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TDC Energy

Houston:
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Office 281·364·1172
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December 3, 2001

Mr. Ben Dillon
IPAA
1101 16th Street, N.W.
Washington, D.C. 20036

Dear Ben:

I am attaching a copy of our request for reconsideration of rejected bids to the MMS. In Sale 180 there were only seven rejected bids out of 322 tracts bid upon. Two of the rejected bids were ours. I am sending this copy to you as an example of ways in which the Interior Department's policies are slowing down energy development in the OCS. This might be an interesting case for you to use in your conversations with Secretary Norton and/or Congressional delegates.

I think this request is self-explanatory, but I would be happy to discuss it with you in more detail and answer any questions you might have. I can come to Washington to sit down with policy makers and talk about this whole policy if you think it could bear fruit either on this case or for our industry. Please let me know what, if anything, you would like for me to do.

Best regards,

W. D. Gibbs
President and Chief Executive Officer

WDG:mgh
Attachment

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December 3, 2001

The Director
Minerals Management Service
Mail Stop 0100
1849 C Street N.W.
Washington, D.C. 20240

RE: **Reconsideration of Rejected Bids**
Gulf of Mexico OCS Region
Sale No. 180
Tracts No. G23104 and G23109
Reply Reference MS 5421

Gentlemen:

In accordance with 30 CFR 256.47(e) dated July 1, 2001, TDC Energy Corporation respectfully requests reconsideration of our rejected bids for the above referenced tracts designated South Padre Island 1151 and South Padre Island 1166. This request is being offered with respect to both tracts collectively as we are viewing the exploration and possible development of these two tracts as a single project. Likewise, we infer from the stated MROV values that your evaluation considers these tracts as a single project also.

There are a number of facts which we would like to emphasize in this request for reconsideration. First, let's look at the bidding and activity history on each block. Tract No. G 23109 (PS 1166) was first purchased by Enron Oil & Gas at Sale 135 in August of 1991 for a bid of $90,424, nominally above the statutory minimum of $81,370. There were no other bidders on the tract at that sale or at any previous sale. In March of 1996, Enron drilled the OCS-G 13264 No. 1 to a total depth of 3,000' MD. The well encountered approximately 36' true vertical thickness of apparent gas pay at 1,476' MD, using LWD tools in the workstring. The well was plugged and abandoned without any further logging or testing on March 31, 1996. Lease OCS-G 13264 expired under its primary term on September 30, 1996 with no other activity or filing for extensions. In August of 1997 at Sale 168, the lease again received a single bid, this time from PRS Offshore, LP for $166,874. This bid was rejected as falling below the stated

MROV of $620,000. PRS Offshore did request reconsideration, but the rejection stood nevertheless. During the next three lease sale opportunities in 1998, 1999, and 2000, this lease elicited no bids from the industry. At Sale 180 in August of this year, TDC Energy Corporation offered the only bid on this tract at $84,633, which was rejected as falling below the stated MROV of $630,000 ($610,000 ADV).

Tract No. G 23104 (PS 1151) was first leased through Sale 150 in August of 1994, also by Enron Oil & Gas for $89,595, nominally above the statutory minimum of $87,210. Subsequent to Enron's failure to discover a commercial hydrocarbon accumulation on South Padre Island 1166, South Padre Island 1151 (OCS-G 14753) was relinquished in August of 1996 without activity on that block. At Sale 168 in August of 1997, PRS Offshore also bid on this tract at $107,373, again nominally above the statutory minimum. This bid was accepted and the lease was awarded in December 1997. After the failure of PRS Offshore's request for reconsideration of their bid on PS 1166, PS 1151 (OCS-G 18853) was relinquished by PRS Offshore in November, 1998 again without activity on the block. Subsequently, this tract went through lease sales held in 1999 and 2000 without eliciting a bid. TDC Energy Corporation's rejected bid of $151,375 in Sale 180 in August of 2001 was also a sole bid with no competition. Our bid was rejected for failing to meet the MROV established for this block of $470,000.

A portion of our rationalization for requesting reconsideration of these bids lies in the scant bidding activity history. Tract No. G 23104 (PS 1151) has never had a contested bid on it, has only been bid three times in its history, both previous bids were only nominally above statutory minimums and were awarded. No well has ever been drilled on this block and both previous leases were relinquished significantly before the end of their primary terms without any activity on the block. Our bid is 40% above the previous successful bid in 1997. Since 1997, there has been no new drilling activity or seismic data acquired anywhere in the vicinity of this tract. Consequently, we fail to see a basis for increasing the MROV on this block above the level that was acceptable in 1997.

Likewise, Tract G 23109 (PS 1166) has failed to attract significant industry interest. Subsequent to Enron's non-commercial discovery in 1996, the tract has gone through four lease sales with only one bid (which was rejected in 1997) prior to our bid at Sale 180. Again, TDC was the sole bidder at Sale 180.

The difficulty with this potential project lies in the fact that it is located in a remote area which has scant geophysical data and is 30 miles from the nearest physical infrastructure. Compounding the logistic problems is the fact that half of PS 1166 and all of PS 1151 underlie a major shipping fairway, making any potential reserve recovery extremely difficult, particularly when one considers that the potentially commercial reserves indicated by the Enron LWD measurements occur at a very shallow depth. Additionally, the prospect underlying these two blocks is only identified by very old (mid-1980s), widely spaced 2-D seismic data. The grid with which we are working has a North-South spacing of approximately 2500' and an East-West spacing of approximately 4000'. Industry experience with shallow anomalies in the eastern Gulf would indicate that significant stratigraphy can exist within a fairly small aerial extent. The Enron well, because it was constrained by the shipping fairway, encountered the seismic anomaly close to its southern extremity. The target anomaly is approximately 2200 acres, occurring in an elongated channel roughly one mile wide by four miles long. Given the lack of commercially available speculative seismic data, the first phase of this project will require acquiring proprietary seismic data. Because of the logistics involved in mobilizing equipment to this remote area, data acquisition will cost us somewhere between $700,000 and $1,000,000. Acquisition and analysis of high quality data is the first potential go/no go decision point in developing this prospect. Raising our bid level to the MROV values would effectively double our up-front risk capital on this project. Even in the event of a follow-up discovery to the original Enron discovery, high quality data to clearly define reserve potential will be absolutely essential to attracting the necessary investment to build the pipeline infrastructure to produce hydrocarbons at this location. Currently the nearest pipeline is over 30 miles away and will require crossing at least one of the shipping fairways to tie in to this location. Our estimate for this project is in excess of $13,000,000.

In order to prove the commercial viability of this project, it will be necessary to place a well in the heart of the anomaly. Because most of the anomaly lies underneath the shipping fairway, it will be necessary to drill an extremely high-angle well to test this prospect at this shallow depth. Drilling costs are further exacerbated by the remoteness of this location relative to existing industry infrastructure. Consequently, we are looking at a dry hole cost for the initial test well of approximately $3,500,000.

As should be apparent from the lack of industry interest in this project (evidenced by the bid history on both these tracts), it will be very difficult to prove commerciality. The project is heavily loaded with front-end risk dollars which may very well yield information which will kill the project. The MROVs which have been imputed to these two blocks will add approximately $850,000 to the front-end risked capital. Given the risk of commerciality on this project, that additional front-end loading makes this project unacceptably risky in our opinion.

Apparently the rest of the industry agrees with us, as there has been no competition for bidding on these blocks. On the other hand, if we can prove commerciality, the level of royalty that we would expect to flow from these blocks would range from $8-14 million, far overshadowing the additional lease bonus that you are currently requiring.

TDC Energy has a 10-year track record in the Gulf of Mexico of pursuing and developing hydrocarbon accumulations which other companies have found unattractive. To date we have developed over 100 bcf of gas net to our interest (approximately 50 of which has already been produced) from projects that likely would have remained undeveloped but for the efforts of a company like ours. Our efforts in marginal field development to date will put somewhere between $25-40 million worth of royalties into the national treasury. This South Padre project represents a classic use of our talents. Clearly this is a project that no one else in the industry wants and it will take our specialized skills in low-cost, efficient exploration and production to make it commercial. If successful, however, everyone comes out a winner, particularly the national treasury. If we can make this project commercially viable, the payoff in royalty to our country is 10-20 times more than the imputed deficiency of our bids compared to your MROV values. I respectfully request that you reconsider our bids on both of these tracts.

Respectfully yours,

W. D. Gibbs
President and Chief Executive Officer

WDG:mgh

c: Regional Director
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