

ENERGYNET.COM, INC.

Committee Report

Oil and Gas Lease Internet Auction Pilot (OGLIAP)

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This document includes internal information and analysis concerning the Oil and Gas Lease Internet Auction Pilot (OGLIAP) system developed by EnergyNet.com, Incorporated for the Bureau of Land Management (BLM). Information included in this report may only be reproduced with specific written permission from EnergyNet.com, Inc.



Table of Contents

Oil and Gas Lease Internet Auction Pilot overview.....	3
Size matters: Why the auction format is best for the BLM	4
Industry reaction.....	4
Potential for paper and carbon emission reduction.....	5
Looking forward	5
Public reaction	7
Mainstream media.....	7
Comments received via the OGLIAP Help Desk	8



Oil and Gas Lease Internet Auction Pilot overview

The Bureau of Land Management's Oil and Gas Lease Internet Auction Pilot (OGLIAP) service was built and hosted by EnergyNet.com, Inc. in Amarillo, Texas to the detailed specifications authored by the BLM. OGLIAP was designed to provide an Internet-based auction to evaluate the viability of new, online auction methodologies. All parcel evaluation, registration and bidding was performed over the Internet using standard web browser-based technology.

OGLIAP was made available to the public on July 8, 2009, listing 38 parcels for auction. Ten parcels were later withdrawn from the auction by the BLM Colorado State Office. The remaining parcels were divided to open for bidding over a 2-day period. Each parcel, after opening, was available for a 7-day bidding period. Parcels closed for bidding on September 16-17, 2009.

Viewer statistics and notes

- OGLIAP received thousands of visitors, with parcel views from 92% of the U.S. - 100% of oil and gas producing states
- 100% website uptime; 24/7 availability

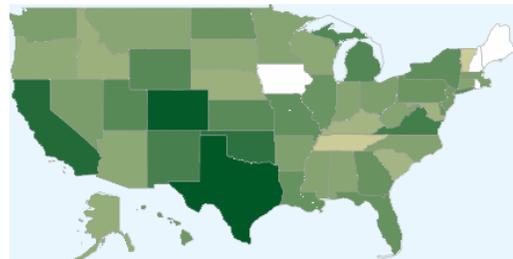


Figure 1: Heat-map of relative OGLIAP viewing volumes

U.S. citizen bidder statistics and notes

- Fully online registration and bidding process; participate from any Internet-enabled device
- Bidders were provided advanced anonymous bidding options involving flat bids and proxies
- Registered bidders enjoyed an estimated travel savings of 30,000 miles for this auction, including from distant states such as Massachusetts, Florida and Hawaii.

Benefits of the online auction format to bidders and the BLM

- Fully transparent auction process for both leasing participants and Bureau staff
- Instant, paperless, coast-to-coast exposure of BLM parcels provides the capability to immediately update parcel information and actively notify auction participants via email
- Nationwide user participation without travel restrictions increases bidder competition by expanding the potential bidder pool
- Online presentation removes physical location for possible auction sidewalk protests
- Potential to standardize online parcel presentation across all lease sales
- Modern bidding system provides participants with flexible, configurable bidding options including proxy bidding
- Fully Section 508 compliant for a highly accessible website
- Potential for tight integration with existing BLM systems
- Overall paper and carbon emission reduction (see below)
- The online format gives the BLM flexibility with scheduling and updates: Auctions with any sort of interruption (i.e. technical, weather-related, etc.) can immediately be postponed, reset or rescheduled, and all participants notified.



Size matters: Why the auction format is best for the BLM

The live auction format has performed well for the BLM for more than 20 years. Add to that the competition and exposure possible with the continuous Internet auction venue possible with today’s technology, and you have the best of both worlds. Through EnergyNet’s experience of conducting both sealed bid and auction sales, and after the sale of 28,000 properties over the past 10 years in the private sector, we have concluded that ***the excitement generated by adding the auction element to the bidding process leads to increased competition and thereby adds value.***

Similarly, the sealed bid format has an important role, but it is critical to understand the differences between **offshore** and **onshore** leasing. Sealed bid lends itself to larger offshore lease blocks as there are fewer interested parties, whereas smaller onshore BLM parcels lend themselves to the auction process because there are infinitely more bidders. The number of bidders qualified for offshore MMS sealed bidding can be counted on one hand.

<h3>Worlds Apart</h3> <p><i>Offshore lease blocks vs. onshore tracts: The sale methodologies don't mix.</i></p>	
Sealed Bid (MMS)	Auction (BLM)
<ul style="list-style-type: none"> • 10 or fewer potential bidders capable of multi-million dollar bids, always the same players • Private sector comparable sale statistics are non-existent • Reserve potential underlying MMS lease blocks (i.e. 10,000's of acres) can vary by billions of dollars of future revenue 	<ul style="list-style-type: none"> • 1000's of possible bidders, with new bidders entering the market all the time • Numerous offsetting lease sale comparables in immediate areas due to private sector activity • Reserve potential underlying a 20-100 acre BLM lease can vary much less, therefore the bonus value is more easily quantified

When selling onshore BLM leases, there are numerous private land owner comparables available. With offshore MMS lease blocks, the value attributed to those assets by large companies can be very different. Therefore, the sealed bid process is ideal because the spectrum of evaluations is so wide. The same does not hold true for onshore BLM leases, making the auction format the clear choice for the competitive process.

Industry reaction

The oil and gas industry has been quick to adopt the online leasing format and the host of benefits it brings to the table. One of the most notable benefits imparted by the online format is the increased transparency between the Bureau’s leasing program and the public. By entirely digitizing the auction



process, bidders will have live and up-to-date information 24 hours a day and have access to parcel and bid information at unprecedented levels of detail. Additionally, the BLM itself will experience a streamlined auction process internally, as the OGLIAP application can be automated and integrated with both the pre-auction parcel preparation process and the post-auction payment and collections systems. By constructing an online set of tools and building a fully digital lease process, both the industry and the BLM will benefit from increased efficiency and enjoy a higher quality of service.

Compared to the sealed bid process outlined in H.R. 3534, the open and transparent nature of the online auction shines as a stronger alternative. The online auction is, by its nature, easily verifiable as a legitimate and fair competitive process where every bid received is noted on a parcel's bid history table. Comparatively, the sealed bid process forces lessees to bid without any knowledge of the competition's interest or intent. Because of the competitive unknowns introduced by the sealed bid format, a discount will be ultimately be levied against the sale's prices. By providing constantly updated, highly accurate access to the sale's progress, bidders using the online auction format are enabled to participate in the auction more fully, resulting in more competition and a higher level of participant satisfaction.

The Oil and Gas Lease Internet Auction Pilot was demonstrated to a panel of private oil and gas representatives at the *Industry Review Meeting* in the last phase of the OGLIAP application development. A number of suggestions provided by the panel were incorporated into the application prior to launch, and the overall response was positive. The theme of industry excitement and acceptance was further evident at a series of training sessions held at the Colorado State BLM Office to bring the system into the hands of the very bidders who would be using it. EnergyNet provided a fully mobile training lab providing users with a genuine, hands-on training opportunity with the application.

Potential for paper and carbon emission reduction

If each of the unique viewers of the OGLIAP website represented a reduction in the number of paper-based auction/parcel listings books that must be printed and mailed, at an average of 50 pieces of paper per book, this would have resulted in the savings of **over 124 reams of paper** and **1.38 metric tons of carbon emissionsⁱ** during the pilot auction.

Estimating the distance between each registered bidder and the BLM Colorado State Office, registered bidders enjoyed a potential combined **travel savings of 31,885 miles** and **7 metric tons or carbon emissionsⁱⁱ** for the pilot auction.

Looking forward

Based on industry developments found in the private and now the government sectors, the online auction system has enormous potential to further refine and improve the BLM's federal leasing process. The return on investment for the BLM has been exceptional based on the first pilot sale, both in terms of bidder participation and service to the oil and gas exploration and development industry.

Many ideas have been explored over the course of the past year's design and development of the leasing website, and further when conducting the actual lease sale. Augmented by feedback received from industry users, certain improvements to the registration and auction closing process are possible



and recommended, including an improvement to the existing identity validation and online payment integration. Improving these functions will work to provide novel new protections against fraudulent bidding and auction disrupters as seen earlier this year in Utah.

While subdued by the current economic realities, leasing programs in western states continue to earn federal income and provide exploration opportunities for the oil and gas industry. The online auction, with its inherent flexibilities, is a good fit for all of the states involved in the federal leasing program. It is entirely feasible to develop and conduct an online auction for each of the BLM Leasing Offices over the next year, including additional auctions for Colorado as well as for Montana, New Mexico, Utah, Wyoming and the surrounding states that these offices service.



Public reaction

The OGLIAP project has been mentioned in several media outlets. All of the reports EnergyNet encountered presented the OGLIAP project in a positive manner, noting the historic element of the BLM Leasing Program's first use of an Internet platform for conducting auctions. Below are samplings from some of the articles written about the project:

Mainstream media

"The federal Bureau of Land Management is going eBay — or at least eBayish. The September auction of Colorado oil and gas leases will be held online — a \$250,000 pilot project that could lead to all federal lease sales being conducted on the Internet..."

The Denver Post

BLM to try online auction for Colorado oil, gas leases

July 8, 2009

"DENVER (AP) - The Colorado office of the Bureau of Land Management will achieve a first for the agency when it conducts its next quarterly oil and gas lease auction online..."

Associated Press

Colo. BLM picked for pilot online lease auction

July 10, 2009

"The Bureau of Land Management's Colorado office said Monday it will hold the federal land agency's first-ever online auction of oil and gas leases under a pilot program..."

Denver Business Journal

BLM Colorado to hold first-ever online auction for oil, gas leases

July 13, 2009



"...Right now, the BLM is conducting an online pilot auction, giving bidders a chance to compete for parcels online rather than in person. San Miguel County Planning Director Mike Rozycki said the BLM was testing the new system but will fall back on its normal method — an in-person auction the Denver suburb of Lakewood — while the federal government reviews the online method..."

Telluride Daily Planet

*No acres up for mineral lease in San Miguel County:
Uranium may again boom, but oil and gas is quiet, for now*
September 16, 2009

"In the agency's first-ever online sale of oil and gas leases, the U.S. Bureau of Land Management's Colorado office sold 19 parcels of 28 offered, totaling 7,701 acres, and earned \$153,637..."

Denver Business Journal

BLM nets \$154K in first-ever online lease sale in Colorado
September 14, 2009

Comments received via the OGLIAP Help Desk

"We've never had deep enough pockets to travel to a live sale. This is great we'll be able to go on the Internet."

Edward Stephens
September 5, 2009

"I have eight thousand acres in BLM Leases in east Texas, and it's exciting to be able to participate in other states this way."

James Baccus
September 5, 2009

ⁱ Calculations based on information from U.S. EPA, 2006. Solid Waste Management and Greenhouse Gases: A Life-Cycle Assessment of Emissions and Sinks, EPA530-R-06-004.

ⁱⁱ Calculations based on information from U.S. Department of Transportation, Bureau of Transportation Statistics; TranStats, Air Carrier Summary: Schedule T-1; "Airline Fuel Cost and Consumption"; "Airline Fuel Cost and Consumption."

