EPL OIL & GAS, INC.
Form 10-K
February 28, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

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

EPL Oil & Gas, Inc.

(Exact name of registrant as specified in its charter)

Delaware	72-1409562
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

919 Milam Street, Suite 1600, Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 228-0711

Registrant's telephone number, including area code

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 x No ¨

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 ¨ Nox

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. Yesx 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 (§ 232.405 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in 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. Yesx No ¨

The aggregate market value of the common stock held by non-affiliates of the registrant at June 30, 2013 (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 $1,066,066,044. As of February 21, 2014, there were 39,206,958 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 EPL Oil & Gas, Inc. expected to be held on May 1, 2014 are incorporated by reference into Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	2
	Cautionary Statement Concerning Forward Looking Statements	17
Item 1A.	Risk Factors	18
Item 1B.	Unresolved Staff Comments	35
Item 2.	Properties	35
Item 3.	Legal Proceedings	35
Item 4.	Mine Safety Disclosures	35
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	35
Item 6.	Selected Financial Data	38
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	54
Item 8.	Financial Statements and Supplementary Data	56
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	91
Item 9A.	Controls and Procedures	91
Item 9B.	Other Information	92
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	92
Item 11.	Executive Compensation	92
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	92

Item 13.	Certain Relationships and Related Transactions, and Director Independence	92
Item 14.	Principal Accountant Fees and Services	92
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	93

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

EPL Oil & Gas, Inc. (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 Houston, Texas and New Orleans, Louisiana. Effective September 1, 2012, we changed our legal corporate name from "Energy Partners, Ltd." to "EPL Oil & Gas, Inc." through a short-form merger pursuant to Section 253 of the General Corporation Law of the State of Delaware. 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, because the region 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 technical and operational strengths. As of December 31, 2013, we had estimated proved reserves of 80.4 Mmboe, of which 64% were oil and 71% were proved developed. Of these proved developed reserves, 69% 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.

The following summarizes our acquisitions (purchase prices are before economic effective date adjustments):

Acquisitions

- On January 15, 2014, we acquired 100% working interest of certain shallow-water central Gulf of Mexico shelf oil and natural gas assets in the Eugene Island 258/259 field for $70.4 million (the "Nexen Acquisition");
- On September 26, 2013, we acquired an asset package consisting of certain Gulf of Mexico shelf oil and natural gas interests in the West Delta 29 field (the "WD29 Interests") for $21.8 million;
- On October 31, 2012, we acquired 100% of the membership interests of Hilcorp Energy GOM, LLC ("Hilcorp Acquisition"), which owned certain shallow water Gulf of Mexico shelf oil and natural gas interests (the "Hilcorp Properties") for $550 million. The Hilcorp Properties included three core producing complexes in the Ship Shoal 208, South Pass 78 and South Marsh Island 239 areas;
-

On May 15, 2012, we acquired an asset package consisting of certain shallow-water Gulf of Mexico shelf oil and natural gas interests in our South Timbalier 41 field located in the Gulf of Mexico for $32.4 million (the “ST41 Interests”);

- On November 17, 2011, we acquired interests in the Main Pass 296/311 complex along with other unit interests in the Main Pass complex and an interest in a Main Pass 295 primary term lease for $38.6 million (the “Main Pass Interests”); and
- On February 14, 2011, we acquired from Anglo-Suisse Offshore Partners, LLC (“ASOP”) 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”) for $200.7 million. The ASOP Properties included two core producing complexes in the West Delta and Main Pass areas and an interest in the South Pass 49 field.

2

Dispositions

· On April 2, 2013, we sold certain shallow water Gulf of Mexico shelf oil and natural gas interests located within the non-operated Bay Marchand field for total consideration of $62.8 million.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information regarding these transactions.

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 more predictable well control and production profiles. Our net proved reserves as of December 31, 2013 were 71% proved developed, which provides significant production visibility. Moreover, we have an inventory of lower risk exploitation projects with 209 behind pipe opportunities and 35 identified proved undeveloped reserves locations. Our portfolio of 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. Our net proved reserves at December 31, 2013 were approximately 64% oil, and our net average daily production for the year ended December 31, 2013 was 76% 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 natural gas decline curve, resulting in longer term production from current reserves.

Operational Control. We operate properties that contain approximately 89% 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 and development plans in response to changes in commodity prices.

Geographically Focused Properties in the Gulf of Mexico. We are focused on operating properties located in the Gulf of Mexico shelf, which gives us the opportunity to minimize logistical and administrative costs and maximize the productivity of our field personnel. Our concentration of long-lived, oil rich legacy fields provides attractive future consolidation opportunities as evidenced by the Hilcorp and Nexen acquisitions. 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.

In 2012 we acquired additional 2-D and 3-D seismic data sets in our current offshore operating areas and onshore Louisiana where the geology is characterized by similar productive horizons and structural features. In addition to the extensive seismic library we have of our legacy properties, we have licensed high quality multi-client 3-D data sets for recently acquired fields. We now have approximately 21,119 square miles of 3-D seismic data in the Gulf of Mexico and onshore Louisiana. This seismic data assists us in identifying attractive development and exploration drilling opportunities that adhere to our capital-efficient development strategies. We continue to high-grade these data sets by employing state-of-the-art reprocessing techniques for the data covering our core fields and on a regional basis around those fields. These technological upgrades are creating better images of prospective horizons and aiding in the evaluation of drilling opportunities.

Additionally, in September and October 2013, we negotiated agreements totaling approximately $45 million with seismic companies to acquire 3-D seismic licenses over our core areas. These agreements include a commitment to acquire area-wide data licenses for seismic acquisitions that will be performed by the seismic company during 2014, 2015 and 2016 covering a minimum of 200 blocks, or approximately one million acres, within the shallow water Gulf of Mexico covering our core asset base.

Conservative Fiscal Policy. We budget our capital spending on exploration and development with the goal of remaining within cash flow from operations. We have hedged approximately 67% of our forecasted oil production for 2014 and have begun hedging forecasted production for 2015.

Experienced Management and Significant Technical Expertise. We have an experienced and technically-adept management team, averaging more than 25 years of industry experience among our top nine 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. During the current year, we brought on eight additional geoscientists, engineers and technicians.

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 lower-risk exploitation opportunities, as well as exploration prospects with multiple objectives and follow-up opportunities. In 2013, we completed 21 workovers and 17 drill wells, with a 79% success rate, spending approximately $335.9 million on development and exploration activities and a total of $12.3 million on seismic purchases. We also spent approximately $2 million on undeveloped leases in 2013. Our fiscal year 2014 capital budget is $360 million, which is allocated to development activities and exploration projects within core field areas. Additionally, we plan to spend approximately $50 million in 2014 on plugging, abandonment and other decommissioning activities. We will continue to focus on lower-risk development projects, as well as a small number of high quality, high potential exploration prospects. We believe the properties we acquired in recent years enhance our exploitation strategy to increase production from legacy fields and provide us with substantial incremental exploration opportunities within those fields.

Build upon Regional Geologic Expertise. We are dedicating significant resources to add to our knowledge of the geology underlying our core areas. As previously described, in September and October 2013, we negotiated agreements totaling approximately $45 million with seismic companies to acquire 3-D seismic licenses over our core areas through 2017, of which we expect to spend approximately $13 million in 2014. We also have recently acquired additional 2-D and 3-D seismic data sets in our current offshore operating areas and onshore Louisiana, where the geology is characterized by similar productive horizons and structural features. Our geological and geophysical teams are analyzing well data, paleontological data and seismic data to identify exploration targets at intermediate and deep depths as well as associated acquisition opportunities.

Target Acquisition Opportunities to Grow Reserves and Leverage Operational Strengths. We continue to 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. Our acquisition strategy is focused on operated Gulf of Mexico shelf and Gulf Coast assets that are characterized by production-weighted reserves, seismic coverage and operated positions that would allow us to maintain a conservative capital structure. We intend to use acquisitions of this type as a key method to grow reserves and production because 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 and Gulf Coast region allows us to effectively evaluate acquisitions and to operate the properties we eventually acquire.

Maintain Financial Discipline. We strive to maintain a conservative financial position, sufficient liquidity and a strong balance sheet. We establish our capital spending plans with the goal of funding those costs with cash flows from operations. We currently have access to our senior credit facility (the “Senior Credit Facility”) which we entered into on February 14, 2011. On October 31, 2012, the facility was amended and restated in connection with the Hilcorp Acquisition to increase the aggregate commitment under the Senior Credit Facility from $250 million to a maximum of $750 million and to extend the maturity date to October 31, 2016. In January 2014, our lenders approved a $50 million increase in our borrowing base under our Senior Credit Facility, increasing our borrowing base to $475 million. As of February 21, 2014, we had $265 million in availability under our Senior Credit Facility. In order to maintain financial flexibility, we plan to fund our 2014 fiscal year exploration and development capital budget with cash flow from operations and borrowings under our Senior Credit Facility, as needed. Additionally, because we operate many of our properties, we are able to manage the timing of a substantial portion of our capital investments. We may fund future acquisitions with a combination of cash on hand, borrowings under our Senior Credit Facility and issuances of debt and equity securities under our universal shelf registration statement that became effective under the Securities Act of 1933 in July 2011.

Capitalize on Competency in Plugging and Abandonment. We have established and are executing on a proactive, multi-year plan to plug, abandon and decommission depleted wells and associated infrastructure. Our chairman, president and chief executive officer has significant experience in conducting these types of operations and has supplemented our staff to accomplish this objective. In our East Bay field where our abandonment and decommissioning obligations are concentrated, we have completed plugging and abandonment operations on more than 48% of the inactive wellbores. 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, which information is available free of charge, 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 electronically filing such reports with, or furnishing them to the Securities and Exchange Commission (the “SEC”). In addition, our website contains our Corporate Governance Guidelines and the charters for our Audit, Compensation, Nominating and Governance and Environmental, Health and Safety 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, 2013, we had working interests in 32 producing fields located in the Gulf of Mexico shelf region. The proved reserves and production from these fields are primarily associated with the following core producing areas: Ship Shoal 208, East Bay, West Delta, South Timbalier, South Pass 78, Main Pass, South Marsh Island 239 and South Pass 49.

During 2013, we concentrated on exploration and exploitation opportunities in the Ship Shoal 208, West Delta, South Pass 78 and Main Pass areas and evaluated certain well proposals in these areas using our recently reprocessed 3-D seismic data.

As of and for the year ended December 31, 2013, our proved reserves and production from our core producing areas as percentages of our total proved reserves and total production were as follows:

	Proved Reserves		Production	
Ship Shoal 208	24	%	10	%
East Bay	17		11	
West Delta	15		32	
South Timbalier	12		8	
South Pass 78	10		7	
Main Pass	6		8	
South Marsh Island 239	4		4	
South Pass 49	3		7	

Our Ship Shoal 208 complex is located 110 miles southwest of New Orleans. It contains 31 producing wells in average water depths of approximately 100 feet in three lease blocks. We operate the Ship Shoal 208 complex and own a working interest of 100% of the acreage position in this area.

Our East Bay area includes 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 197 producing wells located along the coastline and in water depths up to approximately 70 feet. We operate this field and own an average 96% working interest in our acreage position in this area.

Our West Delta complex, a legacy producing area, is located 62 miles south southeast of New Orleans. It contains 44 producing wells in water depths ranging from 29 to 87 feet and includes five lease blocks. We operate the West Delta complex and own an average 93% working interest in our acreage position in this area.

Our South Timbalier area includes the South Timbalier 26 and 41 fields located approximately 60 to 72 miles south of New Orleans. It contains 18 producing wells in water depths of approximately 73 feet or less. We operate the South Timbalier 26 and 41 blocks, and we own a 100% working interest in this area.

Our South Pass 78 complex is located 86 miles southeast of New Orleans. It contains 25 producing wells in water depths ranging from approximately 140 to 190 feet in four lease blocks. We operate the South Pass 78 complex and own a working interest of 67% of the acreage position in this area.

Our Main Pass complex is located 98 miles southeast of New Orleans. It contains 33 producing wells in average water depths of approximately 250 feet and includes the Main Pass 296 and 311 fields. We own a non-operated 50% working interest in our acreage position in this area.

Our South Marsh Island 239 complex is located 117 miles southwest of New Orleans. It contains 9 producing wells in water depths of approximately 20 feet in four lease blocks. We operate the complex and own a working interest of 92% in the acreage position in this area.

Our South Pass 49 field, which is located near our East Bay field contains 6 producing wells in water depths of approximately 285 feet. We own a working interest of 44% of the acreage position in this area.

Our properties include other producing fields offshore Louisiana located in water depths ranging from approximately 18 to 300 feet with working interests ranging from 7% to 100%.

As of December 31, 2013, we also owned interests in 6 undeveloped leases in the deepwater Gulf of Mexico and we have a non-operated interest in one developed lease. Our working interests in our leases in this area ranged from 15% to 33%.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for information regarding our oil and gas production, average prices and average costs.

Oil and Natural Gas Reserves

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, 2013, 2012 and 2011. Our estimates of proved reserves are based on a reserve report prepared as of December 31, 2013 by Netherland, Sewell & Associates, Inc. (“NSAI”), an independent petroleum engineering firm. 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 15 “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.

We follow the oil and gas reserves estimation and disclosure requirements of Accounting Standards Codification (“ASC”) Topic 932, “Extractive Activities—Oil and Gas” (“ASC 932”), which requires, among other things, that prices used to estimate reserves for SEC disclosure purposes reflect an unweighted, arithmetic average price based upon the closing price on the first day of each of the twelve months during the fiscal year, rather than the year-end price. See Note 15 “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 reporting related to oil and natural gas reserves under ASC 932.

	As of December 31,		
	2013	2012	2011
	(dollars in thousands)		
Total net proved reserves:			
Oil (Mbbls)	51,517	47,442	27,301
Natural gas (Mmcf)	173,584	179,939	58,785
Total (Mboe)	80,448	77,432	37,099
Net proved developed reserves (1):			
Oil (Mbbls)	39,439	37,908	24,791
Natural gas (Mmcf)	107,687	120,687	52,739
Total (Mboe)	57,387	58,022	33,581
Net proved undeveloped reserves:			
Oil (Mbbls)	12,078	9,534	2,510
Natural gas (Mmcf)	65,897	59,252	6,046
Total (Mboe)	23,061	19,409	3,518
Estimated future net revenues before income taxes (2)	$ 2,894,227	$ 2,641,407	$ 1,555,059
Present value of estimated future net revenues before income taxes (PV-10) (2)(3)(5)	$ 2,109,324	$ 1,979,274	$ 1,100,701
Standardized measure of discounted future net cash flows (4)(5)	$ 1,649,078	$ 1,574,282	$ 876,169

(1)Net proved developed non-producing reserves as of December 31, 2013 (13,306 Mbbls and 60,875 Mmcf) were 23,452 Mboe, or 29% of our total proved reserves.

(2)Calculated using oil prices of $105.30, $105.13 and $108.48 per barrel, respectively, and natural gas prices of $3.73, $2.92 and $4.16 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 (as required by ASC 932), applying historical adjustments, including transportation, quality differentials, and purchaser bonuses, on an individual property basis, to the year-end quantities of estimated proved reserves. The historical adjustments applied to the computed prices are determined by comparing our historical realized price experience with the comparable historical market, or posted, price.

(3)The present value of estimated future net revenues attributable to our reserves was prepared using constant prices, determined in the manner described in footnote (2), discounted at a rate of 10% per year on a pre-tax basis.

(4)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.

(5)PV-10 is 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 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, 2013, our PUDs comprised 37 drilling locations in 13 fields. The Ship Shoal 208 field accounts for approximately 50% of our total PUDs, with 11,495 Mboe, consisting of 6,579 Mbbls of oil and 29,496 Mmcf of natural gas. The remaining 12 locations account for approximately 1% to 8% of our total PUDs each, with PUDs ranging from 156 Mboe to 1,959 Mboe.

For the year ended December 31, 2013, the increase in our PUDs was primarily attributable to extensions and discoveries resulting in approximately 7,895 Mboe of proved reserves associated with 12 drilling locations. The Ship Shoal 208 field accounts for approximately 53% of our PUD extensions and discoveries with 4,152 Mboe, consisting of 3,541 Mbbls of oil and 3,668 Mmcf of natural gas in 5 locations. The remainder of our PUD extensions and discoveries were in five other fields with PUD extensions and discoveries ranging from 110 Mboe to 1,299 Mboe. During the year ended December 31, 2013, we divested 179 Mboe of PUDs in the Bay Marchand field and drilled two PUD locations in the West Delta area and one in the Ship Shoal 208 field. The three drilled PUD locations represent 1,675 Mboe, or approximately 9%, of our PUDs at December 31, 2012, consisting of 1,515 Mbbls of oil and 961 Mmcf of natural gas. We spent approximately $52 million drilling these three locations.

For the year ended December 31, 2012, the acquisition of the Hilcorp Properties added PUDs of 15,472 Mboe. Other changes in our PUDs that occurred during the year ended December 31, 2012 were considered individually insignificant, netting to an increase of 419 Mboe.

We expect our PUDs as of December 31, 2013 of 23.1 Mmboe to begin converting from proved undeveloped to proved developed as the planned development projects begin in 2014. We project future development costs relating to the development of the PUDs remaining at December 31, 2013 to be approximately $229 million in 2014, $52 million in 2015, $5 million in 2016 and $23 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, 2013, our estimates of proved reserves are based on a reserve report prepared by the independent petroleum engineering firm NSAI, a nationally recognized engineering firm. At December 31, 2013, estimates of 100% of our total estimated net proved reserves were prepared by NSAI. NSAI’s report is filed as an exhibit to this Annual Report on Form 10-K.

NSAI provides a complete range of geological, geophysical, petrophysical and engineering services and have the technical experience and ability to perform these services in any of the onshore and offshore oil and gas producing areas of the world. NSAI has a technical staff of over 70 professionals who are knowledgeable with regard to recognized industry reserves and resource definitions, specifically those set forth by the SEC. NSAI’s report includes a description of the technical qualifications of the individuals at NSAI primarily responsible for preparing our reserve estimates.

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 firm 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.

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.

The table below sets forth production information for each field that contains 15% or more of our total proved reserves as of December 31, 2013. The Ship Shoal 208 field was acquired in the Hilcorp Acquisition and the table below reflects production for this field beginning November 1, 2012.

	Year Ended December 31,		
	2013	2012	2011
Ship Shoal 208:			
Oil (Mbbls)	658	109	-
Natural gas (Mmcf)	1,130	199	-
Total (Mboe)	846	142	-
East Bay:			
Oil (Mbbls)	879	1,035	1,062
Natural gas (Mmcf)	90	47	76
Total (Mboe)	894	1,043	1,075
West Delta:			
Oil (Mbbls)	2,293	1,142	775
Natural gas (Mmcf)	2,000	490	317
Total (Mboe)	2,626	1,224	828

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.

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Acquisitions—Proved (1)	$ 46,047	$ 706,322	$ 261,812
Acquisitions—Unproved	2,200	7,496	14
Exploration	46,100	43,338	17,129
Development (2)	303,245	180,938	83,577
Costs incurred	$ 397,592	$ 938,094	$ 362,532

(1)For the year ended December 31, 2013, includes $30 million associated with the acquisition of the Hilcorp Properties and $17 million associated with the acquisition of the WD29 Interests. See Note 2 “Acquisitions and Dispositions” of the consolidated financial statements in Part II, Item 8 of this Annual Report for further information.

(2)Includes our estimates during the years ended December 31, 2013, 2012 and 2011 of incurred asset retirement obligations associated with finding and developing our proved oil and natural gas reserves of $1.2 million, $1.2 million and $0.2 million, respectively.

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, 2013.

	Total Productive Wells	
	Gross	Net
Oil	379	314
Natural gas	98	72
Total	477	386

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-seven gross oil wells and 11 gross natural gas wells have dual completions.

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 January 15, 2014. Developed acreage is assigned to producing wells.

	Gross Acreage	Net Acreage
Developed:		
Gulf of Mexico Shelf	319,375	237,659
Deepwater Gulf of Mexico	5,760	1,599
Other	125	125
Total	325,260	239,383
Undeveloped:		
Gulf of Mexico Shelf	62,245	60,422
Deepwater Gulf of Mexico	34,560	9,663
Total	96,805	70,085

We continually assess our undeveloped lease inventory for exploration opportunities and, where appropriate, develop strategies to maintain our inventory by allocating resources to such leases or arranging for the participation of others, including farm-outs and the use of prospect generation consulting geologists. Leases covering 14% of our undeveloped net acreage expire in 2014, 8% expire in 2015, 10% expire in 2016, 39% expire in 2017, and 21% expire in 2018. The remaining undeveloped net acreage is held by production. We currently plan to develop opportunities for leases covering 48% of the net undeveloped acreage expiring in 2014. As of December 31, 2013, the total net book value of the leases expiring in 2014 and 2015 was $0.2 million.

Since December 31, 2012, our net developed acreage decreased 4,589 net acres, or 2%, and our net undeveloped acreage decreased 53,823 net acres, or 43%. The decrease in our net developed acreage was primarily attributable to a decrease of 36,275 net acres, or 15%, associated with certain Gulf of Mexico shelf leases that expired or were relinquished, which was substantially offset by an increase of 31,759 net acres, or 13%, primarily due to the Nexen Acquisition and the development of certain leases in our West Delta and Main Pass fields. The decrease in our net undeveloped acreage was primarily attributable to decreases totaling 69,642 net acres, or 56%, primarily associated with certain undeveloped Gulf of Mexico shelf and deepwater Gulf of Mexico leases that expired or were relinquished. The decrease was partially offset by the acquisition of new Gulf of Mexico shelf leases totaling 15,819 net acres, or 13%, resulting from recent federal lease sales.

Drilling Activity

Drilling activity refers to the number of wells completed at any time during the applicable fiscal years, regardless of when drilling was initiated. The following table shows our drilling activity where “gross” refers to the total wells in which we have a working interest and “net” refers to gross wells multiplied by our working interest in these wells.