The Gulf of Mexico's OCS Central Sale 190: The Best Since 1998
Deepwater and Shelf Bidding Robust as Independents Search for Gas

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On March 17, 2004, 83 offshore energy concerns descended on the New Orleans downtown Sheraton hotel to hear whether their sealed bids for this year's Central Gulf of Mexico's Lease Sale (the Sale) were winners. Their host, the Minerals Management Service (MMS) usually holds at least two lease sales in the Gulf of Mexico each year with the larger sale, the Central offshore Louisiana held in March, and the Western offshore Texas held in August. The Central Sale, with its hydrocarbon rich shelf and burgeoning deepwater arena, is one of the few things for which Louisiana can truthfully boast to be "bigger than Texas", or at least, the OCS area offsetting Texas. With oil prices hovering at $35 plus (let's hope they don't get any higher?!) and gas at nearly $6 per mcf, this year's sale was robust, the best in the last six years. The mood was upbeat and it seemed that more people were there than ever to witness the largest yearly oil and gas lease auction on the planet. The Sale marked the second sale in a row that the Director of the MMS, the affable, likeable and easily accessible Rejane "Johnnie" Burton attended and delivered opening remarks. The event was preempted by news on the Monday night before the Sale that a Federal judge had once again shut down all of the Department of Interior agencies' websites and related e-mail functionality.

Past Central Gulf of Mexico Sale Statistics

Lease Sale	Sale Date	# Tracts Bid On	Total Bonus High Bids	# of Bids Received
190	03/17/2004	557	368,763,482	829
185	03/19/2003	561	315,531,229	793
182	03/20/2002	506	363,210,467	697
178-1	03/28/2001	547	505,468,501	780
175	03/15/2000	344	300,567,675	469
172	03/17/1999	207	171,804,696	272
169	03/18/1998	794	810,421,404	1188

Greater Competition Fuels Bidding - Oil companies placed 829 bids on 557 tracts compared to 793 bids on 561 tracts last March. Competition was a tad higher than last year with an average of 1.49 bids per tract. The total amount exposed was $636,819,534 and the sum of just the high bids was $368,763,482, reflecting a considerable amount of competition among the bidders. Indeed, three tracts, West Cameron Block 62, South Timbalier Block 78, and Walker Ridge 970 each garnered 8 bids. Nearly one-third of the tracts that drew bids on the shelf, those in 0-199 meters (656 feet) of water, garnered more than one bid.

"The results of this lease sale are impressive and reflect a strong commitment by industry to increase domestic oil and gas production during this crucial period for our nation," Minerals Management Services Director Rejane "Johnnie" Burton said. After stressing the beneficial impact of the second year of shelf deep gas royalty incentives, Burton went on to express her gratification with industry's continued interest in the deepwater (97 of the 557 tracts bid on) and especially, the ultra-deepwater (91 tracts) in water depths below 1,600 meters. The MMS had previously commented on March 4th in a news release that for the first time in its history, the Gulf had 12 drilling rigs simultaneously operating in over 5,000 feet of water.

Gas Incentives Encourage Companies Back to the Shelf – It's no surprise that the MMS must have been gratified by the increased bidding on the Shelf, with the rapid decline of natural gas production a principal worry they have voiced over the last year or so. This year, 340 of the 557 tracts bid on, over 61%, (compared to 67% last year and 57% the year before) were on the shelf. Spurred in part by the incentives offered by the MMS at this sale to promote exploration for new deep gas reservoirs (the first 20 BCF of production is royalty free for any gas well drilled below 15,000 feet subsea on a tract in water depths less than 200 meters, subject to gas price thresholds), the bright future for the environmentally friendly domestic natural gas market will help ensure that the gas rich continental shelf gets its share of drilling attention in the future.

The Golden Derrick Award – Magnum Hunter Production, Inc. out of Irving, Texas blew away the competition with 86 total bids, nearly double that of second place finisher BHP Billiton's 44. The apparent high bidder on 55 of the 86, Magnum Hunter exposed over $15 million and spent nearly $9 million. According to a press release issued by the company, Magnum Hunter will be the operator of over one-half or 31 of the new blocks to be awarded with working interests ranging from 40% to 100%. All of the prospects the company acquired in this lease sale are based upon 3-D seismic interpretation. With this award, the Company will expand its Gulf of Mexico leasehold inventory to 232 separate offshore lease blocks covering approximately 1.1 million gross mineral acres.

In validating the statements made by the MMS director at the Sale, Mr. Charles R. (Chuck) Erwin, Senior Vice President of Exploration for Magnum Hunter stated, "Inasmuch as it is becoming increasingly more difficult each year to find new drillable prospects on the shelf, we are very pleased with our high bid blocks from this sale. We also anticipate obtaining the additional economic benefit of royalty relief on certain of these new lease blocks due to their anticipated drill depths which have recently received approval from the Minerals Management Service."

Amerada Hess Places High Bid on GC 468, the Best of Show - The most expensive block in the sale went to Amerada Hess Corporation for Green Canyon 468 located in 3,182 feet of water, for $35,290,892, four times the amount that Magnum Hunter expended on its 55 high bids. Four other companies or consortiums bid on the block: Dominion/Kerr-McGee at $27 million, Spinnaker/Murphy/Wesport at $21 million, Anadarko/BHP Billiton/Nexen/UNOCAL at $17 million, and lastly Chevron at $7,750,751. As has happened in the past, the Sale's highest bid came one year after a high bid from Chevron on the same tract was rejected at the last Sale, no doubt triggering this year's competition.

Green Canyon 486 has been leased once previously. In March of 1991, Chevron bought the lease uncontested for a minimal cost of $153,000. Ten years later, after no activity, the lease expired on April 30, 2001. In March, 2003, Chevron bid a dollar less than the $7,750,751 they bid at this year's sale, easily besting the only other bid of Nexen/BHP at $308,000. After review of the bids last year, the MMS decided to reject it as too low. Apparently, the market was willing to bear more. At $6,126 per acre, Green Canyon 468 was also the highest bid per acre in this year's sale.

The same scenario unfolded at Green Canyon 512, the block to the immediate south of GC 468. It drew the second highest bid in the Sale and was won by a consortium of Nexen/Anadarko/BHP Billiton/UNOCAL for a bit over $31 million. Once again, Chevron had owned the lease throughout the 90s and had done nothing with the acreage. Last spring, their bid of $3,753,600 was rejected along with the bid on the block to the north. This year, as it did with GC 486, Chevron simply bid one dollar more.

The two blocks lie about 20 miles north of a lease on Green Canyon 823 held by a partnership led by BP. An exploration well on the BP tract, nicknamed *Puma*, was recently temporarily abandoned and is believed to have tapped into what may be a major oil find.

Amerada Hess was the Sale's big money spender, exposing nearly $50 million and spending over $40 million in high bids, nearly double the numbers of second place BHP Billiton, who risked $27 million, and won $18.5 million.

New Kids on the Block –New companies or companies still "getting their feet wet" who showed up to bid included the following: SPN Resources, LLC (a division of Superior Energy Company), Stephens Production Company, LLC, Cheniere Energy, Inc., and AYCO Energy, LLC.

Author's Note: *The MMS is the Federal agency that manages the Nation's oil, natural gas, and other mineral resources on the OCS; and collects, accounts for, and disburses about $6 billion in yearly revenue from offshore Federal mineral leases and from onshore mineral leases on Federal and American Indian lands. As with all OCS lease sales, the high bids submitted by oil and gas companies (no matter how large) are subject to final processing and approval by the Minerals Management Service during the course of Phase I and Phase II decision analyses. The process is designed to insure that the public receives fair market value from the bidders.*

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