

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

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September 27, 2011

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SALE ANNOUNCEMENT

BEAUFORT SEA AREAWIDE 2011W 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 the Beaufort Sea Areawide 2011W Oil and Gas Lease Sale (BS 2011W sale). The BS 2011W sale will be held in Anchorage beginning at **9:00 a.m., December 7, 2011** at the Dena'ina Civic and Convention Center, 600 W. 7th Avenue, Anchorage, Alaska.

The Beaufort Sea Areawide sale area encompasses 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. The sale area consists of state-owned tide and submerged lands in the Beaufort Sea between the Canadian Border and Point Barrow. Tracts adjacent to federal lands in the Outer Continental Shelf (OCS), the Arctic National Wildlife Refuge (ANWR), and the National Petroleum Reserve-Alaska (NPR-A) will be offered with different terms than all other tracts. The sale area contains acreage owned by the State of Alaska (state) and Arctic Slope Regional Corporation (ASRC). Activities resulting from this sale may affect the communities of Barrow, Nuiqsut, Kaktovik, and Deadhorse.

Lease Sale Tracts

The tracts adjacent to federal lands (the OCS, the NPR-A, and the ANWR) have different sale terms than all other tracts within the Beaufort Sea Areawide. There is a separate Attachment A for the tracts adjacent to federal lands and all other tracts. Each Attachment A lists the tracts, minimum bid per acre, royalty rate to the state, and the primary term of the lease. They are attached to the "Instructions to Bidders," which is available on the division's website: <http://dog.dnr.alaska.gov/>. Because of the varying terms for each region, bidders should read the "Instructions to Bidders" completely before preparing and submitting a bid(s).

The DO&G has prepared a regional tract map that displays these two types of tracts, which are color coded and described by the sale tract map legend. Only state-owned lands and lands jointly owned by the state and ASRC that will be available before October 15, 2011 may be leased in the BS 2011W sale. Lands that are conveyed to the state or that become available on or after that date may be offered in a future Beaufort Sea Areawide sale.

Bidders may bid on only one sale tract number per bid form.

The tract map does not show detailed land ownership or land under lease. **Bidders are cautioned to verify state title or land available within tracts before bidding. Verification of active leases within a township, range, section, and meridian can be found using the right side of the page at the following link: <http://dnr.alaska.gov/projects/las/lasmenu.cfm>.**

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 sale area 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 ASRC executed a Settlement Agreement in 1991 (State/ASRC Settlement Agreement). 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 the BS 2011W sale. Any tracts containing jointly owned acreage determined to be available before October 15, 2011 will be included in the BS 2011W 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 future lease sales.

The ADNR has deferred all unleased acreage in Tracts 81 through 83, 90 through 92, 97 through 101, 107 through 112, 120, and 123 in Point Thomson and the 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

The BS 2011W sale is being held under Alaska Statutes (AS) 38.05.180(w). Under this provision, the commissioner of the ADNR may immediately offer for lease land that was previously subject to a best interest finding issued within the previous 10 years upon terms appearing most advantageous to the state.

In support of a Beaufort Sea Areawide lease sale, the director of the DO&G issued a written final finding and decision under AS 38.05.035(e) and (g) on November 9, 2009. The decision set forth the facts, policies, and applicable laws upon which a determination was made that oil and gas lease sales in the Beaufort Sea will best serve the interests of the state. The Beaufort Sea Areawide final best interest finding is available on the DO&G website at <http://dog.dnr.alaska.gov/>, at the DO&G office in Anchorage, and at the locations listed under Sale Information below.

Decision of Substantial New Information

On March 21, 2011 the DO&G issued a Call for New Information for the BS 2011W sale. The DO&G requested any substantial new information subsequent to publication of the November 9, 2009 finding. Based upon the information received in response to the 2011 Call for New information, the ADNR has issued a Decision of Substantial New Information and Supplement to the 2009 final finding. Both documents are available on the DO&G's website and at the DO&G office in Anchorage.

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 stay in effect 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. The DO&G will condition plans of operation, exploration, and other permits based on these mitigation measures. The lessee must obtain all the necessary federal, state, and local permits and approvals required by law or regulation for the proposed activity. Additional restrictions may be imposed through the permitting process.

Notice to Bidders

Polar bears were listed as threatened under the federal Endangered Species Act in 2008. The state has challenged the listing. On December 7, 2010, the U.S. Fish and Wildlife Service (USFWS) designated over 200,000 square miles in the North Slope and Beaufort Sea areas as critical habitat for polar bears. 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

Cash bonus bidding on all tracts.

Tracts adjacent to federal land in the OCS, NPR-A, and ANWR – minimum bid \$10.00/acre.

All other tracts – minimum bid \$25.00/acre.

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

All tracts – 10 years.

Royalty Rates

Tracts adjacent to federal land in the OCS, NPR-A, and ANWR – 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

Tracts adjacent to federal land in the OCS, NPR-A, and ANWR – Leases will be executed on Competitive Oil and Gas Lease Form # DOG 200604 (rev. 3/2009).

All other tracts – Leases will be executed on Form # DOG 201112.

Leases on state/ASRC acreage will be executed on Form # DOG 201112AS.

Sample lease forms are available on the DO&G website at:

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

Rental

Tracts adjacent to federal land in the OCS, NPR-A, and ANWR – Year 1, \$1.00/acre; Year 2, \$1.50/acre; Year 3, \$2.00/acre; Year 4, \$2.50/acre; Years 5+, \$3.00/acre.

All other tracts – Years 1-7, \$10.00/acre; Years 8+, \$250.00/acre; except that beginning in the year after the year in which sustained production commences on this lease or the state otherwise determines in its sole discretion, upon request, that the lessee has exercised reasonable diligence in exploring and developing this 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 this lease and the types of work completed by or on behalf of the lessee on this lease.

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. Alternatively, 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 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 that entity (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

Complete details regarding the BS 2011W sale, including the following documents, are on the DO&G website at <http://dog.dnr.alaska.gov/>:

- Sale Announcement
- Mitigation Measures
- Instructions to Bidders with estimated tract acreage figures (Attachment A)
- Bid Form
- Final Finding (November 2009) and supplements (July 2010; July 2011)
- Decisions of Substantial New Information (July 2010; July 2011)
- Regional Tract map

Paper copies of these documents are available for a fee. To order these documents, please contact:

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Copies of the Beaufort Sea Areawide final best interest finding and regional tract map have been provided to the following: the Nuiqsut Public Library, the North Slope Borough Library Media Center, the North Slope Borough Offices, the Tuzzy Consortium Library in Barrow, the City of Barrow Municipal Offices, the Kaveolook School Library in Kaktovik, and the Z. J. Loussac Public Library in Anchorage.

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 Holly Poydack at (907) 269-8757 or holly.poydack@alaska.gov to make any necessary arrangements.

A handwritten signature in black ink, appearing to read 'W. C. Barron', with a stylized flourish at the end.

W. C. Barron,
Director