

THE AMERICAN OIL & GAS REPORTER®

APRIL 2005

The "Better Business" Publication Serving the Exploration / Drilling / Production Industry

Drilling Technology

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Alan DeGood
President KIOGA

"We have been able to educate our legislators. We have been fortunate, and many things have worked out to our liking."

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William D. Goodwin
President TOGA

"Tennessee was a curiosity in years past; now we are an area of opportunity."

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Terrence Jacobs
President IOGA Pa

"Independents must address the spacing issue and work with lawmakers to provide protection for all parties."

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Independents Lead Central Gulf Sale

NEW ORLEANS—Results from the latest offshore federal lease sales indicate that independent oil and gas companies continue to lead the charge in the Gulf of Mexico, from the deep gas trend in waters no deeper than a backyard pool to 10,000-foot ocean depths.

The U.S. Minerals Management Service held two sales on March 16 for tracts in the Central (Sale 194) and Eastern (197) Gulf of Mexico. MMS says Central Gulf Sale 194 garnered \$354 million in high bids from 80 companies. In all, the agency reports 651 bids were submitted on 428 blocks totaling \$540 million. In Eastern Gulf Sale 197, meanwhile, six companies submitted high bids totaling \$7 million on 12 leases.

— Led by long-time Gulf player Dominion Exploration & Production Inc. and relative newcomer Focus Exploration LLC, independent producers dominated the Central Gulf sale, MMS reports. Independents—whether bidding alone, or in partnership with other independent operators—submitted all of the 25 highest single bids, topped the lists of companies submitting the greatest number of high bids, and spent the most dollars at Sale 194, the agency says.

“Independent Petroleum Association of America member companies are continuing their record of success in the (Gulf),” observes IPAA President Barry Russell. “Independents have taken the lead in developing the nation’s oil and natural gas resources, both onshore and offshore.”

Dominion E&P was the sale’s biggest spender, putting up \$52.3 million in high

bids. The other top spenders were LLOG Exploration Offshore Inc., which spent \$34.9 million in 22 high bids; Murphy Exploration & Production Co., which put up \$28.1 million in 23 high bids; Spinnaker Exploration Co., which spent \$17.0 million on 19 leases; and Energy Partners Ltd., which laid out \$15.1 million on 22 high bids.

“We had a good sale day, with the apparent high bids on 25 blocks in Central Gulf Sale 194 and one block in Eastern Gulf Sale 197,” says Kevin Guilbeau, senior vice president and general manager, Gulf of Mexico, at Dominion E&P. “Ten of the blocks are on the Shelf, and the other 16 are in deep water. We are very happy with the results.”

Dominion E&P and Focus Exploration shared the spotlight as the most active bidders at Sale 194, each with high bids on 25 blocks. Six other independents joined them on the list of the top 10 companies in terms of the number of bids submitted (Table 1). Between them, Sale 194’s five most active companies—all of them independents—accounted for 40 percent of all high bids received and 27 percent of all tracts receiving bids!

Combined, the 20 largest single bids—again, all submitted by independents—generated \$135 million, 38 percent of the total \$354 million in high bids, MMS indicates. Those 20 blocks represent less than 5 percent of all the tracts that received bids.

Shallow/Deepwater Divide

Table 2 shows the top 10 bids by dollar amount, led by a \$21.2 million offer

from Dominion E&P and Stone Energy Corp. for West Cameron Area Block 132 in MMS’s shallowest water classification, 0-199 meters (less than 653 feet).

“We made the apparent winning bids on our top-ranked prospects on the Shelf against some pretty stiff competition,” says Guilbeau reports. “The 10 Shelf blocks on which we had the winning bids are a combination of traditional as well as deep prospects. Dominion has been an active player for some time in the West Cameron area, and West Cameron 132 is a deep Shelf prospect with two deep objectives: one that is very close to 15,000 feet deep, and one that is deeper than 15,000 feet.”

The sale’s 10 largest single bids were fairly evenly divided between shallow-water and deepwater leases. Four of the top 10 bids were for tracts in the 0-199 meter depth range. In addition to West Cameron Area 132, Dominion offered the fifth and seventh largest bids: \$8.9 million on Ship Shoal Area 138, and \$5.8 million on West Cameron Area, West Addition 160. The other top 10 bid for a shallow-water block was LLOG Exploration Offshore Inc.’s \$4.8 million offer for Eugene Island Area 152.

With the exception of Tana Exploration Co.’s \$5.3 million offer on Ewing Bank 922—the sale’s eighth highest single bid—in the water depth classification of 400-799 meters, the other five top 10 bids were for tracts in MMS’ deepest water depth classifications: 800-1,599 meters and 1,600-plus meters.

That corresponds to the overall pattern at Sale 194, where almost 90 percent of the bids were concentrated either in the shallowest or the deepest waters: 243 bids were tendered for leases in less than 199 meters of water, and 135 for leases in at least 800 meters of water. “We believe this reflects definite industry interest in deep gas in shallow water, as well as deepwater oil and gas production in response to royalty relief offered by MMS,” notes MMS Director Johnnie Burton.

The focus on the deep Shelf and deep water certainly reflects the general operational pattern in the Gulf for independents in recent years. According to MMS information, all 18 of the newest announced shallow-water deep Shelf discoveries are operated by independents. In deep water, where independents now

TABLE 1

Central Gulf Sale 194 Top Bidders

Company	Total High Bids	Sum of High Bids
Dominion Exploration & Production Inc.	25	\$52,300,892
Focus Exploration LLC	25	\$10,176,565
Murphy Exploration & Production Company	23	\$28,053,925
LLOG Exploration Offshore Inc.	22	\$34,859,680
Energy Partners Ltd.	22	\$15,052,672
Chevron U.S.A. Inc.	22	\$8,127,147
Remington Oil and Gas Corporation	21	\$9,732,884
Spinnaker Exploration Company LLC	19	\$17,013,825
Exxon Mobil Corporation	18	\$6,885,371
Magnum Hunter Production Inc.	15	\$3,916,533

TABLE 2

Central Gulf Sale 194 Top 10 Single Highest Bids

Company	Block	Water Depth (meters)	Amount Bid (millions)
Dominion E&P Inc. Stone Energy Corp.	W Cameron Area 132	0-199	\$21.2
Murphy E&P Co. USA Dominion E&P Inc. Pioneer Natural Resources Spinnaker Exploration Co.	Mississippi Canyon 819	1,600+	\$20.2
Helis Oil & Gas Co. Houston Energy Red Willow Offshore	Mississippi Canyon 519	1,600+	\$12.8
Murphy E&P Co. USA Spinnaker Exploration Co.	Mississippi Canyon 713	800-1,599	\$10.4
Dominion E&P Inc.	Ship Shoal Area 138	0-199	\$8.9
LLOG Exploration Offshore	Mississippi Canyon 503	800-1,599	\$6.8
Dominion E&P Inc.	W Cameron Area, W Addition 160	0-199	\$5.8
Tana Exploration Co.	Ewing Bank 922	400-799	\$5.3
LLOG Exploration Offshore	Eugene Island Area 152	0-199	\$4.8
Devon Energy Production Co.	Mississippi Canyon 588	800-1,599	\$4.1

own more leases and have made more discoveries than the majors. MMS data show that independents are the operators of record on 77 percent of all discoveries made in the deep and ultra-deep water since 2002. Last year, independents drilled 11 of the 14 announced deepwater discoveries—more than half of them in water depths exceeding 5,000 feet (Table 3).

Hotly Contested Blocks

Appropriately, the two blocks attracting the most bidding interest on sale day were on opposite ends of the water depth spectrum. Dominion E&P and Stone Energy's \$21.2 million offer for shallow-water West Cameron 132 topped a \$16 million bid from The Houston Exploration Co. and Spinnaker Exploration. In all, eight bids worth a combined \$51.5 million were tendered on the block from Hunt Oil Co. and Tana Exploration; Callon Petroleum, Range Energy Ventures and Cheyenne International; Hunt Petroleum (AEC), Energy Partners, Seneca Resources and Cities Energy; Newfield Exploration; Helis Oil & Gas, Red Willow Offshore and Houston Energy; and Tarpon Offshore Ventures.

Deepwater Mississippi Canyon 503

also received eight bids totaling \$28.7 million, led by LLOG Exploration Offshore's \$6.77 million high offer. Seven other individual and/or joint bids were submitted by Newfield Exploration, Stone Energy,

Pogo Producing Co., Walter Oil & Gas Corp., Eni Petroleum Exploration, Dominion E&P, Helis Oil & Gas, Red Willow Offshore, Houston Energy and Spinnaker Exploration.

TABLE 3

2004 Gulf Deepwater Discoveries
(By Water Depth)

Operator	Prospect	Block	Water Depth (feet)
Unocal	Tobago	AC 859	9,627
ChevronTexaco	Silvertip	AC 815	9,226
ChevronTexaco	Tiger	AC 818	9,004
Anadarko	Atlas	LR 5	8,810
Dominion	San Jacinto	DC 618	7,850
ChevronTexaco	Jack	WR 759	6,965
Dominion	Thunder Hawk	MC 734	5,724
Dominion	Goldfinger	MC 771	5,423
Kerr-McGee	Ticonderoga	GC 768	5,250
W&T Offshore	Daniel Boone	GC 646	4,230
BHP Billiton	Puma	GC 823	4,130
McMoRan	Dawson Deep	GB 625	2,900
Nexen	Crested Butte	GC 242	2,846
W&T Offshore	Baccarat	GC 178	1,404

Not surprisingly, many of the most hotly contested blocks were in deep- and ultra-deep water in the Mississippi Canyon area. According to MMS statistics, they included:

- Block 819, which drew three bids totaling \$29.1 million. The \$10.4 million bid from Murphy E&P, Dominion E&P, Spinnaker and Pioneer Natural Resources topped bids from Mariner Energy and Anadarko Petroleum.
- Block 519, which attracted five

bids worth \$24.0 million. A \$12.8 million bid from Helix Oil & Gas Co., Red Willow Offshore and Houston Energy's was the highest offer among bids from Dominion E&P, Shell, BP and Anadarko.

- Block 713, where Murphy E&P and Spinnaker's joint bid of \$10.4 million was the highest of four bids totaling \$22.4 million from Dominion E&P, Newfield Exploration, and Pioneer Natural Resources.
- Block 588, which drew six bids to-

taling \$13.2 million, led by Devon Energy's \$4.1 million offer. Amerada Hess, Maxus (U.S.) Exploration, Dominion E&P, Kerri-McGee, Shell, Spinnaker Exploration and Murphy E&P also bid on the block.

Together, the \$117.4 million offered for Mississippi Canyon blocks 503, 819, 519, 713 and 588 represented almost one quarter of all bids submitted at Sale 194, and the \$44.4 million in apparent winning bids for those five leases equaled 12.5 percent of all high bids received, MMS statistics show.

It was no surprise to see Dominion E&P bidding on blocks in the Mississippi Canyon area. The company already operates producing deepwater Mississippi Canyon discoveries at Devils Tower, Triton/Goldfinger, and Rigel/Seventeen Hands. With an apparent 16 new blocks to explore, Guilbeau assures that the deep- and ultra-deepwater Gulf will remain a focal point for Dominion.

"The 16 deepwater blocks we made the high bids on at Sales 194 and 197 have water depths ranging between 2,500 and more than 8,000 feet," he says, noting that Dominion E&P was running rigs on two company-operated deepwater projects at the end of March: Transocean's *Cajun Express* doing completion work on the Rigel/Seventeen Hands subsea project, and ENSCO International Inc.'s *ENSCO 7500* drilling the Pegasus prospect in the Green Canyon area near the Murphy-operated Front Runner development. "Deep water is a key part of our strategy."

Bidding Strategies

Pioneer Natural Resources was one of the companies focusing its bidding on lease acreage covering prospects and leads in the Mississippi Canyon area. Chris Cheatwood, executive vice president, worldwide exploration, explains that the company is already active in the area, with production from the Canyon Express system and the Devils Tower facility, as well as participation in the Murphy E&P-operated Thunder Hawk appraisal well that is now drilling in 5,720 feet of water at Mississippi Canyon 734. Five of the 13 blocks on which Pioneer was apparent high bidder—all in deep water—are in the vicinity of Thunder Hawk.

"We are extremely pleased with the leases Pioneer will acquire from this sale," Cheatwood states, noting that the company's high bids totaled \$7.5 million net. "These blocks are located in our core areas of interest. Pioneer remains fo-

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cused on exploration in the deepwater Gulf of Mexico, an area where the company has added significant value over the years."

Energy Partners Ltd. (EPL), on the other hand, concentrated on blocks closer to shore. All 22 leases on which the company was the apparent high bidder (\$15.1 million net in high bids) are located in less than 500 feet of water, covering 85,000 gross acres.

"This was the most active lease sale ever for EPL, and we are very pleased with our results. We and our partners were high bidders on 22 of the 27 blocks we bid on, for an 81-plus percent success rate. Twenty of those high bids are 100 percent EPL," remarks Richard A. Bachmann, chairman, president, and chief executive officer. "If all the blocks are awarded, this sale will increase our gross acreage on the Shelf by one quarter, and our net acreage by one third compared to our year-end 2004 position. We are excited that we continue to add to our inventory of prospects and acreage, including in our core areas in East Bay and South Timbalier."

Stone Energy Corp. participated in or offered the apparent winning bids on six leases in shallower waters, but it was also high bidder on Mississippi Canyon 207 and Green Canyon 294 in deep water (totaling \$9.9 million net). "Once again, we believe our participation in the lease sale was a success," comments David H. Welch, president and chief executive officer. "The new leases provide additional opportunities in our three Gulf of Mexico operating areas: the Shelf, deep Shelf and deep water."

Good Prospects

Focus Exploration, which along with Dominion E&P, submitted the most winning bids at Sale 194, also pursued leases in both shallow and deep water, reports President Mike Scherrer. "Our primary focus is lower-risk reserves at conventional depths in shallower water, but we also have several deep Shelf prospects in the 15,000-20,000 foot range and prospects in deep water," Scherrer points out. "At this sale, we were apparent high bidder on five leases in water depths around 1,500 feet, and at last August's Western Gulf lease sale, we sold a prospect on a lease in 2,500 feet of water."

Don Crider, chief executive officer of the Houston-based independent, sums the company's bidding strategy this way: "We

are a prospect generation company. This allows us to focus our efforts on pursuing the highest quality prospects available. If we can find a good prospect, reduce the risk to an acceptable level, sell it and find hydrocarbons, we will go for it—whether it is in deep water or 10 feet of water, or in shallow or deep structure."

Focus Exploration began business operations in June 2003, and including the leases on which it was apparent high bidder at Sale 194, the company owns in-

terests in 51 Gulf blocks. "We hold override interest positions in several leases in the Gulf, but we are not an operator," Crider explains. "We do the work to generate the prospects and sell them on an override basis to third parties, which then operate the leases and drill the wells."

In addition to the 25 blocks on which it was high bidder (totaling \$10.2 million), the company also participated in another five high bids at Sale 194, according to Scherrer. "We sold prospects

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to nine companies on leases that were included in the sale," he states.

Although the company's name may be new, its officers and managers are hardly strangers to Gulf exploration and production. Led by Jerry Sheets, vice president of land and business development, and James Sewell, chief geophysicist, Focus Exploration's technical staff consists of seasoned oil and gas finders with years of offshore experience. Crider points out, "Combine our team's ability to find excellent prospects with enough money to beat the competition, and we will have good success bidding on blocks," he holds.

"Our strategy is to find the best prospects in the Gulf and drive the pre-lease/predrill investment risk as low as possible," Crider adds. "As our results at Sale 194 indicate, we have a multitude of prospects that we and the companies we do business with really like."

The key for Focus Exploration is to not merely find drillable prospects ahead of a lease sale, but to find out everything it can about those prospects before submitting bids. Crider says, "We incorporate a lot of geology and regional interpretation into our plays," he allows. "Once we find a good prospect, we put it back into a regional context to understand the risk, eval-

uate the amplitude, determine what kind of potential a particular zone may have in a regional sense, etc."

That approach has resulted in a 100 percent exploratory drilling success rate in the less than two-year history of the company, Scherrer notes. "That is the result of a lot of good, old-fashioned hard work in terms of the geology and geophysics, but we also employ the best technologies available," he says.

Sale 194 was a banner day in the short history of Focus Exploration, but barely had the bids been unsealed before the company began preparing for the next federal lease sale. "We are already working Western Gulf Sale 196 (scheduled for Aug. 17)," Crider says. "That should tell you something about how we view the opportunities at that sale."

Sale 197

MMS reports the highest bid received on a block in Eastern Gulf Sale 197 was \$2.0 million for Lloyd Ridge Block 272, by Helis Oil & Gas Company LLC, Houston Energy LP and Red Willow Offshore. The second highest bid was \$1.6 million for De Soto Canyon Block 797, submitted by Spinnaker Exploration and Dominion.

Petrobras America Inc. was the most

active bidder in Sale 197, MMS says, submitting four high bids totaling \$1.6 million. Anadarko Petroleum Corp. had three high bids totaling \$785,088, the agency continues, followed by Devon Energy Production Co. with two for \$711,050, and Helis Oil & Gas and Red Willow, each with one bid for \$916,821.

MMS says Eastern Gulf Sale 197 encompassed 124 blocks covering 714,240 acres located 100-196 miles south of Alabama in water depths of 1,600 to more than 3,425 meters. The agency estimates undiscovered, economically recoverable reserves in the Eastern Gulf planning area of 65 million-85 million barrels of crude oil and 265 billion-340 billion cubic feet of natural gas.

All leases in Sale 197 carry 10-year primary terms, MMS adds. Minimum bid amounts were \$37.50 an acre, and royalty rates are 12.5 percent. MMS says a royalty suspension of 12 million barrels of oil-equivalent apply to all leases in Sale 197. □

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