

# ON POINT

Update, August 2006



GORDON ENERGY SOLUTIONS

## Candid, Forward-Looking Analysis of the Oil & Gas Industry

### IN THE NEWS

GoM Sale 200 was held on August 16. The sale was dominated by deepwater bidding: 67% of the blocks receiving bids were in water depths of 400 meters or more. These deepwater blocks captured 84% of total capital exposed in winning bids.

As we noted in the August issue of On Point, the level of competition and bidding in Sale 200 is an important, objective barometer of the competitive pressures in the industry.

We also made a number of specific observations about companies and their likely level of aggressiveness in the sale. This update will review the results of the sale.

Also, updated cost data are available and will be included in the September issue of On Point. If you require these updates in advance, please contact us.

**The results of Sale 200 in the Western Gulf of Mexico confirm a continuing high level of competition.**

**The sale yielded a total of \$340.9 million in capital committed to high bids from 62 companies.**

#### Strong Per Acre Bids

Figure 1 compares winning per acre cash bids placed on the five most highly valued blocks in each western sale.

After bottoming out in Sale 192, per acre values of leading blocks have rebounded.

The upturn in per acre bids displayed in Sale 196 was substantially distorted by the very high values placed on the first and second blocks. However, in the most recent sale, per acre bids have substantially returned to previous levels during the heavy bidding from the late 1990's through roughly 2002.

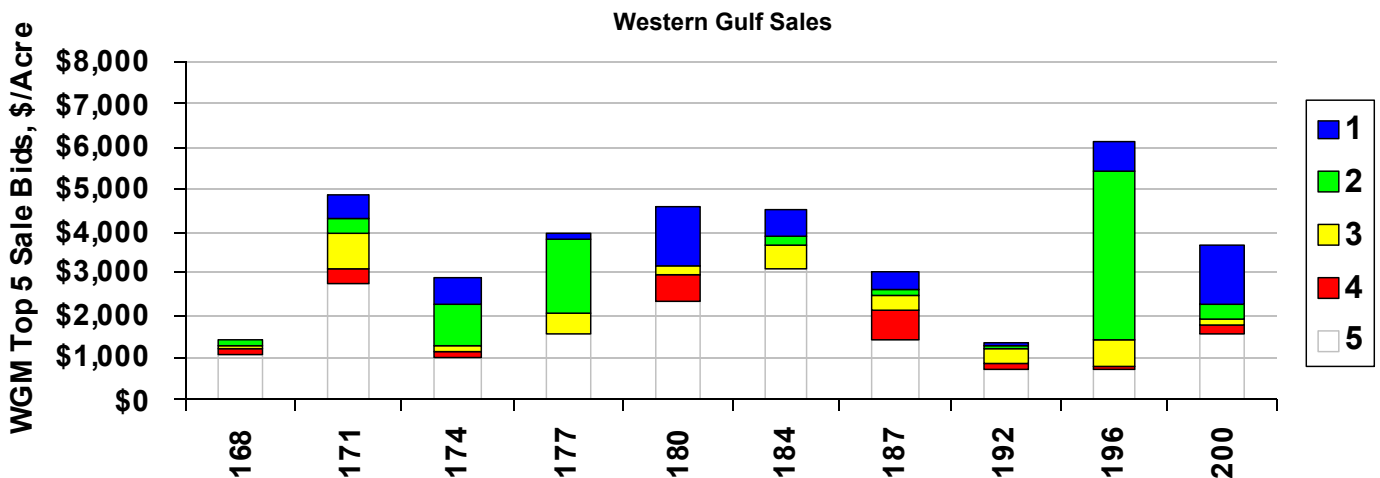
Notably, this rebound in per acre costs occurred despite the substantially more depressed level of US natural gas prices in the months leading up to the sale.

Two other measures suggest that GoM competitive pressures are building:

- There were a substantial number of contested bids in the deepwater segment, particularly the water depth ranges of 800 to 1,600 meters and 1,600 to 2,000 meters. In fact, 25% of all blocks receiving bids were contested.
- Money left on the table by companies winning contested bids was substantial: \$112 million by our estimation or almost a third of all capital committed in winning bids.

*Continued on P.3*

**Figure 1: Top 5 Bids Per Acre in Gulf of Mexico Lease Sales**



Source: MMS, Gordon Energy Solutions Lease Sale databases

Thus far, in 2006, Gordon Energy Solutions has published four major client studies: Share Price Drivers in the Oil & Gas Industry, Winning Competitive Advantage, Cost Mitigation Strategies, and Cost Mitigation Strategy Peer Analysis. Taken together, these offer the most comprehensive analysis of the industry cycle and its ramifications available today.

We have also prepared multiple client-specified Scouting Reports. These are focused, forward-looking screens of oil and gas companies and their assets prepared with the most recent data available at the time of the client request. In addition, we contributed an essay on the future prospects and roles of the international oil companies for the May issue of the Oxford Energy Forum and are participating in an ongoing Baker Institute study of the national oil companies.

**Continuing Focus:** The three central issues of access, cost and commercial security are so important to our client's future that they will be followed and discussed in each issue of On Point.

North American policy issues are creating important barriers to entry of LNG. These will profoundly impact the likely success or failure of alternative strategies. In particular, the value of North American natural gas assets will change as these barriers impact the gas markets.

**Next month:** On Point will present selected results from a major natural gas modeling project being undertaken as a fifth client study. These results will include comparative economics of key plays and will identify key competitors and their natural gas programs. The client study also includes a detailed economic analysis of the Cheasapeake lease of DFW Barnett Shale acreage.

**Coming Client Study:** In addition to the natural gas client study, we are also undertaking a new client study entitled Growth and Performance Prospects of the Global Oil and Gas Companies. This study will present highly detailed capital and operational forecasts and performance comparisons for the six leading global competitors: ExxonMobil, BP, Shell, Chevron, ConocoPhillips and Total.

The topics of our client studies are defined by areas of interest and need as expressed to us by our clients. We encourage your comments and ideas so that our work continues to be timely and of clear value to you in your business.

For more information on how to purchase a client study or become a GES client, please contact us using the information provided below.

## CONTACTS

Gordon Energy Solutions is an energy consulting firm specializing in competitor analysis, strategic decisions, political risk analysis, and global issues concerning the international, integrated oil & gas industry. We anticipate future opportunities and challenges confronting our clients and assist in exploiting those opportunities.

By integrating the corporate and financial dimensions of strategy and performance with detailed project level analytics, we maintain a unique approach to your business. GES provides value to our clients through our forward-looking, critical analysis and unique perspective.

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## Leading Deepwater Players

In our commentary preceding the sale we noted a number of factors likely to push companies to bid aggressively.

We also highlighted a number of companies that we felt were likely to be drivers of the competition in the sale.

Key factors pushing for significant competition that we highlighted:

- Large numbers of deepwater blocks are expiring this year and in the next few years. These were awarded in the last boom period in the late 1990's. As this occurs companies will likely return to the bidding.
- A number of players have, in fact, returned to the bidding after an extended absence or low level of activity including BP and Chevron.
- There are several companies that have made major acquisitions and will likely attempt to build on the acquisitions by bidding in this and future sales.
- A round of very important deepwater Gulf of Mexico production startups has been underway since 2003 and will continue this year and into next. These will increase production replacement pressures and the list of fields coming

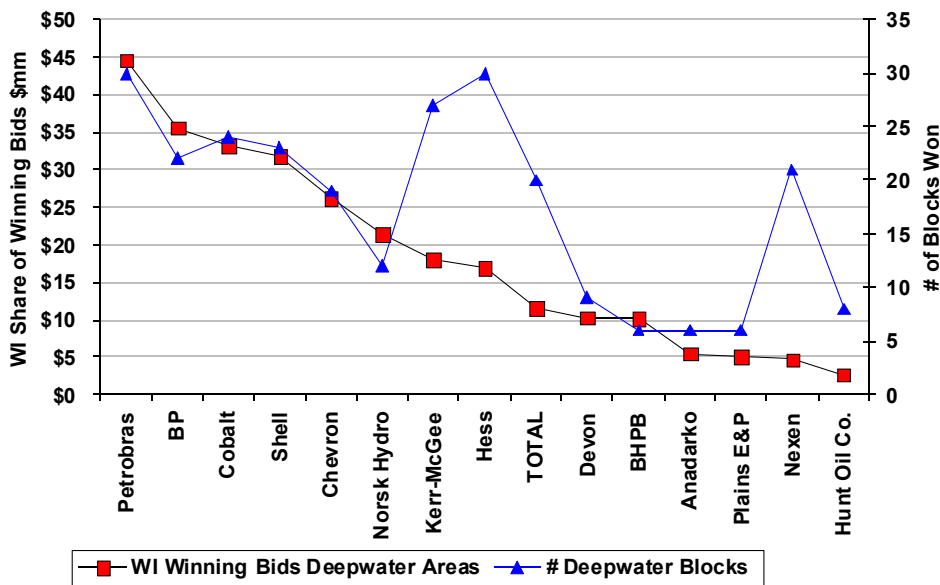
on-line is a good indicator of the companies that will be feeling these production replacement pressures the most.

As noted in the table below, we were quite explicit in naming the companies to watch given this set of drivers. The notes and

companies are shown in the table at the bottom of this page.

Many of the notes in the table are drawn from the results in Figure 2.

**Figure 2: Leading Deepwater Competitors in Sale 200**



**Table 1: Leading Deepwater Competitors and Our Earlier Assessments**

Company	Classification/comments in On Point	Status in Sale 200, Deepwater
BP	Back in the game; production replacement imperative	2 <sup>nd</sup> leading bidder; placed highest single bid (\$21mm)
Chevron	Back in the game; production replacement imperative	5 <sup>th</sup> leading bidder; placed 8 <sup>th</sup> highest bid (\$7.7mm)
ExxonMobil	No evidence of a return to the sales	Did not show up
Hess	Consistent player; aggressive bidder	8 <sup>th</sup> leading bidder; with Hydro placed 10 <sup>th</sup> highest bid (\$6.2mm)
Kerr-McGee	Consistent player; aggressive bidder	7 <sup>th</sup> leading bidder; with Plains placed 7 <sup>th</sup> highest bid (\$8.1mm)
Norsk Hydro	Looking to build on major acquisition	6 <sup>th</sup> leading bidder; placed 5 <sup>th</sup> highest bid (\$9.2mm) and participated with Hess in 10 <sup>th</sup> highest bid (\$6.2mm)
Petrobras	Looking to build on major acquisition	Top bidder; placed 2 <sup>nd</sup> and 3 <sup>rd</sup> highest bids (\$12.8mm and \$10.8mm)
RepsolYPF	Looking to build on major acquisition	Did not show up.
BHP	Production replacement imperative	11 <sup>th</sup> leading bidder
Anadarko	Production replacement imperative	12 <sup>th</sup> leading bidder