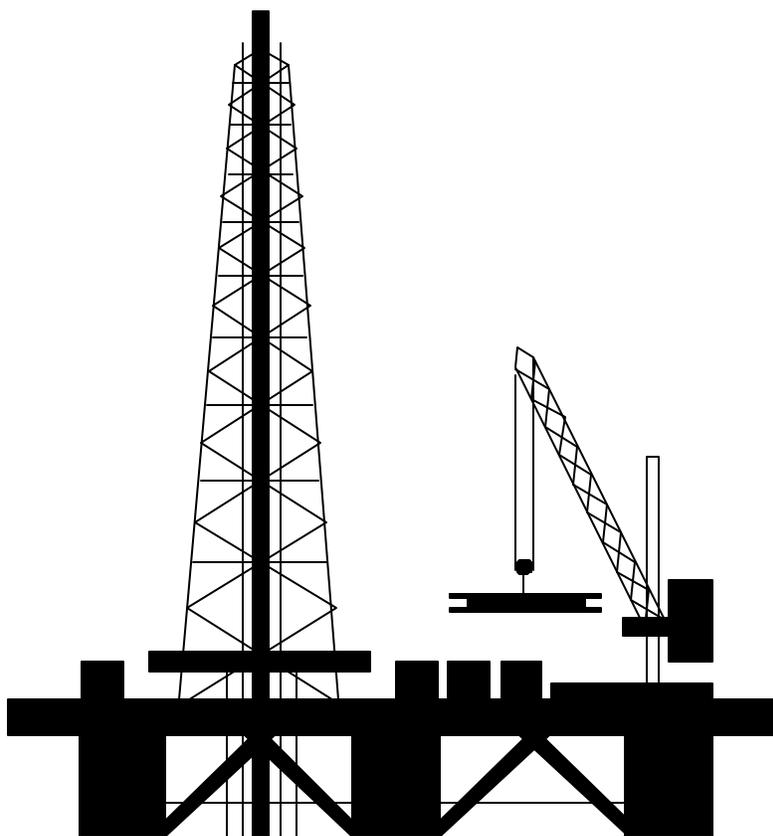


Eastern Gulf of Mexico Sale 181 December 5, 2001

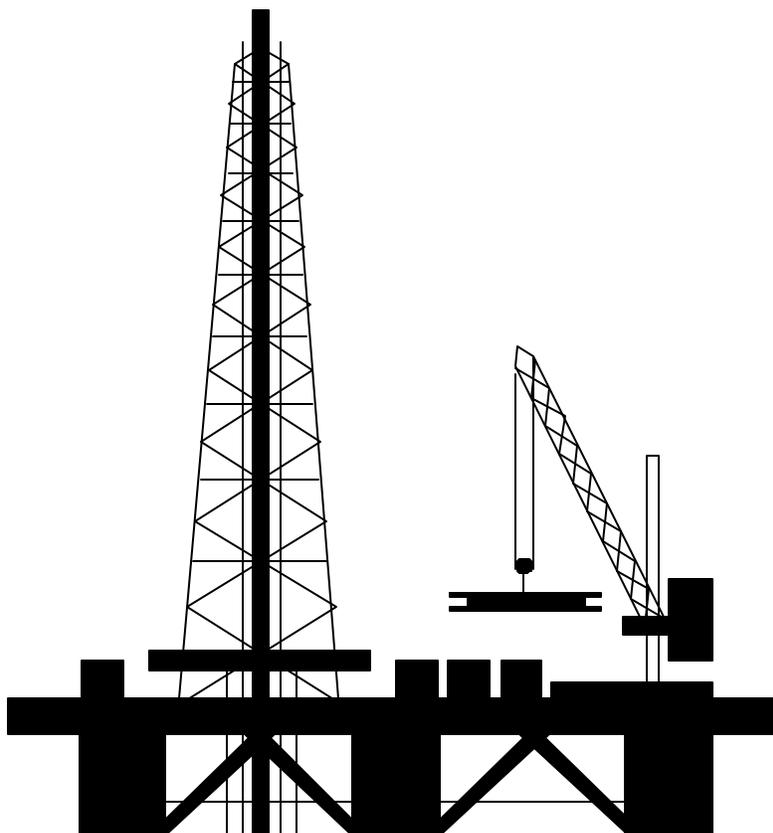
Sale Summary, Bidding Results and
Related Analyses



Eastern Gulf of Mexico Sale 181 December 5, 2001

Sale Summary, Bidding Results and
Related Analyses

By
Larry Slaski



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Eastern Gulf of Mexico

Sale 181 December 5, 2001 Sale Overview

Sale 181 in the Eastern Gulf of Mexico (EGOM) was the first sale in that planning area in 13 years. In this sale, 95 tracts received 190 bids (an average of 2 bids per tract) and all of the tracts were in water depths of 1,600 meters or more and 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 181 in the EGOM was limited to 233. Although the size of the sale was relatively small, industry interest in the sale was quite high as 95 blocks (about 41 percent of the blocks offered) received bids. These 95 blocks received 190 bids, an average of 2 bids per tract, which is a much higher level of competition than has been observed in OCS lease sales in recent years. The sale's high bids totaled \$340,474,113, which yielded an average high bid of \$622.21 per acre. This was the highest average high bid per acre for a Gulf of Mexico sale since Sale 74 in the WGOM in 1983. After Phase 1 and 2 evaluations, all high bids submitted in Sale 181 were accepted.

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
1,600+ m.	95	\$340.47	190	2.00

Bidding activity in Sale 181 resulted in a large increase in aggregate high bids compared to the previous EGOM sale (Sale 116, November 16, 1988). In Sale 116, 115 tracts received 135 bids with high bids of \$41,582,298. In Sale 181, 95 tracts received 190 bids with high bids totaling \$340,474,113, resulting in an increase in high bids of 719 percent compared to the previous EGOM sale. This is an impressive increase in high bids especially considering that all the tracts receiving bids in Sale 181 were in water depths of 1,600 meters or more. About 50 percent of tracts received single-bids. Two-bid tracts accounted for the next highest percent of tracts receiving bids (20 percent). A summary of aggregate bidding results by number of bidders is presented in Table 2 and bidding results by number of bids for the water depth zone offered in this sale are presented in Appendix B.

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

Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	48	50.53%	\$74.63	21.92%
2	19	20.00%	\$44.82	13.17%
3	14	14.74%	\$71.92	21.12%
4	8	8.42%	\$91.96	27.01%
5 or more	6	6.32%	\$57.14	16.78%
Total	95	100.00%	\$340.47	100.00%

Sale 181 was not typical of sales in the Gulf of Mexico as more tracts received high bids of \$150 per acre than those receiving bids less than that amount. In Sale 181, tracts with high bids greater than \$150 per acre accounted for about 96 percent of aggregate high bids, an amount much higher than that observed in other Gulf of Mexico sales. 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 water depth zone offered in Sale 181 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	12	12.63%	\$3.07	0.90%
\$50 - 74.99	10	10.53%	\$3.30	0.97%
\$75 - 99.99	10	10.53%	\$5.01	1.47%
\$100 - 149.99	2	2.11%	\$1.41	0.41%
\$150+	61	64.21%	\$327.69	96.24%
Total	95	100.00%	\$340.47	100.00%

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

Bidding on Royalty Suspension Volume Tracts

All 95 tracts receiving bids in Sale 181 are in 1,600 or more meters and are eligible for royalty suspension volumes of 12 MMBOE, subject to prices staying below specified price thresholds for oil and gas. The average high bid of \$622.21 per acre for this water depth category in Sale 181 was much higher than the averages observed in 1,600 meters or more in the CGOM and WGOM sales held in 2001. In CGOM Sale 178 – Part 1, the average high bid per acre for this water depth category was \$384.72 per acre, and in WGOM Sale 180, the average high bid in water depths of 1,600 meters or more was \$66.72 per acre.

Phase 1 Results

Following the post-sale bid evaluation procedures, which included a modified 3-bid rule, high bids on 37 tracts were accepted in Phase 1 of Sale 181. The high bids accepted in Phase 1 accounted for about 39 percent of the tracts, representing 11 percent of the high bids. In terms of Phase 1 bid acceptances, the most successful companies were: Petrobras America and Murphy Exploration & Production, both with 4 of 4 high bids accepted, Amerada Hess and Spinnaker Exploration, both with 7 of 8 high bids accepted, and Dominion Exploration & Production with 4 of 5 high bids accepted. (Amerada Hess, Spinnaker, and Dominion bid jointly.)

High bids accepted in Phase 1 were in two categories of tracts. There were 36 wildcat and confirmed tracts determined to be non-viable. In addition, one tract was accepted in Phase 1 by the number of bids rule. The Sale 181, Phase 1 results by number of bids 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	30	81.08%	\$22.85	60.56%
2	6	16.22%	\$6.27	16.62%
3+	1	2.70%	\$8.61	22.82%
Total	37	100.00%	\$37.73	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	11	29.73%	\$2.80	7.42%
\$50 - 74.99	6	16.22%	\$2.07	5.49%
\$75 - 99.99	7	18.92%	\$3.54	9.38%
\$100 - 149.99	0	0.00%	\$0.00	0.00%
\$150+	13	35.13%	\$29.32	77.71%
Total	37	100.00%	\$37.73	100.00%

Revised Arithmetic Average Measure of Tract (RAM)

The RAM is a secondary bid acceptance criterion that can be used, if necessary, in Phase 2 of the Sale 181 bid evaluation process. It can be used for multi-bid tracts with high bids that do not exceed the Government’s Adjusted Delayed Value (ADV) of the tract. The ADV is explained in detail in Appendix G.

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

Use of the RAM allows the MMS to balance market factors and its own ADV evaluation in determining fair market value. Previously, using the Geometric Average Evaluation Of Tract (GAEOT), a few low losing bids on a tract were sufficient to require an MMS evaluation of the ADV well in excess of \$100 million for the high bid to be rejected. Using the RAM, the highest ADV required to reject a high bid on a multi-bid tract in Sale 180 was about \$23 million. This value for a lease is not unreasonable relative to high bids observed in this sale.

In Sale 181, 27 tracts classified as wildcat and confirmed receiving three or more bids were passed to Phase 2 for evaluation. These tracts could potentially have their bid acceptance or rejection decision based on the RAM. After adjusting the number of bids to include only those bids that are at least 25 percent of a tract’s high bid, 12 tracts could be eligible for a decision based on the RAM. These 12 tracts would require ADV’s of around \$0.83 million to \$23 million for rejection. The 12 tracts were accepted by decision criteria other than the RAM in Sale 181. 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 181 was 17. Ten companies submitted bids (either solo or jointly) on 10 or more tracts. Shell Offshore was the most active company in terms of bids submitted with 48. The most apparent high bids, 28, were also submitted by Shell Offshore. However, Anadarko Petroleum had the greatest aggregate high bids with a total of \$136.03 million.

With about 50 percent of the tracts receiving bids in the sale being multi-bid tracts, no firms were the high bidder on every bid they submitted. For firms submitting 10 or more bids, the most successful bidder was Marathon Oil, with 14 high bids out of the 16 bids that it offered.

The 10 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
Anadarko Petroleum Corporation	\$136,033,920	33 (2)	26 (2)
Shell Offshore, Inc.	\$109,616,996	48 (1)	28 (1)
Kerr-McGee Oil & Gas Corporation	\$34,737,240	22 (4)	16 (3)
Marathon Oil Company	\$28,274,040	16 (7)	14 (4)
EOG Resources, Inc.	\$8,307,000	4 (12)	3 (10)
Amerada Hess Corporation	\$6,843,709	20 (6)	8 (5)
Dominion Exploration & Production, Inc.	\$6,251,335	22 (4)	5 (7)
Spinnaker Exploration Company, L.L.C.	\$3,421,854	26 (3)	8 (5)
Devon Energy Production Company, L.P.	\$2,769,000	4 (12)	3 (10)
Petrobras America, Inc.	\$1,847,000	11 (9)	4 (8)

Appendix A

Eastern Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 181

Bidding Summary

Eastern Gulf of Mexico OCS Oil and Gas Lease Sale 181

Sale Day Statistics by Royalty Rate

	<u>12 1/2% Royalty¹</u>	<u>Sale Total</u>
Tracts Receiving Bids	95	95
Acres Receiving Bids	547,200.00	547,200.00
Sum of High Bids	\$340,474,113	\$340,474,113
Sum of All Bids	\$458,936,089	\$458,936,089
Total Number of Bids	190	190
Average Bids	2.00	2.00
Companies Bidding	17	17
Highest Bid per Tract	\$26,015,040	\$26,015,040
- Tract Number	G23461	G23461
- Number of Bids	4	4
Highest Bid per Acre	\$4,516.50	\$4,516.50
- Tract Number	G23461	G23461
- Number of Bids	4	4
Most Bids	5	5
- Tract Number	G23480 G23493 G23497 G23502 G23511 G23528	G23480 G23493 G23497 G23502 G23511 G23528

¹ All "12 1/2% Royalty" tracts offered in Sale 181 were in 1,600 or more meters of water with a royalty rate of 1/8 and are eligible for a royalty suspension volume of 12 MMBOE per lease.

Appendix B

Eastern Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 181

Bidding by Number of Bids

Sale 181

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

No. Of Bids	Tracts	Percent of Tracts	High Bids (\$MM)	Percent of High Bids
1	48	50.53%	\$74.63	21.92%
2	19	20.00%	\$44.82	13.17%
3	14	14.74%	\$71.92	21.12%
4	8	8.42%	\$91.96	27.01%
<u>5+</u>	<u>6</u>	<u>6.32%</u>	<u>\$57.14</u>	<u>16.78%</u>
Total	95	100.00%	\$340.47	100.00%

Appendix C

Eastern Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 181

Bidding by High Bid per Acre

Sale 181

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	12	12.63%	\$3.07	0.90%
\$50 - 74.99	10	10.53%	\$3.30	0.97%
\$75 - 99.99	10	10.53%	\$5.01	1.47%
\$100 - 149.99	2	2.11%	\$1.41	0.41%
<u>\$150+</u>	<u>61</u>	<u>64.21%</u>	<u>\$327.69</u>	<u>96.24%</u>
Total	95	100.00%	\$340.47	100.00%

Appendix D

Eastern Gulf of Mexico
Outer Continental Shelf
Oil and Gas Lease Sale 181

Bidding Results – Graphs

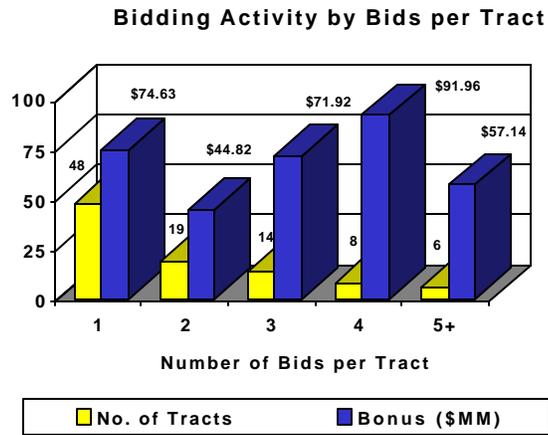
Distribution of High Bids Sale 181, EGOM

Prepared by:
Economics Division, MMS

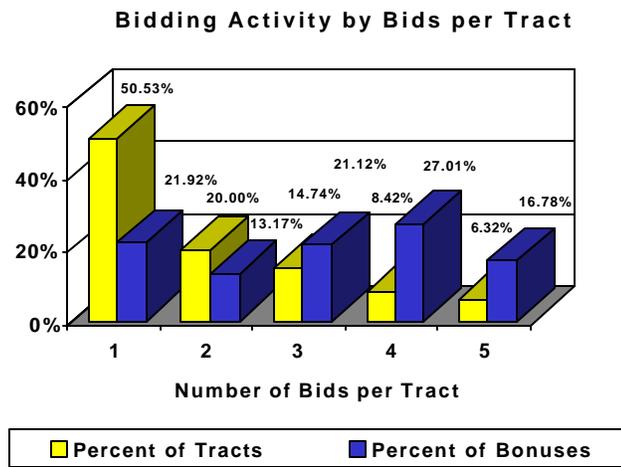
Sale 181 (EGOM) Bidding Results

- 95 tracts received 190 bids (2.00 bids/tract)
- High bids were \$340.47 MM
- Average high bid per acre was \$622.21
- 17 companies submitted bids
- All tracts receiving bids were in water depths of 1,600 meters or more

Sale 181

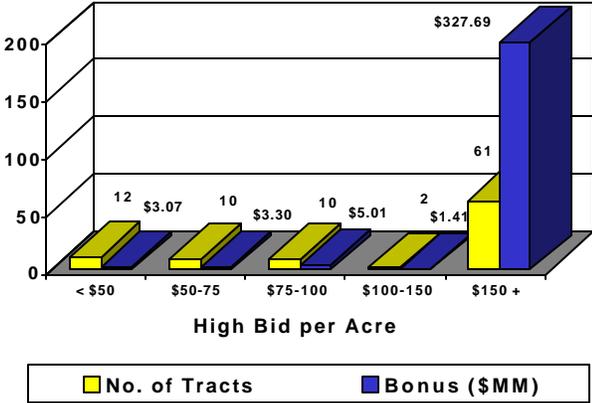


Sale 181



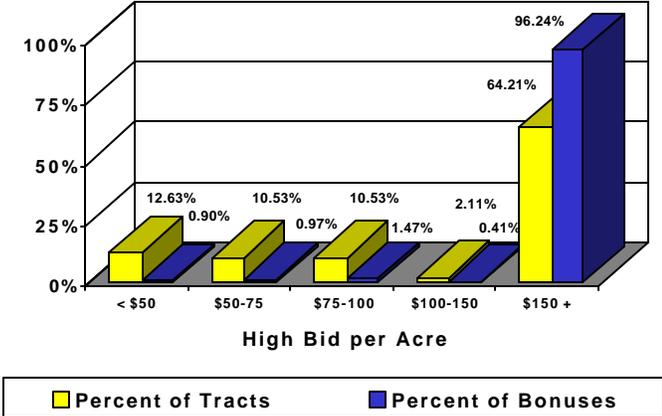
Sale 181

Bidding Activity by High Bid per Acre



Sale 181

Bidding Activity by High Bid per Acre



Appendix E

Revised Arithmetic Average Measure (RAM)

Sale 181, Tracts with Three or More Bids

In Sale 181, three or more bids were received on 28 tracts, all confirmed or wildcat. All of the tracts were in water depths of 1,600 or more meters. The distribution of those bids within that water depth category and third bid as a percent of high bid is presented in Table E1.

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

Category	< 25%	25 - 50%	50 - 75%	> 75%	Total
1,600 m. or more	23	3	2	0	28

Sale 181 was the tenth sale in which the modified number of bids rule was used for Phase 1 acceptance of high bids on selected tracts receiving three or more bids. Under the rule, high bids on wildcat and confirmed tracts receiving three or more bids are accepted in Phase 1, if the third highest bid on the tract is at least 50 percent of the high bid and the high bid per acre ranks in the top 75 percent of high bids per acre for all three-or-more bid tracts within a specified water depth category. (The procedure is described in the *Federal Register*, vol. 64, no.132, pp. 37560-37562.) In Sale 181, one three-or-more bid tract (G23528) met the bid acceptance criteria described above.

Sale 181 was also the tenth sale using a modified Phase 2 averaging rule, the “Revised Arithmetic Average Measure” (RAM) of tract value. The RAM is a secondary bid acceptance rule that is used on multi-bid tracts if the Government’s value of the tract (ADV) exceeds the high bid. The RAM is an arithmetic average of a tract’s high bid, ADV, and all other bids that are at least 25 percent of the high bid. If a bid on a tract is not at least 25 percent of the high bid, that bid is considered an outlier and not included in the RAM calculation. Thus, the adjusted number of bids on a tract for the RAM calculation can be less than the total number of bids that a tract receives.

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

Twenty-seven tracts were passed to Phase 2 for further evaluation that potentially could use the RAM as the bid acceptance decision rule. Of those, 15 did not have second bids that were at least 25 percent of the high bids, so the use of the RAM as a Phase 2 decision criterion for those tracts was not a possibility. For the remaining 12 tracts, the ADV's that would be needed to reject a tract's high bid using the RAM were calculated. Using the RAM, one tract needs an ADV of less than \$1 million, five need an ADV of between \$1 million to \$5 million, one needs an ADV of between \$5 million to \$10 million, and five need an ADV more than \$10 million for high bid acceptance based on this criterion. The results are presented in Table E2.

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

Category	< \$1 MM	\$1-5 MM	\$5-10 MM	> \$10 MM	Total
1,600 m. or more	1	5	1	5	12

Sale 181, Tracts with Three or More Bids Passed to Phase 2

Table E3.—*Tracts in 1,600 Meters or More; 12 MMBOE Royalty Suspension Volume*

Tract	High Bid	No. of Bids	3 rd Bid as % of High Bid	Adjusted No. of Bids	ADV to Reject w/RAM
G23450	\$2,017,440	3	14.36%	1	Not Applicable
G23455	\$5,041,440	4	14.90%	1	Not Applicable
G23458	\$15,058,080	4	3.44%	1	Not Applicable
G23461	\$26,015,040	4	2.92%	1	Not Applicable
G23465	\$5,041,440	3	10.61%	1	Not Applicable
G23472	\$6,321,600	3	3.56%	1	Not Applicable
G23474	\$5,041,440	3	6.65%	1	Not Applicable
G23475	\$18,025,440	3	2.64%	1	Not Applicable
G23480	\$22,135,759	5	5.21%	2	\$23,246,078
G23481	\$11,117,500	4	6.99%	1	Not Applicable
G23493	\$6,685,000	5	7.86%	1	Not Applicable
G23497	\$4,095,000	5	22.66%	2	\$6,662,160
G23498	\$8,088,900	4	3.29%	1	Not Applicable
G23499	\$4,763,520	3	4.95%	1	Not Applicable
G23502	\$7,088,900	5	39.89%	3	\$12,073,900
G23503	\$2,943,360	4	24.02%	2	\$4,458,720

Table E3.—*Tracts in 1,600 Meters or More; 12 MMBOE Royalty Suspension Volume*
(continued)

Tract	High Bid	No. of Bids	3rd Bid as % of High Bid	Adjusted No. of Bids	ADV to Reject w/RAM
G23506	\$1,290,240	3	21.06%	2	\$2,235,980
G23507	\$487,800	3	56.38%	3	\$830,719
G23511	\$8,519,040	5	49.05%	3	\$14,167,120
G23514	\$3,121,920	3	8.70%	2	\$4,821,840
G23515	\$9,924,480	3	2.92%	1	Not Applicable
G23516	\$10,241,280	3	5.29%	2	\$15,764,783
G23526	\$5,679,000	4	26.45%	3	\$13,316,000
G23527	\$3,219,000	3	10.34%	1	Not Applicable
G23529	\$18,017,280	4	2.31%	1	Not Applicable
G23533	\$1,399,680	3	19.65%	2	\$1,783,872
G23538	\$1,028,000	3	23.12%	2	\$1,592,600

The RAM was not used in the acceptance of the high bid on any tracts receiving three or more bids in Sale 181.

Appendix F

Summary of Company Bids

Sale 181 - Company Bids by Total Amount of High Bids

Rank	Company #	Company Name	Total	High	Losers	Total Exposed	Total High Bids	Total Unsuccessful
1	981	Anadarko Petroleum Corporation	33	26	7	\$167,360,256	\$136,033,920	\$31,326,336
2	689	Shell Offshore, Inc.	48	28	20	\$127,878,846	\$109,616,996	\$18,261,850
3	2219	Kerr-McGee Oil & Gas Corporation	22	16	6	\$43,432,880	\$34,737,240	\$8,695,640
4	724	Marathon Oil Company	16	14	2	\$33,351,480	\$28,274,040	\$5,077,440
5	1103	EOG Resources, Inc.	4	3	1	\$8,509,125	\$8,307,000	\$202,125
6	59	Amerada Hess Corporation	20	8	12	\$13,773,560	\$6,843,709	\$6,929,851
7	282	Dominion Exploration & Production, Inc.	22	5	17	\$17,011,166	\$6,251,335	\$10,759,831
8	2169	Spinnaker Exploration Company, L.L.C.	26	8	18	\$9,026,396	\$3,421,854	\$5,604,542
9	2421	Devon Energy Production Company, L.P.	4	3	1	\$2,836,375	\$2,769,000	\$67,375
10	1207	Petrobras America, Inc.	11	4	7	\$6,011,000	\$1,847,000	\$4,164,000
11	1689	Murphy Exploration & Production Company	9	4	5	\$2,790,700	\$1,352,700	\$1,438,000
12	1777	Ocean Energy, Inc.	3	2	1	\$699,840	\$489,600	\$210,240
13	3	Union Oil Company of California	4	1	3	\$2,200,483	\$292,076	\$1,908,407
14	78	Chevron U.S.A., Inc.	12	1	11	\$9,978,525	\$237,643	\$9,740,882
15	56	Phillips Petroleum Company	10	0	10	\$12,000,000	\$0	\$12,000,000
16	1935	Pioneer Natural Resources USA, Inc.	4	0	4	\$1,625,056	\$0	\$1,625,056
17	1	Conoco, Inc.	2	0	2	\$450,400	\$0	\$450,400

Appendix G

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).

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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.