

STATE OF ALASKA

Frank H. Murkowski, Governor

Department of Natural Resources

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Division of Oil and Gas

February 18, 2004

Phone: 269-8804

SALE ANNOUNCEMENT

COOK INLET AREAWIDE 2004 COMPETITIVE OIL AND GAS LEASE SALE

The Department of Natural Resources (DNR), 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 Cook Inlet Areawide 2004 (CIA 2004). CIA 2004 will be held in Anchorage beginning at 8:30 a.m. on May 19, 2004, in the Wilda Marston Theater, Loussac Public Library, 3600 Denali Street.

The Cook Inlet Areawide sale area covers approximately 4 million acres lying between the cities of Houston and Homer, in the North and South, respectively, and the Chugach and Kenai Mountains in the East and the Aleutian Range in the West. The sale area, which is located entirely within the Kenai Peninsula Borough, the Matanuska-Susitna Borough and the Municipality of Anchorage, is divided into 815 tracts ranging in gross area from 640 to 5,760 acres. Activities resulting from this sale may affect the communities of Anchorage, Kenai, Palmer, Wasilla, Houston, Hope, Nikiski, Soldotna, Sterling, Ninilchick, Kasilof, Homer, Clam Gulch, Nikolaevsk and Anchor Point, as well as the villages of Knik, Tyonek and Salamatof.

DO&G has prepared a regional tract map that displays the location of all tracts within the sale area. **Only those lands within the sale area not covered by existing leases as of February 5, 2004, will be considered available for leasing.** Lands that become available for lease after that date will then be offered in Cook Inlet Areawide 2005, scheduled for May, 2005. **Bidders are cautioned to verify state title to acreage within these townships/tracts prior to bidding.**

The exact amount of net leaseable acreage in any tract will not be determined unless a bid for that tract is received. Following the sale DO&G will complete a comprehensive evaluation of the lands within the tracts that received bids. Acreage not owned by the state or already subject to an oil and gas lease will be excluded from the lease.

Best Interest Finding and ACMP Consistency Determination

CIA 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 acreage for oil and gas lease that has been subject to a best interest finding issued within the previous 10 years, unless the commissioner determines that new information has become available that justifies a supplement to the finding.

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

In support of this lease sale, the director of DO&G prepared and disseminated a written final finding and decision under AS 38.05.035(e) and (g), which sets forth the facts, policies, and applicable laws upon which he has based his determination that leasing in the Cook Inlet area will best serve the interests of the state. This finding was issued on January 20, 1999. In addition, a final coastal zone consistency determination was made that a Cook Inlet lease sale is consistent with the Kenai Peninsula Borough, the Matanuska-Susitna Borough, the Municipality of Anchorage, and Alaska Coastal Management Programs (ACMP) under AS 46.40. Also, on May 10, 2000, DO&G issued a supplement to the final finding.

On September 30, 2003, DO&G issued a Call for New Information for Cook Inlet Areawide 2004. Based on the responses, DNR is issuing *Decision to Supplement Cook Inlet Areawide Oil and Gas Lease Sale Best Interest Finding*.

Consistent with recommendations from the National Marine Fisheries Service (NMFS) and the supplement to the finding being issued, the following tracts that have been identified by the National Marine Fisheries Service (NMFS) as important habitat for the Cook Inlet population of beluga whales will be included in this year's and future sales.

Chuitna River: 494, 497, 498.
Beluga River: 485, 486, 493, 544, 547-552, 559.
Ivan River: 541, 542.
Susitna River: 536-540, 543, 593, 594, 598.
Little Susitna River: 529, 532-535, 585, 586, 590.
Knik Arm: 575-577, 579, 581, 582, 616-618, 620-623, 627, 655-658, 662.
Anchorage: 522, 524-528, 530, 531.
Chickaloon River: 322-327, 329, 331, 332.
Turnagain Arm: 320, 321, 328, 330, 333, 334, 391-409, 462, 464-475.
Kenai River: 126, 127, 129-132, 161, 162.
Drift River: 177.
Big River: 175, 218.
Kustatan River: 211, 257.
McArthur River: 301, 302, 384.
Middle River: 373, 376, 377

These tracts had been deferred from each of the previous Cook Inlet Areawide Sales. However, potential bidders should be aware that the supplement to the finding imposes two new mitigation measures affecting these tracts and adds a new lessee advisory regarding endangered and threatened species.

Please note: two of these tracts have been deleted from this sale for other reasons as detailed in Tract Deletions and Deferrals below.

Appeal Procedures

A person affected by the Decision to Supplement Cook Inlet Areawide Oil and Gas Lease Sale Best Interest Finding who provided timely written comment during the Call for New Information may request reconsideration, in accordance with 11 AAC 02. Any reconsideration request must be received by **March 9, 2004**, and may be mailed or delivered to the Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501;

faxed to 1-907-269-8918; or sent by e-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 **March 19, 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 this disposal best serves the interests of the state. To meet this requirement, the director has adopted environmental and social terms and conditions, which may include limits on surface entry for tracts leased in Cook Inlet Areawide Lease Sale 2004. These mitigation measures are necessary to protect biological, cultural and archeological resources, and to mitigate social impacts of lease related activities. They will be enforced throughout the duration of the lease. Enforcement will be imposed through approval of plans of operations, exploration and development and other permits. DO&G will review these plans 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.

Please note: two additional mitigation measures and one additional lessee advisory have been added for this year's sale as discussed in the Best Interest Finding and ACMP Consistency Determination section above.

Tract Deletions and Deferrals

DNR has withdrawn Tracts 287, 485, 486, 488 and 489. These tracts cover the area previously included in ADLs 369100, 369101 and 389508. All tracts affected by these ADLs have been withdrawn due to litigation or appeals contesting actions taken by the Alaska Oil and Gas Conservation Commission (ADL's 369100 and 369101 in 1JU-02-252CI) or the Division of Oil and Gas (ADL 389508 under administrative appeal). Leasing of these tracts is stayed pending final rulings in these cases.

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

Sale Terms

Bidding Method:

The bidding method for all tracts in CIA 2004 will be cash bonus bidding with a minimum bid of **five dollars (\$5) per acre**.

Royalty Rate:

All Leases will have a fixed royalty rate of **twelve and one half percent (12.5%)**.

Length of Lease:

All leases will have an initial primary term of **seven (7) years**.

Lease Form

Leases will be executed on Competitive Oil and Gas Lease Form # DO&G 200204 (rev. 10/2003).

Exploration Incentive Credit

Specific offshore tracts in CIA 2004 may earn an exploration incentive credit (EIC) at a rate of \$200.00 per foot drilled for the first exploratory well per tract; credits not to exceed 20% of the total exploratory well costs. The credit may be earned for only one well per sale tract and must be earned and used within three years of the effective date of the lease. These credits will not be extended under any circumstances beyond the initial 3-year period. These credits are inclusive of other allowed exploration and development credit programs. This EIC will be available on the following tracts: 11-13, 15-17, 33, 34, 36-43, 46, 62, 63, 65-69, 72, 91-95, 97, 98, 133-137, 140, 147, 165, 166, 171, 174, 284, 342, 345, 348, 351, 352, 354, 358, 359, 361, 362, 368, 371, 378, 414, 415, 418, 420, 421, 476-484, 490, 735.

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

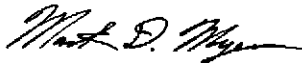
Copies of the final finding are available for public review at the following locations: the public libraries in Palmer, Wasilla, Kenai, Ninilchik, Homer, Soldotna, Anchor Point and Seldovia, the Loussac Public Library in Anchorage; the Matanuska-Susitna Borough (MSB) Planning Department Offices in Palmer; the Kenai Peninsula Borough (KPB) Planning Department offices in Soldotna; and the Municipal Clerk's Office of the Municipality of Anchorage (MOA). The regional tract map will be available at these locations on February 25, 2004. Complete details regarding CIA 2004, including the following documents, are on the DO&G's Webpage at <http://www.dog.dnr.state.ak.us/oil>:

- Sale Announcement w/Mitigation Measures
- Instructions to Bidders w/ Estimated Tract acreage figures in "Attachment A"
- Bid Form

- Decision to Supplement Cook Inlet Areawide Oil and Gas Lease Sale Best Interest Finding
- Final Finding; 2000 & 2004 Supplements
- Regional Tract Map

Paper copies of these documents, as well as other information, are available by phoning during regular office hours or writing, DO&G 550 West 7th Avenue, Suite 800, Anchorage, Alaska 99501, Attn: Suzanne Gaguzis, (907) 269-8803, or e-mail at msg@dnr.state.ak.us.

The State of Alaska, DNR, DO&G complies with Title II of the Americans with Disabilities Act 1990. This Publication will be made available in alternative communication formats upon request. Please contact Suzanne Gaguzis at (907) 269-8803 to make any necessary arrangements.



Mark D. Myers
Director

CIA-2004, -Announcement