

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SEAN PARNELL, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560
PHONE: (907) 269-8800
FAX: (907) 269-8938

February 22, 2010

Phone: (907) 375-8247

SALE ANNOUNCEMENT ALASKA PENINSULA AREA WIDE 2010 COMPETITIVE OIL AND GAS LEASE SALE

The Alaska Department of Natural Resources (ADNR), Division of Oil and Gas (DO&G), gives notice under Alaska Statute (AS) 38.05.945(a)(4) that it will offer lands for competitive oil and gas leasing in the Alaska Peninsula Areawide 2010 (AP 2010) lease sale. Bid opening will begin at **9:00 a.m. on May 26, 2010**, at the Dena'ina Civic Convention Center, 600 W. 7th Ave, Anchorage.

The Alaska Peninsula Areawide sale area encompasses approximately 5.8 million acres divided into 1,047 tracts ranging in size from 1,280 to 5,760 acres. The acreage consists of onshore and offshore acreage that stretches from the Nushagak Peninsula in the north, down the north side of the Alaska Peninsula to just north of Cold Bay. Portions of these tracts are located within the Bristol Bay Borough, Lake and Peninsula Borough and Aleutians East Borough and activities resulting from the sale may affect the communities of Dillingham, Egegik, King Salmon, Naknek, South Naknek, Pilot Point, Port Heiden, Nelson Lagoon and Ugashik.

The DO&G has prepared an informational tract map that displays the location of all tracts within the sale area. The tract map shows generalized land ownership, existing leases, and pending leases. The land status is for informational purposes only. The tract map does not show detailed leased areas or detailed land ownership. **Bidders should independently verify state title to acreage within these tracts prior to bidding.** The ADNR land records web site is <http://plats.landrecords.info/>.

Only lands within the sale area that as of February 5, 2010 have been conveyed to the state and are not covered by existing or pending leases will be considered available for leasing. Lands that are conveyed to the state or that become available for leasing after that date will be offered in the AP 2011 sale.

The tract acreages listed in Attachment A of the Instructions to Bidders contains estimated acreages for the entire tract. The exact amount of net leaseable acreage in any tract will not be determined unless a bid is received for that tract. Following the sale, the ADNR will complete a comprehensive evaluation of the lands within the tracts that received bids to determine what lands are available for lease. This process may take several months to complete. Acreage not owned by the state, already subject to an oil and gas lease or pending lease, or clouded by title claims, will be excluded from the lease.

Best Interest Finding and Alaska Coastal Management Program (ACMP) Consistency Determination

The Alaska Peninsula Areawide 2010 Oil and Gas Lease Sale is an exempt sale held under AS 38.05.180(d)(1) and 38.05.035(e)(6)(F). Under these provisions, the commissioner of the ADNR may annually offer oil and gas acreage that has been subject to a best interest finding issued within the previous 10 years, unless the commissioner determines that substantial new information has become available that justifies a supplement to the finding.

“Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans.”

The DO&G issued a written final finding and decision under AS 38.05.035(e) and (g) on July 25, 2005. The decision sets forth the facts, policies, and applicable laws upon which the director based his determination that oil and gas lease sales in the Alaska Peninsula area will best serve the interests of the state. The finding was supplemented on November 21, 2007. In addition, a final coastal zone consistency determination was made that oil and gas lease sales, as conditioned, were consistent with the standards of the ACMP and the enforceable policies of the Aleutians East, Bristol Bay and Lake and Peninsula boroughs coastal management programs.

Decision of Substantial New Information for Alaska Peninsula Areawide 2010 Sale

On November 24, 2009, the DO&G issued a Call for New Information for the Alaska Peninsula Areawide 2010 Oil and Gas Lease Sale. The DO&G requested any new information subsequent to publication of the 2005 finding. Based upon the information received in response to the 2009 call for new information, the DO&G has issued a Decision of Substantial New Information and Supplement, which are available on the DO&G's website and at the locations listed under Sale Information below.

Mitigation Measures: AS 38.05.035(e) gives the commissioner the authority to impose conditions or limitations, in addition to those imposed by law, to ensure that this disposal best serves the interests of the state. This authority has been delegated to the director of the DO&G. To meet this requirement, the director has adopted environmental and social mitigation measures that will be enforced throughout the duration of the lease. These mitigation measures, which may include limits on surface entry on the lease tracts, are necessary to protect biological, cultural and archeological resources, and to mitigate social impacts of lease related activities. Enforcement will be imposed through approval of plans of operations, exploration and development, and other permits. The DO&G will review these plans for consistency with the ACMP under 11 AAC 110, 112 and 114. The lessee must obtain all the necessary permits and approvals otherwise required by law or regulation for the proposed activity. Additional restrictions may be imposed through the permitting process and the ACMP review process. Some proposed activities may also be subject to local land use regulations.

Tract Deletions and Deferrals: The ADNR has deferred all unleased acreage in Tracts 1027, 1028, 1031, 1032, 1036, 1037, 1042 and 1043 located in T. 53 S., R. 85 W. and T. 54 S., R. 85 W., Seward Meridian. These tracts will not be offered for lease in this sale, but may be included in future lease sales.

The state reserves the right to withdraw any acreage or tract from the sale at any time before the issuance of a lease.

Bid Submission: Bids must be received by the DO&G no later than 4:00 p.m. May 24, 2010.

Bidding Method: The bidding method for all tracts will be cash bonus bidding with a minimum bid of **five dollars (\$5.00) per acre. Bids for less than the minimum bid will be rejected.**

Under 11 AAC 82.445, a bid will not be considered unless supported by the bid deposit and the information required in the "Instructions to Bidders", unless any omission is determined by the commissioner or his designee to be immaterial or due to excusable inadvertence, and the omission is corrected within one week following receipt of a notice of deficiency.

Primary Term of Leases: All leases will have an initial primary term of **ten (10) years.**

Royalty Rates: All leases will have a fixed royalty rate of **twelve and one-half percent (12 1/2%).**

Lease Forms: Leases will be executed on Competitive Oil and Gas Lease Form # DOG 200604, (rev. 3/2009). The lease form was revised to correct a typographical error in paragraph 36(b), and to modify the Royalty in Kind provisions in paragraph 38(a), (c) and (e). The sample lease form is located on the DO&G web site at <http://www.dog.dnr.state.ak.us/oil/programs/leasing/leaseadmin/leaseadmin.htm>.

Rental: Annual rental will be \$1.00 per acre for the first year, \$1.50 per acre for the second year, \$2.00 per acre for the third year, \$2.50 per acre for the fourth year, and \$3.00 per acre for the fifth and following years.

Bonding: Before beginning lease operations, an oil and gas lease bond of a minimum of \$10,000 per operation is required under 11 AAC 83.160. In the alternative, a statewide oil and gas lease bond of a minimum of \$500,000 for operations conducted on more than one lease may be filed. These bonding provisions do not affect the commissioner's authority to require additional unusual-risk bonds as may be necessary. In addition, the Alaska Oil and Gas Conservation Commission (AOGCC) requires a bond of at least \$100,000 for a single well or a bond of at least \$200,000 to cover wells statewide before drilling operations will be permitted by the AOGCC (20 AAC 25.025). Additional bonding may be required under 11 AAC 82.465, 11 AAC 82.600, 11 AAC 83.390 and 11 AAC 96.060.

Sale Information: Copies of the final finding are available for public review at the following locations: Bristol Bay Middle/High School, King Cove School, Cold Bay School, Sand Point School, False Pass School, Nelson Lagoon School, Akutan School and Z.J. Loussac Public Library in Anchorage; Bristol Bay Borough, Lake and Peninsula Borough, Aleutians East Borough and the DO&G offices. The regional tract map will also be available at these locations. Complete details regarding the AP 2010 sale, including the following documents, are on the DO&G's webpage at <http://www.dog.dnr.state.ak.us/>

Sale Announcement
Mitigation Measures (rev. February 2010)
Instructions to Bidders with estimated tract acreage figures (Attachment A)
Bid Form
Final Finding (July 2005)
Decision of Substantial New Information (February 2010)
Regional Tract Map (January 2010)

Copies of these documents, as well as other information, are available by contacting Jennifer Haines, Division of Oil and Gas, 550 West 7th Avenue, Suite 800, Anchorage, Alaska 99501-3560; by calling during regular office hours at (907) 375-8247; or by email to jennifer.haines@alaska.gov.

Compliance with the Americans with Disabilities Act of 1990: This publication will be made available in alternative communication formats upon request. Please contact Jennifer Haines at (907) 375-8247 to make any necessary arrangements.



Kevin R. Banks
Director