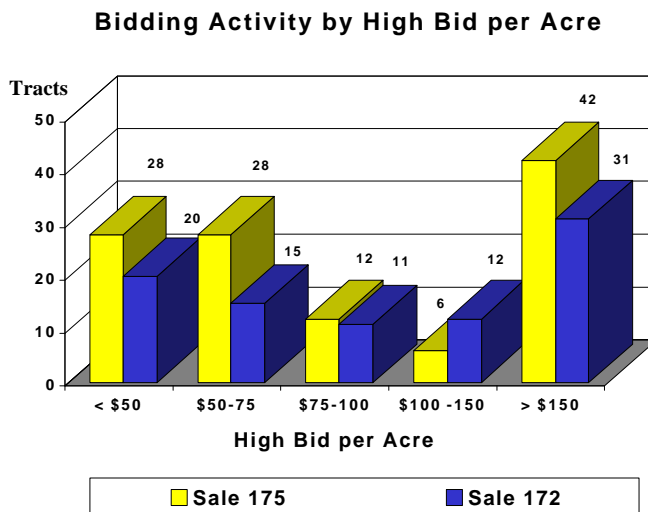
Sale 175 v. Sale 172 - Tracts in 200 to 400 Meters Water Depth



Sale 175 v. Sale 172 - Tracts in 400 to 800 Meters Water Depth



Sale 175 v. Sale 172 - Tracts in More than 800 Meters Water Depth



Appendix I

Sale 175

High Bid Rejections

Sale 175 Rejections

High bids on 10 tracts were rejected in Sale 175. Eight of the rejected blocks received one bid, one received two bids, and one received three bids. By water depth category, the rejections were as follows: 2 in less than 200 meters; none in 200 to 400 meters or 400 to 800 meters; and 8 in 800 meters or more.

Table I1. Sale 175 Rejections in Water Depths Less than 200 Meters
Royalty Rate = 1/6; No Royalty Suspension Volume

Tract No.	Bids	High Bid	MROV	RAM	GAEOT
21541	1	\$163,103	\$860,000	NA	NA
21607	1	\$513,500	\$1,500,000	NA	NA

Table I2. Sale 175 Rejections in Water Depths of 800 Meters or More
Royalty Rate = 1/8; 87.5 MMBOE Royalty Suspension Volume

Tract No.	Bids	High Bid	MROV	RAM	GAEOT
21812	2	\$1,472,000	\$2,600,000	\$1,824,000	\$1,749,860
21820	3	\$3,203,136	\$11,000,000	\$5,319,545	\$2,122,090
21821	1	\$218,076	\$1,200,000	NA	NA
21847	1	\$1,224,244	\$3,500,000	NA	NA
21856	1	\$351,360	\$1,500,000	NA	NA
21871	1	\$217,017	\$970,000	NA	NA
21872	1	\$217,017	\$990,000	NA	NA
21873	1	\$217,017	\$920,000	NA	NA

Sale 175 was the sixth sale to use the revised bid adequacy procedures in which the Revised Arithmetic-average Measure (RAM) replaced the Geometric Average Evaluation of Tract (GAEOT) as the secondary bid acceptance criterion. If the GAEOT were still used for this sale, the high bid on one additional tract (21820) would have been accepted. The most recent modification of the procedures was published in the Federal Register on July 12, 1999 (64 FR 37560-37562).

Appendix J

Sale 175

Revised
Bid Adequacy Procedures

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

DEPARTMENT OF THE INTERIOR

Minerals Management Service

Modifications to the Bid Adequacy Procedures

AGENCY: Minerals Management Service (MMS), Interior.

ACTION: Notification of procedural change.

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

DATES: This modification is effective July 1, 1999.

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

The revised bid adequacy procedures are described below.

What Definitions Apply to These Procedures?

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

The *delayed MROV (DMROV)* is a measure used to determine the size of the high bid needed in the current sale to equalize it with the discounted sum of the bonus and royalties expected in the next sale, less the foregone royalties from the current sale. The bonus for the next sale is computed as the *MROV* associated with the delay in leasing under the projected economic, engineering, and geological leasing receipts conditions,

including drainage. If the high bid exceeds the DMROV, then the leasing receipts from the current sale are expected to be greater than those from the next sale, even in cases in which the MROV exceeds the high bid.

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

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

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

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

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

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

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

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

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

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

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

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

Water depth categories for bid adequacy purposes in the Gulf of Mexico are designated as

(1) less than 800 meters and (2) 800 meters or more. If different water depth categories are used for a Gulf of Mexico sale, they will be specified in the sale's final notice. For areas other than the Gulf of Mexico, all tracts will be considered to be in the same water depth category, unless an alternative is specified in the final notice of sale.

What Problem Is Addressed by the Change?

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

What Change Is Being Made?

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

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

How Are Bids Evaluated?

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

What Happens in Phase 1 of the Bid Adequacy Procedures?

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

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

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

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

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

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

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

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

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

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

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

How Long Do the Phase 2 Procedures Take?

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

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

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

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

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

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

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

If so we:

A. Evaluate, define, and identify the appropriate threshold measure(s) for bid acceptance.

B. Accept all tracts whose individual measures of bid adequacy satisfy the threshold categorical requirements.

4. We conduct a full-scale evaluation, which could include the use of MONTCAR, on all remaining tracts passed to Phase 2 and still awaiting an acceptance or rejection decision.

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

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

1. DD tracts, or

2. CW tracts that are viable and received:

A. One or two qualified bids, or

B. Three-or-more qualified bids, if either its third largest bid is less than 50 percent of the highest qualified bid or the high bid is in the bottom 25 percent of all three-or-more-bid CW tracts within a designated water depth category.

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

For these tracts we:

1. Accept the highest qualified bid, if it equals or exceeds the tract's ADV.

2. Reject the highest qualified bid on DD tracts receiving three-or-more qualified bids, if the high bid is less than one-sixth of the tract's MROV.

3. Reject the highest qualified bid on DD tracts receiving one or two qualified bids and on CW tracts receiving only one qualified bid, if the high bid is less than the tract's ADV.

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

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

1. DD tracts receiving three-or-more qualified bids with the highest bid exceeding one-sixth of the tract's MROV or

2. Viable CW tracts that receive two-or-more qualified bids.

From these tracts, we select the following:

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

B. CW tracts having two-or-more qualified bids with the second largest bid being at least 25 percent of the highest qualified bid.

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

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

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

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

Dated: July 1, 1999.
Carolita U. Kallaur,
Associate Director for Offshore Minerals Management.
[FR Doc. 99-17662 Filed 7-9-99; 8:45 am]
BILLING CODE 4310-MR-P