

OCS ADVISORY BOARD



LEASE SALES & BID MEETINGS

JANUARY 20, 2010
HOUSTON, TX



Lease Sales and Bid Meetings

- Brief review of lease sale process & bidding provisions
- OCS lease sale checklist
- How to determine preliminary interest levels of lease sale prospects
- OCS “Bid Charge”
- Mock Bid Meeting scenarios

Notes



- I will present materials to you today that should help each of you as you prepare to bid at future lease sales. I would like to take a moment to thank two individuals who assisted me in preparation of the material for this presentation. Becky Harden with Apache & John Burke with Juneau Exploration.



OCS Bidding Provisions

- Bidding provisions are most commonly found in C/A, JVA, or B/A
- The 2 primary objectives of bidding provisions are:
 - Establish the relationship between the bidding companies to explore, share information and submit bids on OCS sale tracts, and
 - Establish the relationship between the companies and the federal government with respect to bidding and holding oil and gas leases



Bidding Provisions Overview

- Identify specific OCS lease sale (s)
- Identify geographic area or lease blocks
- Identify companies and participation levels
- Contain bid documentation provisions:
 - Memorandums
 - Who prepares/submit bids
 - Financial arrangements
 - Offer-back Provisions

Federal anti-trust language (found in all OCS Bidding Agreements)

- *It is not the intention of the parties hereto to restrict the right of any party to make a bid as to any of the blocks subject to this agreement and each party shall have the right to make any such bid on any block it may desire, including blocks for which bids are being considered or being made hereunder.*



Antitrust

- I am providing you with a generally accepted interpretation of antitrust law as it applies to lease sales & bid meetings, however, you are each advised to consult with your legal department and follow their counsel.
- You must always be aware that any move or action by any party to prevent any other party from bidding either alone or with any other third party or from bidding such **higher amount** as he/she wishes to bid, is a violation of the law.
- Practical application
 - Cannot chill a bid
 - Cannot negotiate a bid
 - **A joint bid must be the “highest suggested bid” at the final bid meeting**

OCS SALE 208 CHECKLIST



1. **TWO MONTHS BEFORE SALE:**
Check with Tax dept on availability of 1031 Funds for Sale payoffs.
2. Make hotel/transportation/dinner reservations in New Orleans.
3. Prepare Bidding Agreements (C/A, if applicable) to be signed before technical data is shared with other companies.
 - A. Company A - B (Executed xx/xx/xx); OK to share data (covered by existing CA's)
 - B. Company A – C (Executed xx/xx/xx); OK to share data per CA dated 3/5/09
4. Sale Leaders furnish a block list for all possible bid blocks.
 - A. Check latest C/A Master Map and List for AMI's, EVA's, Confidentiality Agreement offer-backs and prior bidding agreement obligations which affect any blocks furnished by Sale Leaders.
 - B. Check files for any recent obligations not on Master Map/List.
 - C. MAKE SURE TO CHECK THESE FOR ANY NEW BLOCKS.
5. See Treasury contact note 11 below if applicable.
6. Watch Federal Register for official Notice of Sale.
 - A. Debarment information must be on file with MMS. Verify all parties on OCS BBS.
 - B. Check with legal to see if debarment updates are needed. Should be filed prior to lease issuance.
 - C. Check partners bond status on OCS BBS.

OCS SALE 208 CHECKLIST (Con't)



7. Schedule partner meetings per Bidding Agreement.

8. Obtain MMS packages on Final Notice of Sale:
 - A. Review bid instructions. Note any changes from prior year.
 - B. Obtain supplemental documents if needed.
 - C. Prepare spreadsheet for all possible blocks and list the following:
 - 1) Prospect
 - 2) Area / Block
 - 3) Royalty / Royalty Holiday
 - 4) Term / Map Number
 - 5) Stipulations, MWA's,
 - 6) Acreage / W.D.
 - 7) Rentals
 - 8) Tentative Bid Company & Participation
 - 9) Verify that each block is available for the Sale and whether it is a split block, has leased aliquots or is offered in any other non-standard block configuration.
 - 10) MAKE SURE TO ADD ANY SUBSEQUENT BLOCKS TO THIS SHEET.
 - D. Each bidder must have on record with the MMS an EEO & Affirmative Action Form (Forms MMS-2032 and MMS-2033).
 - E. Verify on OCS BBS that each bidder's Corporate Qualification file (who is authorized to sign) is up-to-date and properly filed with MMS.
(Cross-check again below just prior to bid prep.)

OCS SALE 208 CHECKLIST (Con't)



9. In AMI's or B/A's, blocks that one party wants to free up prior to bid meeting will require early sign-out (or amendment if applicable) of blocks under AMI's or B/A's by other party in order to be shown to third parties in an attempt to find a partner.
10. Contact other companies to secure any other desired partnerships. Prepare C/A's for individual prospect reviews.
11. Contact Accounting to coordinate payoff info and account setup
12. Fill out draft Wire Transfer Requests for MMS and partners (if applicable).
 - A. Verify with Accounting and Controller
13. MAKE SURE INTERNAL AUTHORITY SIGNOR IS AVAILABLE FOR DAY OF SALE AND HAVE AN ALTERNATE.
14. Verify Wire Transfer Requests with Accounting and Controller prior to Sale.

OCS SALE 208 CHECKLIST (Con't)



15. Get all parties and partners corporate qualification directly from MMS.
 - a. Company A, B and C
16. Exchange financial information with bid representatives and corporate qualifications with partners. Cross-check qualifications they give us with what we get from MMS.
17. Prepare blank bid form template, envelopes and memorandums you are responsible for and send to applicable partners for review.
18. Request blank bid forms, envelopes and memorandums from all partners responsible for joint bid preparation.
19. Bid charge – Prepare final Bid Charge and exchange with parties.
20. Make sure all blocks in bidding agreements (or otherwise) are covered by some type of memo (i.e. one-way memo out, both out, both bid).

OCS SALE 208 CHECKLIST (Con't)



21. Prepare all Bid Envelopes and Bid Forms pursuant to Sale Notice and bid memos and check all envelopes and forms prepared by other parties.
22. Prepare geophysical statement for all bid blocks and file at bid submission.
23. Prepare phone number/address of bidder sheet and file at bid submission.
 - A. Send to Treasury for verification of information.
24. Confirm travel reservations to New Orleans.
25. Re-check final spreadsheet for all blocks still in play to use in bid preparation.
26. Prepare two sets of bids completely and have both sets of bids checked, signed and sealed by Friday before the Sale. Make a copy of each bid and envelope for your files and partners. One original set goes to New Orleans and one set stays in Houston for emergency backup. Copies go in Sale file.

OCS SALE 208 CHECKLIST (Con't)



27. For last minute bidding or emergency bid replacement, take to New Orleans extra blank copies of:
 - A. Oil and gas bid forms in 100% and joint combos.
 - B. Extra envelopes

28. Friday before the Sale, prepare a package containing partner financial contacts and EFT instructions and provide to Treasury and Comptroller.

29. Deliver **SIGNED** and sealed bids to MMS the day before the bid submission deadline along with phone number/address of bidder sheet and geophysical letter.

30. Attend Sale and note competition on bid blocks.

31. After the Sale at the Sale location, pick up MMS sheet for verification of high bids and EFT funds due.

32. In Houston immediately after the Sale, finalize spreadsheet of the high bid blocks with amount of 20% due and confirm MMS amount with land staff in New Orleans.
 - A. Call financial contact to relay our successful bids.
 - B. Call accounting to relay our successful bids.
 - C. Call Treasury of the pending Wire Transfer Request and amount.

OCS SALE 208 CHECKLIST (Con't)



33. Prepare form for Wire Transfer Request and amount and follow up with treasury to verify payment was made and received by MMS
34. Upon return to Houston – be sure that all pertinent papers get in the Sale file.
35. Send accounting the spreadsheet for 20% verification and booking.
36. Prepare “Post-Sale Analysis” summary spreadsheet for management.
37. Send MMS new Debarment form if necessary.
38. Send originals of B/A’s, C/A's not previously sent to corporate record group.
(Form deadline is before first bid is accepted)
39. Compile all JVA and B/A obligations created by Sale efforts and put in e-mail to partners for verification.
40. Post all sale obligations to include in Master obligation Map and List.
41. Notify appropriate departments as leases are awarded so they can timely file Payor Information Forms.
42. Contact internal accounting immediately as Lease is awarded. Don't wait for payoff date.

OCS SALE 208 CHECKLIST (Con't)



43. Prepare and execute all required documents to be sent to MMS.
 - A. Lease Form (Include Corporate Seal)
 - B. Designation of Operator Form
 - C. 1017 Form

44. Make copies of every piece of information furnished by MMS and submit to other companies with lease, other required documents and payoff / billing information.

45. Check fully executed lease and other required documents to see that signatures are correct and company seal is on lease.

46. Set up in writing with Treasury to pay the EFT ONE BUSINESS DAY EARLY for the 80% Bonus and first year rental on successful leases.
 - A. Overnight mail the lease and other required documents to MMS a couple of days before the funds are to be paid.
 - B. Verify receipt.

47. Call Treasury the day the EFT is due and confirm that it has actually taken place. MMS will send a fax one day after the transfer is made. MMS in Englewood, CO, may be contacted directly to verify that the transfer occurred the day it was initiated.

48. Prepare Operating Agreement if not already completed.



Determining preliminary interest level

- To expedite the bid meeting process, it is common for a bid group to determine a bid order in which the blocks will be bid.
- This almost always results in bidding the highest ranked prospects first and lowest ranked prospects last.
- Several different methods.
 - Each company ranks their prospects based on largest risked resource
 - H-M-L
- **IT IS CRITICAL TO UNDERSTAND THAT ANY RANKING OF PROSPECTS FOR BID ORDER PURPOSES IS A RELATIVE RANKING OF THE PROSPECTS AND BIDDERS SHOULD NOT DISCUSS DOLLARS OR BID LEVELS OUTSIDE OF THE ACTUAL BID MEETING.**

OCS Bid Charge



I. Bid group information

- A. Gathered at this meeting to consider joint bids for OCS Sale _____.
- B. Reference bid agreement dated _____
- C. Identify the company spokesman for each company. This spokesman is the only person who can bid for their respective company.
- D. Exchange company qualification and EFT information
(If not done already).
- E. Identify individual company “caucus” rooms



OCS Bid Change (con't)

II. Bidding Rules

- A. Gross bid interpretation
- B. All bidding will be done using an established bid rotation.
- C. Specify the percent interest of each bidding party.
- D. A company may reduce its bid percent only with approval of all other bidding parties in said block.
- E. Identify company to initiate bidding for each bid.
- F. Each party will consider the tabled bid and may:
 - 1. Concur and raise the bid
 - 2. Concur and Pass the bid
 - 3. Concur and recommend a final “highest suggested bid” rounded with in the increment
 - 4. Place the bid on hold
 - 5. Request to reduce your participation level in a bid.
 - 6. Request a reduction in the bid increment.
 - 7. Elect not to participate
- G. Non-participants are required to execute appropriate memorandams and leave the meeting until bidding is completed for each block.
- H. All parties will execute appropriate Memorandums evidencing concurrence to participate in “highest suggested bid”



OCS Bid Charge (con't)

III. Specific Block Identification

- A. Identify block and area
- B. Identify acres, terms, royalties and stipulations
- C. Identify operator (if known)

All Parties Agree!!!



Click video clip to play.



Comments on all Parties agree bid meeting

- **Several issues to expound upon**
- Most operators round the initial opening bid to facilitate the bidding process
 - In this meeting the MB was \$216,000 and I rounded to \$250,000 to start bid. When a company ask to reduce the bid increment, they are essentially asking the other companies to “slow down”. Remember– a company can REQUEST to reduce the Bid Increment but the other parties do not have to agree.
 - Company B asked to reduce increment to \$500,000. Everyone agreed and the bid was finalized. If others do not agree they are sending Company B a clear message they are bullish and are prepared to run them out of the bid!
- Rounding –It is recommended that you round as high as possible within the increment unless someone request “an easy” round. Don’t lose a bid on a weak round!!
- **Always remember–You never want to unknowingly run a party out of a bid.**
 - Request by a Company to reduce the bid increment or participation level is an indication they are close to their limit. If you continue, you need to understand the consequences, (i.e.. You are going to run them out of bid.)

Properly reducing one companies participation interest.



Click video clip to play.



“Reducing participation level bid Mtg”

- This bid meeting has an alternate ending to the “All Parties Agree Bid Meeting”. This bid meetings picks up from first bid meeting where Company B requests a bid increment reduction to \$500,000 but it plays out differently.
- What happens when companies refuse to allow a company to reduce the bid increment?
 - Remember--All parties must agree to reduce the bid increment.
 - By refusing to reduce the BI, Co. A and C are sending Co. B a clear message they are bullish and will run them out of bid.
- When Co. A & C refuse to lower the increment, Co. B understands they risk being run out of the bid and request to reduce their Participation level in the bid. All parties agree to allow Co. B to reduce and the bid is finalized.
- Operatorship- Of Co. B was in position to be designated operatorship of this block, Co. A and C should tie their agreement to allow Co. B to reduce their participation level to an understanding that Co. B will no longer be allowed to operate the block at their reduced participation level of 25%.

One party gets run out of bid



Click video clip to play.



Getting run out of a bid!

- Note--Company A and C refused to slow down by reducing the increment. They were sending a clear signal to Co. C they were bullish and wanted to keep increasing the bid
- Look at partners when they bid – many times they will send a clear visual signal in addition to requesting increment or participation level reductions.
- If you noticed –Company C hesitated and looked at his master spreadsheet which clearly relayed his increasing discomfort.
- Remember--All parties must agree on participation levels after running a company out of a bid prior to continuing to bid. The operator should clearly re-state any changes to remaining bidders before proceeding.

One company is run out of bid, remaining companies elect to find another company to help them bid block this.



Click video clip to play.



Getting run out of bid where remaining parties elect to shop the prospect for another partner.

- This meeting had all of the elements of the previous bid meetings except neither Co. A or B wants to accept any additional interest in the bid.
- Note: Co. A and B will put a list of companies together to contact after Company C drops out. It is critical to understand that any potential third parties be made aware that the block is a “significant prospect” and another company has been run out of the bid at a level significantly above the minimum!
- Do not disclose or talk actual dollars until you have the third party under a binding Confidentiality Agreement!

“Unwelcome Comment” by an observer (big dog; or at least he thinks he is)



Click video clip to play.



“Big Dog” Observer at bid meeting

- Company B has a observer who happens to be a Senior VP who can't stand the fact that he is not supposed to speak during a bid meeting!
- There could be a couple of ways to handle this situation (**always table the bid at the first indication of trouble. Operator should caucus & contact legal department to review facts**):
 - If you have been diligent in your Bid Charge documentation and your legal department concurs, you might restart the bid meeting at \$3.25 MM with the restatement of who is authorized to speak and who is not? (Big Dog won't like being reprimanded)
 - If you have **not** been diligent in your Bid Charge documentation or your companies anti-trust attorney is uncomfortable with the facts, then you would probably restart the bidding @ \$10.0 MM
- **Critical Point: Before starting a bid meeting, make sure you meticulously document who is authorized to speak and bind a company during the bid meeting.**

“Rookie at a Bid Meeting”



Click video clip to play.



Rookie at a Bid Meeting

- The operator made a huge mistake by deferring to Rookie to start bidding process
- Unfortunately, the person is an authorized bidder and he tabled a valid bid.
- I am sure the majority of the companies faced with this situation would either:
 - Pick the bid back up at \$30MM with a refresher of bid charge, or
 - Sign out at \$30MM

SHADY BID PARTNER



Click video clip to play.



Shady bid partner

- Note: The chance of surprises increases when bidding with a new company.
- If you have any concerns in this situation, force a company to alternate bidding. Bid one block on the first prospect and then one block on the second prospect and alternate until all blocks are bid.

NEW LAST MINUTE INFORMATION



Click video clip to play.



New last minute information

- There are occasions where bidding companies obtain well logs or other information between the time a block is considered for bid and actually submitting the bid.
 - If this new information significantly changes the companies view of the value of a specific tract or prospect, it is legal to reduce a bid amount or pull a bid completely.
 - This is legal and acceptable only if **concrete information** becomes available either during or after a bid meeting.
 - It is also legal and acceptable not to pay off the remaining 80% bonus due should such information become available after the lease sale but prior to bid payoff.

Note: Be prepared to advise MMS of the actual data received and the date it became known to you. They will ask.



Final Thoughts

- Use a lease sale checklist to prepare for OCS sales
- Prepare and diligently follow the OCS Bid Charge
- Know your partner
 - Risk of bidding surprises and complications increases significantly when you are bidding with a company for the first time
- Be meticulous with all documentations of OCS sale files, memorandums and bids.
- Never discuss bid levels outside of a bid meeting
- SIGN THE BIDS