

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

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BEAUFORT SEA AREAWIDE 2010 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 2010 (BS 2010). BS 2010 will be held in Anchorage beginning at **9:00 a.m., February 24, 2010** in the Atwood Building, 550 W. 7th Avenue, Suite 240, Anchorage.

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 (NPR-A) and the Arctic National Wildlife Refuge (ANWR). The southern fringe of the sale area includes some state-owned uplands lying between the NPR-A and the ANWR. Activities resulting from this sale may affect the native villages of Barrow, Nuiqsut, and Kaktovik, and the community of Deadhorse.

The 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 November 30, 2009 may be leased in the BS 2010 sale. Lands that are conveyed to the state or that become available for leasing after that date will be offered in a future Beaufort Sea Areawide sale.

The tract map does not show detailed land ownership or land under lease. **Bidders are cautioned to verify state title or land available for leasing within the tracts prior to bidding.**

The exact amount of the net leaseable acreage in each tract will not be determined unless a bid is received for the tract. Following the sale, the DO&G 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 clouded by title claims will be excluded from the leased area.

The U.S. Department of State has notified the State of Alaska that land within Tract 001 of the Beaufort Sea Areawide Lease Sale may be subject to a title dispute with the government of Canada. Potential bidders on Tract 001 should be prepared for possible delays in determining state title to lands within this tract if an acceptable bid is received for this tract.

State/ASRC Acreage

The state and Arctic Slope Regional Corporation (ASRC) executed a Settlement Agreement in 1991. In that agreement, the state and ASRC agreed to joint ownership for the purposes of oil and gas leasing within the settlement area. The boundary of the State/ASRC Settlement Agreement is shown on the regional tract map for BS 2010. Any tracts containing jointly-owned acreage determined to be available as of November 30, 2009 will be included in the BS 2010 sale.

Tract Deletions and Deferrals

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

The ADNR has deferred all unleased acreage in Tracts 77 thru 115, 117, 118, 120, 121, 123, 124, 129 and 130 in the Point Thomson and surrounding area. 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 delete or defer any additional acreage or tracts from the sale at any time prior to issuance of the lease.

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

BS 2010 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 a Beaufort Sea Areawide Sale, on November 9, 2009 the Director of the DO&G issued a written final finding and decision under AS 38.05.035(e) and (g) which set forth the facts, policies, and applicable laws upon which he based his determination that the 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 ACMP.

Mitigation Measures

AS 38.05.035(e) and the departmental delegation of authority give the director of the DO&G the authority to impose conditions or limitations, in addition to those required 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. The DO&G will review the 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.

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

Notice to Bidders

Polar bears were listed as threatened under the federal Endangered Species Act in 2008. The state has challenged the listing. On October 22, 2009, the U.S. Fish and Wildlife Service (USFWS) proposed designating over 200,000 square miles in the North Slope and Beaufort Sea areas as critical habitat for polar bears. A final rule concerning critical habitat designation is expected to be published by June 30, 2010. Mitigation measures and lessee advisories in the final Beaufort Sea best interest finding adequately address polar bears, and the ADNR may impose additional mitigation measures or restrictions on relevant tracts to minimize impacts to polar bears if necessary. Lessees must adhere to all federal requirements for marine mammals and endangered species, including Section 7 consultations with the USFWS, which may be required prior to initiation of activities in the lease sale area.

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 1 through 26, 40 through 77, 500 through 554 and 556 – ten (10) years.
All other tracts – seven (7) years.

Royalty Rates

Tracts 1 through 26 – a fixed royalty rate of twelve and one-half percent (12.5%).
All other tracts – a fixed royalty rate of sixteen and two-thirds percent (16.66667%).

Lease Forms

Leases will be executed on Competitive Oil and Gas Lease Form DOG 200604 (rev. 32009).
Leases on State/ASRC acreage will be executed on Form DOG 200604AS (rev. 32009).

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

A copy of the final finding is available for public review 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 BS 2010, including the following documents, are on the DO&G's website at <http://www.dog.dnr.alaska.gov/>:

- Sale Announcement
- Mitigation Measures
- Instructions to Bidders with estimated tract acreage figures (Attachment A)
- Bid Form
- Final Finding (November 2009)
- Regional Tract map (December 2009)

Paper copies of these documents are available by contacting Jennifer Haines, ADNR, Division of Oil and Gas, 550 West 7th Avenue, Suite 800, Anchorage, Alaska 99501-3560, phone (907) 375-8247 or email jennifer.haines@alaska.gov.

The State of Alaska, ADNR, Division of Oil and Gas 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 Jennifer Haines at (907) 375-8247 or jennifer.haines@alaska.gov to make any necessary arrangements.



Kevin R. Banks,
Director