ENERGY PARTNERS LTD
Form 10-K
March 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-16179

Energy Partners, Ltd.

(Exact name of registrant as specified in its charter)

Delaware	**72-1409562**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
201 St. Charles Avenue, Suite 3400	
New Orleans, Louisiana	**70170**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code:

504-569-1875

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of exchange on which registered**
Common Stock, Par Value $0.001 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes ¨ No x

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No ¨

The aggregate market value of the common stock held by non-affiliates of the registrant at June 30, 2010 (the registrant s most recently completed second fiscal quarter) based on the closing stock price as quoted on the New York Stock Exchange on that date was $353,060,074. As of February 25, 2011, there were 40,175,161 shares of the registrant s common stock, par value $0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Stockholders of Energy Partners, Ltd. expected to be held on May 19, 2011

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Statements we make in this Annual Report on Form 10-K (Annual Report) which express a belief, expectation or intention, as well as those that are not historical fact, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to various risks, uncertainties and assumptions, including those to which we refer under the headings Cautionary Statement Concerning Forward-Looking Statements and Risk Factors in Items 1 and 1A of Part 1 of this Annual Report.

PART I

Item 1. *Business*

Overview

Energy Partners, Ltd. (referred to herein as we, our, us or the Company) was incorporated as a Delaware corporation in January 1998 and operates as an independent oil and natural gas exploration and production company based in New Orleans, Louisiana and Houston, Texas. Our current operations are concentrated in the U.S. Gulf of Mexico shelf focusing on state and federal waters offshore Louisiana, which we consider our core area. We have focused on acquiring and developing assets in this region, as it is characterized by established exploitation, development and exploration opportunities in both productive horizons and deeper geologic formations. Our management professionals and technical staff have considerable geological, geophysical and operational experience that is specific to the Gulf of Mexico and Gulf Coast region, and we have acquired and developed geophysical and geological data relating to these areas. We intend to pursue capital-efficient development and exploration activities in our core area, as well as identify acquisition opportunities that leverage our operational strengths. As of December 31, 2010, we had estimated proved reserves of 27.4 million barrels of oil equivalent, or Mmboe, of which 63% were oil and 93% were proved developed. Of these proved developed reserves, 63% were oil reserves.

We produce both oil and natural gas. Throughout this Annual Report, when we refer to total production, total reserves, percentage of production, percentage of reserves, or any similar term, we have converted our natural gas reserves or production into barrel equivalents. For this purpose, six thousand cubic feet of natural gas is equal to one barrel of oil, which is based on the relative energy content of natural gas and oil. Natural gas liquids are aggregated with oil in this Annual Report.

For definitions of oil and natural gas terms used frequently in this Annual Report, please refer to the Glossary of Oil and Natural Gas Terms following the index of Exhibits in Item 15 of Part IV of this Annual Report.

Recent Events

On February 14, 2011, we acquired an asset package consisting of certain shallow-water Gulf of Mexico shelf oil and natural gas interests surrounding the Mississippi River delta and a related gathering system (the ASOP Properties) from Anglo-Suisse Offshore Partners, LLC (ASOP) for $200.7 million in cash, subject to customary adjustments to reflect an economic effective date of January 1, 2011 (the ASOP Acquisition). As of December 31, 2010, the ASOP Properties had estimated proved reserves of approximately 8.1 Mmboe, of which 84% were oil and 76% were proved developed reserves. Of these proved developed reserves, 88% were oil reserves. The ASOP Acquisition was financed with the proceeds from the sale of $210 million in aggregate principal amount of 8.25% senior notes due 2018 (the 8.25% Notes) offered to qualified institutional buyers pursuant to Rule 144A promulgated under the Securities Act of 1933, as amended (the Securities Act), and to persons outside the United States pursuant to Regulation S promulgated under the Securities Act. After deducting the initial purchasers discount and estimated offering expenses, the Company realized net proceeds of approximately $202 million.

Competitive Strengths

High Quality Asset Base with Significant Exploitation and Exploration Potential. We believe our asset base is characterized by lower-risk properties that have predictable well control and production profiles. Our pro forma net proved reserves reflecting the ASOP Acquisition as of December 31, 2010 were 89% proved developed, which provides significant production visibility. Our fields offer significant development and exploration potential, with multiple producing zones and unexplored deeper horizons.

Oil-Weighted Reserves and Production. We believe we are more oil-focused in both our reserves and production as compared to many of our peers. After giving effect to the ASOP Acquisition, our pro forma net proved reserves at December 31, 2010 were approximately 68% oil, and our pro forma net average daily production for the quarter ended December 31, 2010 was 60% oil. Given the current commodity price environment and resulting disparity between oil and natural gas prices on a barrel of oil equivalent basis, we believe our high percentage of oil reserves compared to our overall reserve base provides us an economic advantage. Additionally, the production decline curve of oil is typically lower than a comparable natural gas decline curve, resulting in longer term production from current reserves.

Operating Control. After giving effect to the ASOP acquisition, we operate properties that contain approximately 80% of our proved reserves. As the operator of a property, we are afforded greater control of the optimization of production, the timing and amount of capital expenditures and the operating parameters and costs of our projects. As such, we are able to align capital expenditures with cash flow because we are generally able to adjust drilling plans in response to changes in commodity prices. Additionally, we believe that we are one of the lowest-cost operators in the region and are therefore able to maximize cash flows from our operated reserves.

Geographically Focused Properties in the Gulf of Mexico. We operate geographically focused properties located in the Gulf of Mexico shelf, which gives us the opportunity to minimize logistical costs and reduce staff. Our experience in the Gulf of Mexico, and particularly offshore Louisiana, has led us to focus our efforts in that particular region, where we are familiar with the fields, drilling and production trends and where we have amassed an extensive library of geologic information. We own an extensive high-quality 3-D seismic database that is primarily focused on our core area and currently covers approximately 11,700 square miles. This seismic data assists us in identifying attractive development and exploration drilling opportunities that adhere to our capital-efficient development strategies. We have recently reprocessed the 3-D seismic data covering our East Bay and South Timbalier 26 fields, and our initial evaluation indicates that this data will enable us to better image deeper prospective horizons below existing field pays as well as the shallower producing horizons. Drilling activity in the Gulf of Mexico shelf, as compared to deepwater drilling activities, has not been as severely impacted by the regulatory changes resulting from the explosion and sinking of the Deepwater Horizon drilling rig in the Gulf of Mexico in April 2010. Over 26% of our developed net acreage is located in Louisiana state waters, which are not regulated by the Bureau of Ocean Energy Management, Regulation and Enforcement (the BOEMRE) and where there have been no delays in the permitting process for drilling.

Experienced Management and Significant Technical Expertise. We have an experienced and technically-adept management team, averaging more than 20 years of industry experience among our top seven executives. We have also built a strong technical staff of geologists and geophysicists, field operations managers and engineers to handle all aspects of our exploitation, exploration, production and decommissioning activities.

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Business Strategy

Pursue Capital Efficient Development in Core Areas. Our current producing asset base in the Gulf of Mexico shelf includes a large inventory of low-risk exploitation opportunities, as well as exploration prospects with multiple objectives and follow up opportunities. In 2010, we completed 19 workovers and drilled five sidetracks and five drill wells, with a 76% success rate. Our fiscal year 2011 capital budget is $110 to $125 million (excluding the cost of acquiring the ASOP properties), $80 million of which is allocated to development of our existing Gulf of Mexico shelf asset base primarily in the East Bay and South Timbalier field areas, $20 million of which is allocated to exploration projects and an additional $10 million to $25 million of which is allocated to development projects within the recently acquired ASOP Properties. We also plan to spend approximately $17 million in 2011 on plugging, abandonment and other decommissioning activities. In our pre-acquisition fields, we will continue to focus on low-risk development projects, as well as a small number of high quality, high potential exploration prospects. We believe the ASOP Properties will enhance our exploitation strategy to increase production from legacy fields and will provide us with substantial incremental exploration opportunities within our core area.

Target Acquisition Opportunities to Replace Reserves and Leverage Operational Strengths. We continually review and monitor opportunities to acquire producing properties, leasehold acreage and drilling prospects in and around our core areas of operation so that we can act quickly as acquisition opportunities become available. We intend to focus our acquisition strategy on operated Gulf of Mexico shelf assets that are characterized by production-weighted reserves, seismic coverage and operated positions, while allowing us to maintain a conservative capital structure. We intend to use acquisitions of this type as a key method to replace and grow reserves and production, as we believe this strategy increases production and cash flow visibility while reducing dry hole and exploration risk. We believe our expertise in the Gulf of Mexico shelf and in plugging and abandonment operations allows us to effectively evaluate acquisitions and to operate the properties we eventually acquire.

Maintain Financial Discipline. We are committed to maintaining a conservative financial position, sufficient liquidity and a strong balance sheet. We have $150.0 million available under our new $250 million credit facility we entered into concurrently with the consummation of the ASOP Acquisition on February 14, 2011 (the new credit facility). In order to maintain financial flexibility, we generally plan to fund our initial 2011 fiscal year exploration and development capital budget entirely with cash flow from operations. Additionally, our operational control enables us to manage the timing of a substantial portion of our capital investments.

Retain Cost Leadership, *with Continued Improvement*. We emphasize identifying opportunities to reduce our costs in connection with our efforts to find, develop and produce our oil and natural gas reserves. We are one of the lowest cost operators among our public Gulf of Mexico peers, based on lease operating expense and general and administrative expense per Boe of production. We have reduced these costs per Boe by approximately 35% since 2008 by more efficiently allocating labor and transportation costs, reducing non-technical personnel and continuing our plugging, abandonment and decommissioning program to reduce lease operating expenses.

Capitalize on Competency in Plugging and Abandonment. We have established a proactive, multi-year plan to plug, abandon and decommission depleted wells and associated infrastructure. Gary Hanna, our chief executive officer who joined us in September 2009, has significant experience in conducting these types of operations and has supplemented our staff to accomplish this objective. With our core competency in plugging, abandonment and other decommissioning operations, we expect to reduce our lease operating expense over time by removing idle infrastructure and its associated maintenance costs.

Where You Can Find More Information

We maintain a website at *www.eplweb.com* that contains information about us, including links to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all related amendments as soon as reasonably practicable after providing such reports to the Securities and Exchange

Commission (the SEC). In addition, our website contains our Corporate Governance Guidelines and the charters for our Audit, Compensation and Nominating and Governance Committees. Copies of this information are also available by writing to our Corporate Secretary at 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170. Our website and the information contained in it and connected to it shall not be deemed incorporated by reference into this Annual Report or any other filing that we make with the SEC.

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934 (as amended, the Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any document we file with the SEC at *www.sec.gov*.

Properties

As of December 31, 2010, we had working interests in 19 producing fields located in the Gulf of Mexico shelf region, including larger legacy fields and smaller fields as follows:

- our East Bay producing field on the southern flank of the Mississippi River delta;
- three producing fields in the vicinity of the Bay Marchand salt dome (the Greater Bay Marchand area) and in close proximity to each other; and
- 15 smaller producing fields offshore Louisiana.

Our East Bay field comprised approximately 21% of our production during the year ended December 31, 2010 and 54% of our proved reserves at December 31, 2010. It is comprised of the South Pass 24 and 27 fields and is located 89 miles southeast of New Orleans, near the mouth of the Mississippi River. It contains 230 producing wells located along the coastline and in water depths ranging up to approximately 70 feet. We operate this field and own an average 97% working interest in our acreage position in this area. Our leasehold area covered 40,880 gross acres (39,586 net acres) as of December 31, 2010. During 2011, we plan to concentrate on exploitation opportunities in the East Bay field and to drill below 14,000 feet subsea using newly-reprocessed seismic data.

Our Greater Bay Marchand area comprised approximately 52% of our production during the year ended December 31, 2010 and 35% of our proved reserves at December 31, 2010. Our key assets in this area include the South Timbalier 26 and 41 fields and the Bay Marchand field located approximately 60 to 72 miles south of New Orleans in water depths of 73 feet or less. We own working interests ranging from 13% to 100% in the Greater Bay Marchand area. We operate the South Timbalier 26 and 41 blocks. During 2011, we plan to concentrate on exploitation opportunities in South Timbalier 26 with the benefit of newly-reprocessed seismic data.

The 15 smaller producing fields offshore Louisiana comprised approximately 16% of our production during the year ended December 31, 2010 and 8% of our proved reserves at December 31, 2010. These properties are located in water depths ranging from 18 to 225 feet with working interests ranging from 20% to 100%.

The ASOP Properties acquired on February 14, 2011 comprise three producing complexes located in the Gulf of Mexico shelf region offshore Louisiana surrounding the Mississippi River delta. The West Delta complex, a legacy producing area, comprised approximately 60% of the ASOP Properties reserves at December 31, 2010 and is located 62 miles south, southeast of New Orleans. It contains 23 producing wells in water depths ranging from 29 to 87 feet and is comprised of five lease blocks. We operate the West Delta complex and own a working interest of 100% of the acreage position in this area. The South Pass complex

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comprised approximately 14% of the ASOP Properties reserves at December 31, 2010 and is located 96 miles southeast of New Orleans. It contains four producing wells in water depths of approximately 300 feet and is comprised of one field. The South Pass complex is operated by Energy XXI, and we own working interests ranging from 44% to 70% of the acreage position in this area. The Main Pass complex comprised approximately 26% of the ASOP Properties reserves at December 31, 2010 and is located 98 miles southeast of New Orleans. It contains 32 producing wells in water depths of approximately 250 feet and is comprised of two fields. The complex is operated by Apache, and we own a working interest of 33% of the acreage position in this area.

As of December 31, 2010, after giving effect to the ASOP Acquisition, we had an interest in 333 producing wells in 27 producing fields. These producing fields include three legacy operating areas. All of our properties, including the ASOP Properties, are predominantly located in the Gulf of Mexico shelf. This concentration facilitates our ability to manage the operated fields efficiently and provide economies of scale in our core operating area. In addition, the ASOP Properties complement our pre-acquisition reserve profile and increase our proved developed producing reserves, as well as the percentage of oil comprising our proved reserves. We believe there is significant exploitation and exploration potential with respect to the ASOP Properties that we can realize by leveraging our technical and operational expertise.

As of December 31, 2010, we also owned interests in 21 undeveloped blocks and one producing lease in the deepwater Gulf of Mexico area. These deepwater Gulf of Mexico properties comprised approximately 10% of our production during the year ended December 31, 2010 and 3% of our proved reserves at December 31, 2010. Our working interests in our leases in this area ranged from 15% to 33%. Our deepwater assets do not fit with our long-term strategy, and there are no current plans to develop these interests. As such, we may monetize or trade these assets.

Oil and Natural Gas Reserves

In December 2008, the SEC issued a final rule, Modernization of Oil and Gas Reporting, which amended its oil and gas reserves estimation and disclosure requirements. The new requirements were codified into the Accounting Standards Codification (ASC) Topic 932, Extractive Activities Oil and Gas (ASC 932), in January 2010, and had the effect of, among other things, modifying the prices used to estimate reserves for SEC disclosure purposes to an average price based upon the prior twelve month period rather than the year-end price. See Note 20 Supplementary Oil and Natural Gas Disclosures (Unaudited) of the consolidated financial statements in Part II, Item 8 of this Annual Report for additional information regarding changes in reporting related to oil and natural gas reserves as a result of ASC 932. The revised rule was effective January 1, 2010 for reporting December 31, 2009 annual oil and natural gas reserve information. We adopted the provisions of the final rule in connection with the filing of our annual report for the year ended December 31, 2009.

The following table presents our estimated net proved oil and natural gas reserves and the estimated future net revenues and cash flows related to our reserves at December 31, 2010, 2009 and 2008. Our estimates of proved reserves are based on reserve reports prepared as of December 31, 2010 by Netherland, Sewell & Associates, Inc. (NSAI) and Ryder Scott Company, LP (Ryder Scott), independent petroleum engineers. Neither PV-10 nor the standardized measure of discounted future net cash flows shown in the table is intended to represent the current market value of the estimated oil and natural gas reserves that we own. Note 20 Supplementary Oil and Natural Gas Disclosures (Unaudited) of the consolidated financial statements in Part II, Item 8 of this Annual Report provides important additional information about our proved oil and natural gas reserves.

PV-10 may be considered a non-GAAP financial measure as defined by the SEC. We believe that the presentation of PV-10 is relevant and useful to our investors as supplemental disclosure to the standardized measure, or after-tax amount, because it presents the discounted future net cash flows attributable to our proved reserves before taking into account future corporate income taxes and our current tax structure. Because the

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standardized measure is dependent on the unique tax situation of each company, our calculation may not be comparable to those of our competitors. Because of this, PV-10 can be used within the industry and by creditors and securities analysts to evaluate estimated net cash flows from proved reserves on a more comparable basis.

	As of December 31,		
	2010	2009	2008
	(dollars in thousands)		
Total estimated net proved reserves (1):			
Oil (Mbbls)	17,223	19,923	21,637
Natural gas (Mmcf)	61,251	67,378	90,808
Total (Mboe)	27,431	31,153	36,771
Net proved developed reserves (2):			
Oil (Mbbls)	15,974	15,026	17,052
Natural gas (Mmcf)	56,410	57,139	79,413
Total (Mboe)	25,376	24,549	30,288
Net proved undeveloped reserves:			
Oil (Mbbls)	1,249	4,897	4,585
Natural gas (Mmcf)	4,841	10,239	11,395
Total (Mboe)	2,055	6,604	6,483
Estimated future net revenues before income taxes (3)	$ 565,922	$ 534,771	$ 557,660
Present value of estimated future net revenues before income taxes (PV-10) (3)(4)(6)	$ 413,066	$ 395,997	$ 425,247
Standardized measure of discounted future net cash flows (5)(6)	$ 359,458	$ 393,802	$ 416,171

(1) The table does not include reserves associated with the ASOP Properties, which we acquired on February 14, 2011. As of December 31, 2010, the ASOP Properties had estimated proved reserves of approximately 8.1 Mmboe, of which 84% were oil and 76% were proved developed reserves. Of these proved developed reserves, 88% were oil reserves. All estimates of proved reserves with respect to the ASOP Properties contained in this Annual Report are based on reserve reports prepared as of December 31, 2010 by NSAI.

(2) Net proved developed non-producing reserves as of December 31, 2010 (6,484 Mbbls and 38,334 Mmcf) were 12,873 Mboe, or 47% of our total proved reserves.

(3) The December 31, 2010 and 2009 amounts were calculated using oil prices of $77.85 and $57.70 per barrel, respectively, and natural gas prices of $4.54 and $3.96 per Mcf, respectively, held constant for the life of the reserves, computed in accordance with ASC 932, based on the unweighted, arithmetic average of the closing price on the first day of each of the twelve months during the fiscal year. The December 31, 2008 amount was calculated using a period-end oil price of $44.77 per barrel and a period-end natural gas price of $6.05 per Mcf, in accordance with the SEC rules in effect at that time.

(4) The present value of estimated future net revenues attributable to our reserves was prepared using constant prices, determined in the manner described in footnote (3), discounted at a rate of 10% per year on a pre-tax basis.

(5) The standardized measure of discounted future net cash flows represents the present value of future cash flows after income taxes discounted at 10% per year, as calculated in accordance with SEC guidelines and pricing.

(6) PV-10 is a non-GAAP financial measure as defined by the SEC. We believe that the presentation of PV-10 is relevant and useful to our investors as supplemental disclosure to the standardized measure, or after-tax amount, because it presents the discounted future net cash flows attributable to our proved reserves before taking into account future corporate income taxes and our current tax structure. Because the standardized measure is dependent on the unique tax situation of each company, our calculation may not be comparable to those of our competitors. Because of this, PV-10 can be used within the industry and by creditors and securities analysts to evaluate estimated net cash flows from proved reserves on a more comparable basis.

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As of December 31, 2009, our proved undeveloped reserves (PUDs) totaled 4.9 Mmbbls of oil and 10,239 Mmcf of natural gas, for a total of 6.6 Mmboe. Included in these PUDs are 4.2 Mmboe that have been included in proved undeveloped reserves for longer than five years. Our PUDs at December 31, 2009 were associated with infill exploitation reserves in proven reservoirs which generally are up-dip reserves and/or reserves where the existing wellbore is not mechanically viable, requiring a new or replacement wellbore to enable production. During 2010, we converted 0.3 Mmboe of PUDs to proved developed reserves. As a result of changes in our strategic focus during 2010 and the resulting reallocation of financial resources and technical personnel to higher potential organic and acquisition-related opportunities, including our ASOP Acquisition which closed on February 14, 2011, our plans and expectations have changed with respect to certain of the PUDs existing as of December 31, 2009. As a result, our PUDs as of December 31, 2010 reflect a decrease of approximately 4.3 Mmboe related to PUDs aged greater than five years for which funds were not committed in our 2011 development plan. We expect our remaining PUDs as of December 31, 2010 of 2.1 Mmboe to begin converting from proved undeveloped to proved developed as the planned development projects begin in 2011. Of the seven planned future development projects related to our PUDs, consisting of five sidetracks and two horizontal wells, three sidetracks and both horizontal wells are part of our committed 2011 development plan. The remaining two sidetracks are awaiting depletion of the current producing zone and are projected to occur in 2012. We project future development costs relating to the development of the PUDs remaining at December 31, 2010 to be approximately $21.3 million in 2011, $12.1 million in 2012, $0.5 million in 2013, $4.0 million in 2014, and $2.5 million thereafter.

Our Vice President, Reserves, is the technical person primarily responsible for overseeing the preparation of our reserve estimates and for compliance with our policies. He is a registered petroleum engineer with extensive experience in reservoir analysis and reports directly to our executive management. At the end of each year, our reserve estimates are prepared by outside petroleum engineering firms. As of December 31, 2010, our estimates of proved reserves are based on reserve reports prepared by the independent petroleum engineering firms NSAI and Ryder Scott, both nationally recognized engineering firms.

We have internal controls in place to provide reasonable assurance of compliance with SEC rules in the determination of our reserve estimates. These controls include:

- corporate policies which require reserve estimates to be in compliance with SEC guidelines;
- data on new discoveries is reviewed by the Vice President, Reserves, and our outside engineering firms for evaluation and incorporation into our reserve estimates;
- year-end reserve estimates are reviewed by our Vice President, Reserves, and our chief executive officer and other senior management; and
- revisions are communicated to our Board of Directors.

The estimates of the oil and natural gas reserves of the ASOP Properties as of December 31, 2010 included in this Annual Report are based on reserve reports prepared by NSAI but were not subject to the internal controls summarized above.

As an operator of domestic oil and gas properties, we have filed Department of Energy Form EIA-23, Annual Survey of Oil and Gas Reserves, as required by Public Law 93-275. The differences between the reserves as reported on Form EIA-23 and those reported herein are attributable to the fact that Form EIA-23 requires that an operator report the total reserves attributable to wells that it operates, without regard to percentage ownership and excluding non-operated wells in which it owns an interest.

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The table below sets forth production information for each field that contains 15% or more of our total proved reserves as of December 31, 2010.

	Years Ended December 31, 2010	2009	2008
East Bay:			
Oil (Mbbls)	1,031	837	885
Natural gas (Mmcf)	78	295	604
Total (Mboe)	1,044	886	986
South Timbalier 26:			
Oil (Mbbls)	362	440	431
Natural gas (Mmcf)	1,167	1,394	815
Total (Mboe)	557	672	567

Costs Incurred in Oil and Natural Gas Activities

The following table sets forth the costs incurred associated with finding, acquiring and developing our proved oil and natural gas reserves.

	2010	Years Ended December 31, 2009 (In thousands)	2008
Acquisitions Proved	$	$	$
Acquisitions Unproved	623	85	20,925
Exploration	31,463	2,477	56,202
Development (1)	25,643	8,815	127,948
Costs incurred	$ 57,729	$ 11,377	$ 205,075

(1) Includes asset retirement obligations incurred associated with finding, acquiring and developing our proved oil and natural gas reserves of $0.1 million during the year ended December 31, 2010. Includes asset retirement obligations incurred associated with finding, acquiring and developing our proved oil and natural gas reserves of $13.4 million during the year ended December 31, 2008. No asset retirement obligations were incurred associated with finding, acquiring and developing our proved oil and natural gas reserves during the year ended December 31, 2009.

Productive Wells

The following table sets forth the number of productive oil and natural gas wells in which we owned an interest as of December 31, 2010.

	Total Productive Wells Gross	Net
Oil	220	170
Natural gas	54	32
Total	274	202

Productive wells consist of producing wells and wells capable of production, including oil wells awaiting connection to production facilities and natural gas wells awaiting pipeline connections to commence deliveries. Thirty gross oil wells and six gross natural gas wells have dual completions.

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In this Annual Report, when referring to wells and acreage, gross refers to the total wells or acres in which we have a working interest and net refers to gross wells or acres multiplied by our working interest.

Acreage

The following table sets forth information relating to acreage held by us as of December 31, 2010. Developed acreage is assigned to producing wells.

	Gross Acreage	**Net Acreage**
Developed:		
Gulf of Mexico Shelf	114,282	83,706
Deepwater Gulf of Mexico	5,760	1,600
Other	1,085	349