



January 30, 2017

The Honorable Pete Kelly
President of the Senate
State Capitol, Room 111
Juneau, Alaska 99801-1182

Honorable Bryce Edgmon
Speaker of the House
State Capitol, Room 208
Juneau, Alaska 99801-1182

Dear Senator Kelly and Representative Edgmon:

Under the requirements of AS 38.05.180(b) and 38.05.180(e), the Alaska Department of Natural Resources (DNR) is required to make an annual report to the Legislature regarding the past year’s leasing activities and the proposed leasing activity for the coming 5-year period. The DNR Division of Oil and Gas (DOG) is pleased to provide you with this letter of notification for the 5-Year Program of Proposed Oil and Gas Lease Sales and Gas-Only Lease Sales to be held during the calendar period 2017-2021. Leasing during this period will continue under the areawide sale program that began in 1999 and which includes five specific areawide sale areas. The areawide lease sale program has proven successful in allowing the industry to plan for leasehold acquisition based upon a known schedule of state oil and gas lease sales. Areawide lease sales offer industry the opportunity to competitively bid upon existing unleased tracts in a given area that are available and not deferred.

This letter addresses the statutory requirements under AS 38.05.180(b) and 38.05.180(e).

AS 38.05.180(b) – 5-Year Program

Under AS 38.05.180(b), the commissioner shall annually prepare and, before February 1 of each calendar year notify the legislature of a 5-year program of proposed oil and gas lease sales and proposed gas only lease sales, specifying as precisely as practicable, the location of tracts to be offered for leasing during the calendar year of the notification and the following four calendar years. The commissioner may, at any time, notify the legislature of revisions, including additions, to the program. Notification to each legislator, by electronic message or other written means, constitutes notification to the legislature under this subsection.

Proposed Oil and Gas Lease Sales

One areawide oil and gas lease sale per area is proposed to be held each year (Table 1). The Beaufort Sea, North Slope, and North Slope Foothills lease sales are typically held in the fall, while the Cook Inlet and Alaska Peninsula lease sales are typically held in the spring. No gas-only lease sales are proposed.

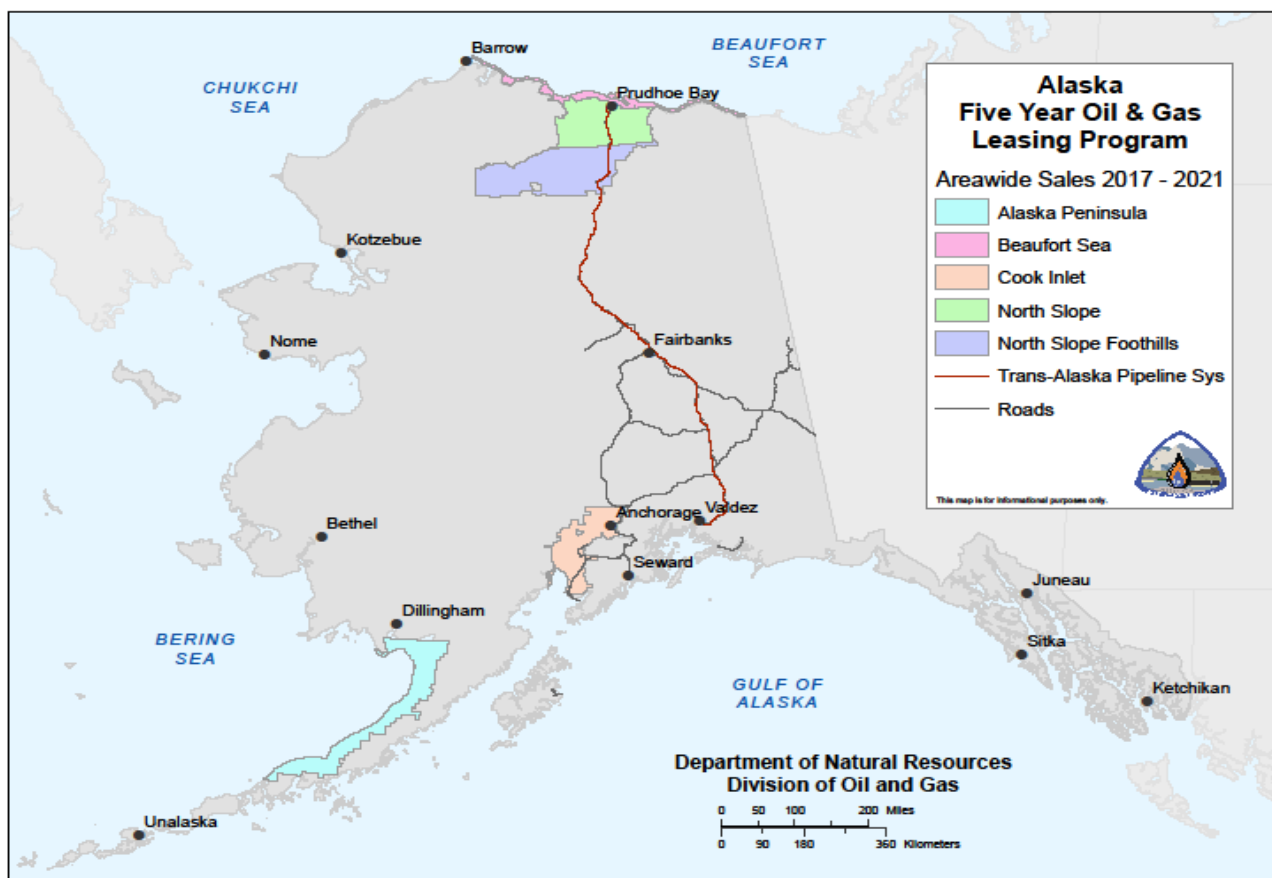
Table 1. Schedule of proposed oil and gas lease sales for 2017-2021.

Areawide	Timing	5-Year Schedule				
Beaufort Sea	Fall	2017	2018	2019	2020	2021
North Slope	Fall	2017	2018	2019	2020	2021
North Slope Foothills	Fall	2017	2018	2019	2020	2021
Cook Inlet	Spring	2017	2018	2019	2020	2021
Alaska Peninsula	Spring	2017	2018	2019	2020	2021

Location of Tracts to Be Offered

Figure 1 depicts the location of the five areawide sale areas. The Alaska five-year oil and gas leasing program provides annual competitive bidding opportunities for state lands found to be prospective for oil and gas. More detailed maps of the lease areas and tracts are available on the Division’s website <http://dog.dnr.alaska.gov/Leasing/LeaseSales.htm>.

Figure 1. Annual areawide sales are proposed for 2017-2021.



AS 38.05.180(e) – Annual Report

AS 38.05.180(e) requires that the commissioner shall annually prepare and notify the legislature of the availability of a report containing the following: (1) the schedule of all lease sales held during the preceding calendar year, the bidding method or methods utilized, and an analysis of the results of the bidding; (2) if determined, a description of the bidding methods to be used for all lease sales to be held during the current and next two succeeding calendar years; (3) the reasons a particular bidding method has been selected.

Regarding AS 38.05.180(e)(1), five lease sales with various terms and conditions, were held during 2015, as shown in Table 2. An analysis of the results of the bidding is found in the following section. Regarding AS 38.05.180(e)(2) and (3), the competitive bidding methods to be used for lease sales in 2017, 2018 and 2019 have not yet been determined.

Table 2. Schedule of oil and gas lease sales held during the preceding year (CY2016) and bidding methods.

Areawide	Sale Date ^c	Method	Bid Variable	Min. Bid (per acre)	Royalty Rate (%)	Primary Lease Term (yrs)	Annual Rental (per acre)
Beaufort Sea	Dec. 14, 2016						
State/ASRC Tracts				DEFERRED FROM SALE			
BSA 2016W Tracts		Sealed Bid	Cash Bonus	\$25.00	16.66667 Fixed	8	\$10.00/\$100.00/\$250.00 ^b
North Slope	Dec. 14, 2016						
ASRC/State Tracts				DEFERRED FROM SALE			
North Sub-region Tracts		Sealed Bid	Cash Bonus	\$25.00	16.66667 Fixed	8	\$10.00/\$100.00/\$250.00 ^b
South sub-region Tracts		Sealed Bid	Cash Bonus	\$25.00	12.5 Fixed	8	\$10.00/\$100.00/\$250.00 ^b
North Slope Foothills	Dec. 14, 2016	Sealed Bid	Cash Bonus	\$10.00	12.5 Fixed	10	\$1.00-\$3.00 ^a
Cook Inlet	May 4, 2016	Sealed Bid	Cash Bonus	\$10.00	12.5 Fixed	10	\$10.00/\$250.00 ^b
Alaska Peninsula	May 4, 2016	Sealed Bid	Cash Bonus	\$5.00	12.5 Fixed	10	\$1.00-\$3.00 ^a

^a Per AS 38.05.180(n)(1). Year 1: \$1.00; Year 2: \$1.50; Year 3: \$2.00; Year 4: \$2.50; Years 5 and beyond: \$3.00.

^b Per AS 38.05.180(w). Years 1 – 6: \$10.00 per acre; Year 7: \$100.00 per acre; Year 8: \$250.00 per acre. Annual rental will be as listed, except that beginning in the year after the year in which sustained production commences on the lease or the state otherwise determines in its sole discretion, upon request, that the lessee has exercised reasonable diligence in exploring and developing the lease the annual rental will be \$10.00 per acre or fraction of an acre. In evaluating a request to decrease rental based on the exercise of reasonable diligence, the state will consider the funds expended by the lessee to explore and develop the lease and the types of work completed by or on behalf of the lessee on this lease.

^c Date of sealed bid opening.

Analysis of Bidding Results, 2016

Complete bidding results can be found on the Division of Oil and Gas website by following the link provided below:

<http://dog.dnr.alaska.gov/Leasing/SaleResults.htm>.

Northern Alaska Areawide Lease Sales

The December 2016 Northern Alaska lease sales included the Beaufort Sea Areawide, North Slope Areawide, and North Slope Foothills Areawide. The North Slope Areawide sale received the most bids of any areawide lease sale since 1998 and showed continued interest from current lessees Accumulate Energy Alaska, Inc. and Burgundy Xploration LLC.

A total of 402 bids were submitted on 384 tracts in the North Slope Areawide lease sale. Winning bonus bids totaled \$16,900,490.00. ConocoPhillips Alaska, Inc. competed with Armstrong Energy, LLC's, 22 bids submitted on tracts on the western side of the North Slope Areawide lease sale area. ConocoPhillips was successful in winning 15 of those tracts.

The Beaufort Sea Areawide lease sale produced eight bids on seven tracts with winning bids coming from Eni Petroleum and Narwhal, LLC. The winning bonus bids totaled \$870,430.80.

The results of the December 2016 lease sales suggest that the increase in minimum bid per acre instituted in 2011 does not necessarily deter bidder participation or limit the value of their maximum willingness to bid, as expressed by the bid per acre. Other factors, such as the presence of infrastructure or the geologic potential of the area are also likely important.

There were no bids received for the North Slope Foothills Areawide lease sale in December 2016.

Southern Alaska Areawide Lease Sales

No bids were submitted for the May 2016 Cook Inlet and Alaska Peninsula areawide lease sales.

The rapid and significant drop in oil prices starting in late 2014 combined with a currently stable gas supply in southcentral Alaska are thought to be the most significant contributing factors in the reduction of bidder activity.

Conclusion

Please be advised that this document constitutes the DNR's statutory notification under AS 38.05.180(b) and AS 38.05.180(e). More detailed information on the areawide lease sale program, including the best interest findings that allow for leasing of lands, the lands available for leasing and exploration, the historical record of state lease sales, and information on bidder qualifications are maintained online at <http://dog.dnr.alaska.gov/>.

If you have any questions or require additional information, please contact the Division of Oil and Gas at 907-269-8800. Thank you for your continued interest in the oil and gas leasing program.

Sincerely,

A handwritten signature in blue ink, appearing to read "Chantal Walsh". The signature is written in a cursive style with a large initial "C" and "W".

Chantal Walsh
Director, Division of Oil and Gas