MARINER ENERGY INC
Form 10-K
March 02, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2008**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-32747

MARINER ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**86-0460233**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

One BriarLake Plaza, Suite 2000
2000 West Sam Houston Parkway South
Houston, Texas 77042
(Address of principal executive offices and zip code)

(713) 954-5500

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.0001 par value	New York Stock Exchange
Rights to Purchase Preferred Stock	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 þ No o

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 þ No o

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. þ

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. (Check one):

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

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

The aggregate market value of the registrant s common stock held by non-affiliates on June 30, 2008 was approximately $3,166,804,986 based on the closing sale price of $36.97 per share as reported by the New York Stock Exchange on June 30, 2008. The number of shares of common stock of the registrant issued and outstanding on February 20, 2009 was 90,057,276.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant s Proxy Statement relating to the Annual Meeting of Stockholders to be held May 11, 2009 are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Various statements in this annual report, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as may, estimate, project, predict, believe, expect, anticipate, potential, plan, goal or other words that convey the uncertainty of futu outcomes. The forward-looking statements in this annual report speak only as of the date of this annual report; we disclaim any obligation to update these statements unless required by law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. We disclose important factors that could cause our actual results to differ materially from our expectations described in Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this annual report. These risks, contingencies and uncertainties relate to, among other matters, the following:

- the volatility of oil and natural gas prices;

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- discovery, estimation, development and replacement of oil and natural gas reserves;
- cash flow, liquidity and financial position;
- business strategy;
- amount, nature and timing of capital expenditures, including future development costs;
- availability and terms of capital;
- timing and amount of future production of oil and natural gas;
- availability of drilling and production equipment;
- operating costs and other expenses;
- prospect development and property acquisitions;
- risks arising out of our hedging transactions;
- marketing of oil and natural gas;
- competition in the oil and natural gas industry;
- the impact of weather and the occurrence of natural events and natural disasters such as loop currents, hurricanes, fires, floods and other natural events, catastrophic events and natural disasters;
- governmental regulation of the oil and natural gas industry;
- environmental liabilities;
- developments in oil-producing and natural gas-producing countries;
- uninsured or underinsured losses in our oil and natural gas operations;
- risks related to our level of indebtedness; and
- risks related to significant acquisitions or other strategic transactions, such as failure to realize expected benefits or objectives for future operations.

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PART I

The following discussion is intended to assist you in understanding our business and the results of our operations. It should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this report. Certain statements made in our discussion may be forward looking. Forward-looking statements involve risks and uncertainties and a number of factors could cause actual results or outcomes to differ materially from our expectations. See Cautionary Statements at the beginning of this report on Form 10-K for additional discussion of some of these risks and uncertainties. Unless the context otherwise requires or indicates, references to Mariner, we, our, ours, and us refer to Mariner Energy, Inc. and its consolidated subsidiaries collectively. Cert and natural gas industry terms used in this annual report are defined in the Glossary of Oil and Natural Gas Terms set forth in Item 1. Business of this annual report.

Item 1. *Business.*

General

Mariner Energy, Inc. is an independent oil and gas exploration, development, and production company. We were incorporated in August 1983 as a Delaware corporation. Our corporate headquarters are located at One BriarLake Plaza, Suite 2000, 2000 West Sam Houston Parkway South, Houston, Texas 77042. Our telephone number is (713) 954-5500 and our website address is www.mariner-energy.com. Our common stock is listed on the New York Stock Exchange and trades under the symbol ME.

We currently operate in three principal geographic areas:

Permian Basin, where we are an active driller in the prolific Spraberry field at depths between 6,000 and 10,000 feet. Our increasing Permian Basin operation, which is characterized by long reserve life, stable drilling and production performance, and relatively lower capital requirements, somewhat counterbalances the higher geological risk, operational challenges and capital requirements attendant to most of our Gulf of Mexico deepwater operations. We have expanded our presence in the region, targeting a combination of infill drilling activities in established producing trends, including the Spraberry, Dean and Wolfcamp trends, as well as exploration activities in emerging plays such as the Wolfberry and newer Wolfcamp trends.

Gulf of Mexico Deepwater, where we have actively conducted exploration and development projects since 1996 in water depths ranging from 1,300 feet up to 7,000 feet. Employing our experienced geoscientists, rich seismic database, and extensive subsea tieback expertise, we have participated in more than 84 deepwater wells. Our deepwater exploration operation targets larger potential reserve accumulations than are generally accessible onshore or on the Gulf of Mexico shelf.

Gulf of Mexico Shelf, where we drill or participate in conventional shelf wells and deep shelf wells extending to 1,300 foot water depths. We currently pursue a two-pronged strategy on the shelf, combining opportunistic acquisitions of legacy producing fields believed to hold exploitation potential and active exploration activities targeting conventional and deep shelf opportunities. Given the highly mature nature of this area and the steep production declines characteristic of most wells in this region, the goal of our shallow water or shelf operation is to maximize cash flow for reinvestment in our deepwater and Permian Basin operations, as well as for expansion into new operating areas.

During 2008, we produced approximately 118.4 Bcfe and our average daily production rate was 323 MMcfe per day. At December 31, 2008, we had 973.9 Bcfe of estimated proved reserves, of which approximately 57% were natural gas and 43% were oil, natural gas liquids (NGLs) and condensate. Approximately 70% of our estimated proved reserves were classified as proved developed.

We file annual, quarterly and current reports, proxy statements and other information as required by the Securities and Exchange Commission (SEC). Our SEC filings are available to the public over the Internet at the SEC s web site at www.sec.gov. or at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. Reports and other information about Mariner can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Copies of our SEC filings are available free of

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charge on our website at www.mariner-energy.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on our website is not a part of this annual report. Copies of our SEC filings can also be provided to you at no cost by writing or telephoning us at our corporate headquarters.

Recent Developments

Gulf of Mexico Deepwater Acquisition On December 19, 2008, we acquired additional working interests in our existing property, Atwater Valley Block 426 (Bass Lite), for approximately $32.6 million, increasing our working interest by 11.6% to 53.8%. We internally estimated proved reserves attributable to the acquisition of approximately 17.6 Bcfe (100% natural gas).

Acquisition of Incremental Spraberry Interests On February 29, 2008 and December 1, 2008, we acquired additional working interests in certain of our existing properties in the Spraberry field in the Permian Basin, increasing our average working interest across these properties to approximately 80%. We internally estimated proved reserves attributable to the acquisition of approximately 27.4 Bcfe. We operate substantially all of the assets. The purchase prices were approximately $21.7 million for the February acquisition and $19.4 million for the December acquisition.

Impact of Worldwide Financial Crisis and Lower Commodity Prices on Capital Program

In recent years, oil and gas commodity prices generally trended upwards in response to robust demand and constrained supplies, with oil and gas prices peaking at more than $140.00 per barrel and $13.00 per Mcf, respectively, in July 2008. In response to the sustained increase in commodity prices, the oil and gas industry experienced significant increases in activity and in demand for oil field services. The increased demand for these services resulted in significant inflation in the cost of drilling rigs, services, equipment and labor.

In the second half of 2008, a world-wide economic recession and oversupply of natural gas in North America led to an unprecedented decline in oil and gas prices, with oil falling by more than $100.00 per barrel from its peak earlier in 2008. However, the inflated cost of oil field services resulting from sustained historically high commodity prices did not decrease in line with the decline in commodity prices. The prospect of continued low commodity prices and disproportionately high service costs has constrained the industry s capital reinvestment and undermined rates of return in new projects, particularly those in areas characterized by high costs or long reserve lives. In order to manage our capital program within expected cash flows, we tentatively have reduced our 2009 capital budget by more than 50% from 2008.

Our 2009 activities in the Permian Basin will focus primarily on expanding beyond our typical Spraberry infill drilling operation into new exploration plays, such as the Wolfberry and Wolfcamp Detrital trends. We plan to delineate prospects and determine their economic viability. Our goal is to expand our prospect inventory and generate opportunities to drill when commodity prices or service costs adjust to levels expected to yield more attractive returns. Until then, we are scaling down our infill drilling and development activities to primarily lease-saving operations and contractual drilling commitments. We also anticipate substantially reduced recompletion and development activities in our Gulf of Mexico shelf operation until commodity price and service cost dynamics adjust to allow a more attractive rate of return. In addition, we are allocating a disproportionate portion of our 2009 capital budget to our Gulf of Mexico deepwater exploration program due primarily to contractual drilling commitments.

Balanced Growth Strategy

We are a growth company and strive to increase our reserves and production from our existing asset base as well as through expansion into new operating areas. Our management team pursues a balanced growth strategy employing varying elements of exploration, development, and acquisition activities in complementary operating regions intended to achieve an overall moderate-risk growth profile at attractive rates of return under most industry conditions.

Exploration: Our exploration program is designed to facilitate organic growth through exploration in a wide variety of exploratory drilling projects, including higher-risk, high-impact projects that have the potential to create substantial value for our stockholders. We view exploration as a core competency. We typically dedicate a significant portion of our capital program each year to prospecting for new oil and gas fields, including in the Gulf of Mexico deepwater where reserve accumulations are typically much larger than those found onshore or on the shelf. Our explorationists have a distinguished track record in the Gulf of Mexico. Our reputation for generating high-quality exploration prospects also can create potentially valuable partnering opportunities, which can enable us to participate in exploration projects developed by other operators.

Development: Our development efforts are intended to complement our higher-risk exploration projects through a variety of moderate-risk activities targeted at maximizing recovery and production from known reservoirs as well as finding overlooked oil and gas accumulations in and around existing fields. Our geoscientists and engineers have a solid track record in effectively developing new fields, redeveloping legacy fields, rejuvenating production, controlling unit costs, and adding incremental reserves at attractive finding costs in both onshore and offshore fields. Our development and exploitation program strives to enhance the rate of returns of our projects, allowing us to establish critical operating mass from which to expand in our focus areas, and generate a rich portfolio of relatively lower-risk engineering/exploitation projects that counterbalance our higher-risk exploration activities.

Acquisitions: In addition to our internal exploration and development activities on our existing properties, we also compete actively for new oil and gas properties through property acquisitions as well as corporate transactions. Our management team has substantial experience identifying and executing a wide variety of tactical and strategic transactions that augment our existing operations or present opportunities to expand into new operating regions. We primarily focus our acquisition efforts on stable, onshore basins such as the Permian Basin, which can counterbalance our growing deepwater exploration operations, but we also respond in an opportunistic fashion to attractive acquisition opportunities in the Gulf of Mexico. Due to our existing prospect inventory, we are not compelled to make acquisitions in order to grow; however we expect to continue to pursue acquisitions aggressively on an opportunistic basis as an integral part of our growth strategy.

Our Competitive Strengths

We believe our core resources and strengths include:

Diversity of assets and activities. Our assets and operations are diversified among the Permian Basin and the Gulf of Mexico deepwater and shelf. Each of these areas involves distinctly different operational characteristics, as well as different financial and operational risks and rewards. Moreover, within these operating areas we pursue a breadth of exploration, development and acquisition activities, which in turn entail unique risks and rewards. By diversifying our assets both onshore and in the Gulf, and pursuing a full range of exploration, development and acquisition activities, we strive to mitigate concentration risk and avoid overdependence on any single activity to facilitate our growth. By maintaining a variety of investment opportunities ranging from high-risk, high-impact projects in the deepwater to relatively low-risk, repeatable projects in the Permian Basin, we attempt to execute a balanced capital program and attain a more moderate company-wide risk profile while still affording our stockholders the significant potential upside attendant to an active deepwater exploration company.

Large prospect inventory. We believe we have significant potential for growth through the exploration and development of our existing asset base. We are one of the largest leaseholders among independent producers in the Gulf of Mexico. Additionally, we are an active participant at MMS lease sales. We were the apparent high bidder on three blocks at the Outer Continental Shelf 207 Lease Sale held on August 20, 2008 by the MMS. The MMS awarded all three blocks to us, yielding an aggregate exposure of $0.9 million. We hold a 100% working interest in each of these blocks. In addition, the MMS awarded us 19 blocks on which we were the apparent high bidder at the Central Gulf of Mexico Lease Sale 206 held by the MMS on March 19, 2008. The awarded blocks involve seven deepwater subsalt prospects (both Miocene and Lower Tertiary), four deepwater prospects, four deep shelf prospects, and one conventional shelf prospect. Our net exposure on the awarded bids was $79.1 million and our working interest ranges from 33% to 100%. Furthermore, in the Permian Basin we have a large and growing asset base that we anticipate is capable of sustaining our current drilling program for a number of years. We believe that our large acreage position makes us less dependent on acquisitions for our growth as compared to companies that have less extensive drilling inventories.

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Exploration expertise. Our seasoned team of geoscientists has made significant discoveries in the Gulf of Mexico and has achieved a cumulative 65% success rate during the three years ended December 31, 2008. Our geoscientists each average almost 30 years of relevant industry experience. We believe our emphasis on exploration allows us a competitive advantage over other companies who are either wholly dependent on acquisitions for growth or only sporadically engage in more limited exploration activities.

Operational control and substantial working interests. We serve as operator of properties representing approximately 87% of our production and have an average 74% working interest in our operated properties. We believe operating our properties gives us a competitive advantage over non-operating interest holders, particularly in a challenging financial environment, since operatorship better allows us to determine the extent and timing of our capital programs, as well as to assert the most direct impact on operating costs.

Extensive seismic library. We have access to recent-vintage, regional 3-D seismic data covering a significant portion of the Gulf of Mexico. We use seismic technology in our exploration program to identify and assess prospects, and in our development program to assess hydrocarbon reservoirs with a goal of optimizing drilling, workover and recompletion operations. We believe that our investment in 3-D seismic data gives us an advantage over companies with less extensive seismic resources in that we are better able to interpret geological events and stratigraphic trends on a more precise geographical basis utilizing more detailed analytical data.

Subsea tieback expertise. We have accumulated an extensive track record in the use of subsea tieback technology, which enables production from subsea wells to existing third-party production facilities through subsea flow line and umbilical infrastructure. This technology typically allows us to avoid the significant lead time and capital commitment associated with the fabrication and installation of production platforms or floating production facilities, thereby accelerating our project start ups and reducing our financial exposure. In turn, we believe this lowers the economic thresholds of our target prospects and allows us to exploit reserves that otherwise may be considered non-commercial because of the high cost of stand-alone production facilities.

Properties

Our principal oil and gas properties are located in the Permian Basin and the Gulf of Mexico deepwater and shelf. The Gulf of Mexico properties are primarily in federal waters. The following table presents our top fields by estimated proved reserves for each principal geographic area:

	Operator	Approximate Working Interest %	2008 Net Production (Bcfe)	Net Estimated Proved Reserves (Bcfe)	Estimated Proved Reserves % Oil /% Gas(1)
Permian Basin:					
Spraberry	Mariner	80%	13.5	419.1	69%/31%
Gulf Of Mexico Deepwater:					
Atwater Valley 426 (Bass Lite)	Mariner	54%	8.5	95.8	0%/100%
Garden Banks 462 (Geauxpher)	Mariner	60%		32.7	3%/97%
Green Canyon 646 (Daniel Boone)	W&T Offshore	40%		18.3	68%/32%
	Anadarko	33-50%	12.9	16.6	34%/66%

East Breaks 558/602 (Northwest Nansen)					
Ewing Bank 921 (North Black Widow)	ENI	35%	1.9	7.8	91%/9%
Gulf Of Mexico Shelf:					
Vermilion 380	Mariner	80%	0.5	33.1	50%/50%
Vermilion 14/26/35	Mariner	100%	1.5	30.1	8%/92%
West Cameron 110	Mariner	100%	4.7	29.3	4%/96%
South Pass 24	Mariner	97%	1.8	21.5	61%/39%
High Island 116	Mariner	100%	0.8	19.5	3%/97%

(1) NGLs are included in Oil

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Permian Basin Operations

Our Permian Basin operations historically have emphasized downspacing redevelopment activities in the prolific oil-producing Spraberry field in the Permian Basin. Since we began our Permian Basin redevelopment initiative in 2002, we have increased by approximately five-fold our net acreage position in the related fields and are targeting the Permian Basin for continued expansion through our Permian Basin operation s headquarters in Midland, Texas. Production from the region is primarily from the Spraberry, Dean and Wolfcamp formations at depths between 6,000 and 10,000 feet, and is heavily weighted toward long-lived oil and NGLs.

During 2008, our Permian Basin operations produced approximately 14.9 Bcfe (13% of our total production) and accounted for approximately 436.6 Bcfe or 45% of our total estimated proved reserves at year end. Oil and NGLs accounted for 73% of total the Permian Basin production for 2008. We drilled 122 wells in the region during 2008 with a 100% success rate. Based upon our current level of drilling activity, our drilling inventory in this area would sustain a five-year drilling program.

Our largest field in the Permian Basin by reserves is the Spraberry Field, where we have been active for more than 20 years. We operate our wells in this field and hold an average 80% working interest. This property consists of net developed and undeveloped acres of 55,989 and 8,907, respectively on which there were 829 wells as of December 31, 2008 producing approximately 13.5 Bcfe net in 2008. This field is located in the Spraberry trend and productive zones in the field include the Spraberry, Dean and Wolfcamp formations. At year-end 2008, our share of estimated proved reserves attributed to this field was 419.1 Bcfe, consisting of 69% oil and 31% natural gas.

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Gulf of Mexico Deepwater Operations

We have acquired and maintained a significant acreage position in the Gulf of Mexico deepwater. We have successfully generated and operated deepwater exploration and development projects since 1996. As a corollary to our exploration activities, we have pioneered sophisticated deepwater development strategies employing extensive subsea tieback technologies that allow us to produce our discoveries without the expense of permanent production facilities. As of December 31, 2008, we held interests in 95 deepwater blocks and 40 subsea wells. These wells were tied back to 31 host production facilities for production processing. An additional four wells were then under development for tieback to two additional host production facilities. Although we have interests throughout the Gulf of Mexico, we focus much of our efforts in infrastructure-dominated corridors where our subsea technology can be most efficiently deployed. We feel our geological understanding based on exploration success in these corridors gives us a competitive advantage in assessing prospects and vying for new leases.

Production in our Gulf of Mexico deepwater operations is largely from Pleistocene to lower Miocene aged formations and varies between oil and gas depending on formation and age. During 2008, our deepwater operation produced approximately 40.4 Bcfe (34% of our total production) and accounted for approximately 198.7 Bcfe or 20% of our total estimated proved reserves at year end. Natural gas accounted for 69% of total deepwater production for 2008. We drilled eight wells in the region during 2008 with a 63% success rate.

We operate Atwater Valley 426, known as Bass Lite, in which in December 2008 we increased our working interest by 11.6% to 53.8%. It is in the Pleistocene formation and is located in approximately 6,750 feet of water. The field consists of two development wells drilled during 2007 that are connected by a 56-mile subsea tieback to the Devil s Tower spar. Production on Bass Lite began in February 2008 and the field produced 8.5 Bcfe net to our interest during 2008. The project commenced production at full capacity once the topside facilities work was completed in August 2008. At year end 2008, our share of estimated proved reserves attributed to this field was 95.8 Bcfe, of which 100% are natural gas.

We operate Garden Banks 462, known as Geauxpher, in which we hold a 60% working interest. We made this deepwater discovery in June 2008. The well, which lies in water depths of approximately 2,700 feet, was drilled to a total depth of 23,156 feet (measured depth). At year-end 2008, our share of estimated proved reserves attributed to the discovery was 32.7 Bcfe, consisting of 3% oil and 97% natural gas. A two-well development is underway, with initial production expected during the first half of 2009. Apache Corporation holds a 40% working interest in the development.

Green Canyon 646, known as Daniel Boone, is operated by W&T Offshore, Inc. and consists of one well in the Pliocene/Pleistocene formation. It is located in approximately 4,200 feet of water and we have an approximate 40% working interest in the well. The field is being developed and first production is expected in 2009. At year end 2008, our share of estimated proved reserves attributed to this field was 18.3 Bcfe, consisting of 68% oil and 32% natural gas.

East Breaks 558/602, known as Northwest Nansen, is operated by Anadarko Petroleum Corp. The field, which is in the Pliocene/Pleistocene formation, consists of four wells in approximately 3,500 feet of water that are connected by subsea tiebacks to the Nansen spar. We hold a 50% working interest in the East Breaks 558 well, which was completed as a gas well, and a 33% working interest in the three East Breaks 602 wells, which were completed as oil wells. The field began producing in February 2008 and the field produced 12.9 Bcfe net to our interest during 2008. At year end 2008, our share of estimated proved reserves attributed to the field was 16.6 Bcfe, consisting of 34% oil and 66% natural gas.

Ewing Bank 921, known as North Black Widow, is operated by ENI Petroleum US and began producing in the Pliocene/Pleistocene formation in 2007. We hold an approximate 35% working interest in one well, which is located in approximately 1,700 feet of water. Our share of net production during 2008 was approximately 1.9 Bcfe. At year end 2008, our share of estimated proved reserves attributed to the field was 7.8 Bcfe, consisting of 91% oil and 9% natural gas.

Gulf of Mexico Shelf Operations

As an operator on the Gulf of Mexico shelf for a number of years, we expanded our Gulf of Mexico shelf operations in 2006 through our acquisition of the Gulf of Mexico operations of Forest Oil Corporation

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(Forest) and in January 2008 through our acquisition of an indirect subsidiary of StatoilHydro ASA that owns substantially all of its former Gulf of Mexico shelf assets and operations. We increased our interests in shelf operations to 335 blocks at year-end 2008 from 235 blocks at year-end 2007. Due to our operational scale and substantial lease position on the shelf, we are able to pursue a diverse array of exploration and development projects on the shelf, including numerous engineering projects designed to increase production and reserves, as well as to manage production costs through optimization of topside facilities and efficiencies of scale. Drilling prospects run the gamut from relatively small, low-risk, conventional shelf projects that can be drilled from one of our numerous existing platform facilities, to high-impact, deep shelf exploration prospects at depths approaching 20,000 total vertical feet.

During 2008, our Gulf of Mexico shelf operation produced approximately 63.1 Bcfe (53% of our total production) and accounted for approximately 338.6 Bcfe or 35% of our total estimated proved reserves at year end. Natural gas accounted for 76% of total shelf production for 2008. We drilled 17 wells in the region during 2008 with an 88% success rate.

Our largest field in the Gulf of Mexico Shelf by reserves is Vermilion 380. At year-end 2008, estimated proved reserves attributed to this field were 33.1 Bcfe, consisting of approximately 50% oil and 50% natural gas. During 2008, we drilled three wells and completed one well before Hurricane Ike damaged the platform. Hurricane Ike also interrupted the drilling of a fourth well. Remaining development involves finishing the drilling of the fourth well, drilling a fifth well and completing the remaining wells. We anticipate that production from the five new wells will commence by third quarter 2009. The field currently has two producing wells (one of which is the new well we drilled and completed in 2008) in 340 feet of water. These two wells produced approximately 0.5 Bcfe in 2008. We generated this prospect from former Forest properties and hold a 100% working interest in the newly drilled wells.

We operate Vermilion 14/26/35, which consists of 10 producing wells in less than 20 feet of water. We hold a 100% working interest in this field. It has been producing for more than 20 years from numerous formations and in 2008 produced approximately 1.5 Bcfe net. At year-end 2008, estimated proved reserves attributed to this field were 30.1 Bcfe, consisting of approximately 8% oil and 92% natural gas.

We operate our 100% working interest in West Cameron 110 which consists of six producing wells. We operate the field, which has been producing for more than 20 years from numerous formations in approximately 40 feet of water and produced approximately 4.7 Bcfe net in 2008. At year-end 2008, estimated proved reserves attributed to this field were 29.3 Bcfe, consisting of approximately 4% oil and 96% natural gas.

We operate South Pass 24, which consists of 25 producing wells in approximately 10 feet of water. We have a 97% working interest in the property. South Pass 24 has been producing for more than 50 years from numerous formations, and in 2008 produced approximately 1.8 Bcfe net. At year-end 2008, estimated proved reserves attributed to this field were 21.5 Bcfe, consisting of approximately 61% oil and 39% natural gas.

We operate High Island 116, which consists of one producing well in approximately 30 feet of water. We have a 100% working interest in the property. It has been producing for more than 20 years and in 2008 produced approximately 0.8 Bcfe net. At year-end 2008, estimated proved reserves attributed to this field were 19.5 Bcfe, consisting of approximately 3% oil and 97% natural gas.

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The following table presents our total production volumes and revenue, excluding the effects of hedging and other revenues, by area for the year ended December 31, 2008.

	Volumes	Revenue (In thousands)
Permian Basin:		
Natural Gas (Bcf)	4.0	$ 31,339
Oil (Mbbls)	1,242.8	122,005
NGLs (Mbbls)	578.5	30,765
Total Natural Gas Equivalent (Bcfe)	14.9	$ 184,109
Gulf of Mexico Deepwater:		
Natural Gas (Bcf)	27.7	$ 271,979
Oil (Mbbls)	1,850.5	180,131
NGLs (Mbbls)	264.7	15,053
Total Natural Gas Equivalent (Bcfe)	40.4	$ 467,163
Gulf of Mexico Shelf:		
Natural Gas (Bcf)	48.1	$ 467,099
Oil (Mbbls)	1,787.7	190,504
NGLs (Mbbls)	714.7	39,897
Total Natural Gas Equivalent (Bcfe)	63.0	$ 697,500
Total Production:		
Natural Gas (Bcf)	79.8	$ 770,417
Oil (Mbbls)	4,881.0	492,640
NGLs (Mbbls)	1,557.9	85,715
Total Natural Gas Equivalent (Bcfe)	118.4	$ 1,348,772

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Estimated Proved Reserves

The following table presents certain information with respect to our estimated proved oil and natural gas reserves. The reserve information in the table below is based on estimates made in fully-engineered reserve reports prepared by Ryder Scott Company, L.P. Reserve volumes and values were determined under the method prescribed by the SEC, which requires the application of period end prices and current costs held constant throughout the projected reserve life. Proved reserve estimates do not include any value for probable or possible reserves, which may exist, nor do they include any value for undeveloped acreage. The proved reserve estimates represent our net revenue interest in our properties.

	Year Ended December, 31		
	2008	2007	2006
Estimated proved oil and natural gas reserves:			