

STATE OF ALASKA

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SALE ANNOUNCEMENT

BEAUFORT SEA AREAWIDE 2004 COMPETITIVE OIL AND GAS LEASE SALE

The Alaska Department of Natural Resources (ADNR), Division of Oil and Gas (DO&G), gives notice under AS 38.05.945(a)(4), that it will offer lands for competitive oil and gas leasing in Beaufort Sea Areawide 2004 (BSA 2004). BSA 2004 will be held in Anchorage beginning at 8:30 a.m., on October 27, 2004, in the Wilda Marston Theater, Loussac Public Library, 3600 Denali Street.

The Beaufort Sea Areawide sale area encompasses a gross area of approximately two million acres that are divided into 573 tracts ranging in size from 640 to 5,760 acres. These tracts are located within the North Slope Borough and consist of State-owned tide and submerged lands in the Beaufort Sea between the Canadian Border and Point Barrow. The sale area is adjacent to both the National Petroleum Reserve - Alaska (NPRA) and Arctic National Wildlife Refuge (ANWR). The southern fringe of the sale area includes some state-owned uplands lying between the NPRA and ANWR. Activities resulting from this sale may affect the native villages of Barrow, Nuiqsut, and Kaktovik, and the community of Deadhorse.

DO&G has prepared a regional tract map that displays the location of all tracts within the sale area. Only State-owned lands that were available on July 6, 2004 may be leased in BSA 2004. Acreage becoming available after that date will be offered in BSA 2005, scheduled for October 2005.

The exact amount of the net leaseable acreage in each tract will not be determined until after the bids are received. At that time DO&G will complete a comprehensive evaluation of the lands within the tracts that received bids to determine which lands are available for lease. Acreage not owned by the state, already subject to an oil and gas lease, or clouded by title claims will be excluded from the leased area.

Best Interest Finding and ACMP Consistency Determination

BSA 2004 is an exempt sale held under Alaska Statute(s) 38.05.180(d)(1), and 38.05.035(e)(6)(F). Under these provisions the commissioner 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.

In support of Beaufort Sea Areawide Sale 1999, the Director of DO&G issued a written final finding and decision under AS 38.05.035(e) and (g) on July 15, 1999. This finding sets forth the facts, policies, and applicable laws upon which he has based his determination that this sale will best serve the interests of the state. In addition, a final coastal zone consistency determination was made that oil and gas sales are consistent with the Alaska, and North Slope Borough's Coastal Management Programs (ACMP). On August 15, 2000, DO&G issued a Decision to Supplement that best interest finding.

On February 25, 2004 DO&G issued a Call for New Information regarding the proposal to re-offer available Beaufort Sea acreage in the year 2004. The final finding for the 1999 Beaufort Sea areawide sale and the final coastal zone management consistency determination were available for public review. DO&G requested new information subsequent to publication of the 1999 final finding and the 2000 supplement. Prior to that, in July 2003, DO&G issued a Special Notice asking for comments on whether existing deferral areas should be kept as part of the 2004 sale and, if the deferral areas are kept, whether they should be changed in size and/or location. Based upon the information received, DO&G is issuing a ***Decision of No New Information and Partial Lifting of Deferral Areas*** concurrently with this sale announcement.

Tract Deletions and Deferrals

ADNR has deferred leasing all tracts from Pt. Barrow to Tangent Pt. (Tracts 555, 557 through 573) and Tracts 27 through 39, east of Barter Island. Deferral means that these tracts will not be offered for lease in this sale, but may be included in future lease sales. ADNR will annually review the available information for these tracts to determine whether to offer these tracts in the future.

Tracts 1 through 26, offshore ANWR, which had been deferred from leasing in previous areawide sales, will be included in this sale. DO&G has developed a new mitigation measure to ensure that exploration, development and production activities within Tracts 1 through 26 are conducted in a manner that prevents unreasonable conflicts between oil and gas activities and subsistence whale hunting.

18. Exploration, development and production activities located on lease tracts 1 through 26 shall be conducted in a manner that prevents unreasonable conflicts between oil and gas activities and subsistence whale hunting.
 - a. Prior to submitting a plan of operations for activities on lease tracts 1 through 26, the lessee shall consult with the North Slope Borough (NSB), the Alaska Eskimo Whaling Commission (AEWC), and the community of Kaktovik to discuss how the siting, timing, and methods of proposed operations can be planned and carried out to avoid potential conflicts with subsistence whale hunting. Through this consultation, which may include the negotiation of a conflict avoidance agreement, the lessee shall make every reasonable effort to ensure that their activities will not result in unreasonable interference with subsistence whale hunting.
 - b. A plan of operations for activities on lease tracts 1 through 26 shall include a discussion of the consultation process and any resulting conflict avoidance agreement. In the event that no agreement is reached, the lessee, the NSB, the AEWC, or the community of Kaktovik may request that ADNR call a meeting of representatives of the NSB, the AEWC, the community of Kaktovik, and the lessee to discuss the potential conflict caused by the proposed activities, and attempt to resolve the issues. If the parties are still unable to reach an agreement, then ADNR will make a final determination of the measures to be taken to prevent unreasonable interference with subsistence whale hunting.

Note: The state reserves the right to delete any acreage or tract from the sale at any time before the issuance of the lease.

Appeal Procedures

A person affected by this decision who provided timely written comment or public hearing testimony on this decision may request reconsideration, in accordance with 11 AAC 02. Any reconsideration request must be received by August 18, 2004 and may be mailed or delivered to Tom Irwin, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to dnr_appeals@dnr.state.ak.us. If reconsideration is not requested by that date or if the commissioner does not order reconsideration on his own motion, this decision goes into effect as a final order and decision on August 30, 2004. Failure of the commissioner to act on a request for reconsideration within 30 days after issuance of this decision is a denial of reconsideration and is a final administrative order and decision for purposes of an appeal to Superior Court. The decision may then be appealed to

Superior Court within a further 30 days in accordance with the rules of the court, and to the extent permitted by applicable law. An eligible person must first request reconsideration of this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Mitigation Measures

AS 38.05.035(e) and the departmental delegation of authority give the Director, DO&G, the authority to impose conditions or limitations, in addition to those imposed by law, to ensure that the disposal best serves the interests of the state. 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 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. DO&G will review this plan for consistency with the ACMP under 6 AAC 50. 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.

In addition, some proposed lease activities may be subject to local land use regulations.

Bidding Method

For all tracts – cash bonus bidding with a minimum bid of ten dollars (\$10) per acre.

Bids for less than the minimum bid will be rejected.

Note: 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:

Tracts 78 through 499 – seven (7) years.

All other tracts – ten (10) years.

Royalty Rates:

Tracts 78 through 499 – a fixed royalty rate of sixteen and two-thirds percent (16.66667%).

All other tracts – a fixed royalty rate of twelve and one-half percent (12.5%).

Lease Forms:

Leases on all tracts will be executed on Form DOG 200204 (rev.10/2003).

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 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

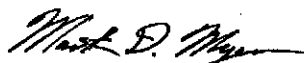
Copies of the final finding and supplement are available at the following locations: Nuiqsut Public Library, North Slope Borough Library Media Center, North Slope Borough Offices, Tuzzy Consortium Library in Barrow, City of Barrow Municipal Offices, Kaveolook School Library in Kaktovik and Loussac Public Library in Anchorage. The Regional Tract Map will also be available at these locations.

Complete details regarding BSA 2004, including the following documents, are on the DO&G's Webpage at: <http://www.dog.dnr.state.ak.us>:

- Sale Announcement w/Mitigation Measures
- Instructions to Bidders with Attachment A (Estimated acreage figures) and Bid Form
- Final Finding and Supplement (August 2000)
- Decision of No New Information
- Regional Tract map

Paper copies of these documents, are available by phoning during regular office hours or writing, DO&G 550 West 7th Avenue, Suite 800, Anchorage, Alaska 99501, Attn: Letha Groom, (907) 269-8814, email at lvg@dnr.state.ak.us.

The State of Alaska, DNR, DO&G complies with Title II of the Americans with Disabilities Act of 1990. This publication will be made available in alternative communication formats upon request. Please contact Letha Groom, (907) 269-8814 to make any necessary arrangements.



Mark D. Myers,
Director

BSA 2004-945a4