

STATE OF ALASKA

Department of Natural Resources
Division of Oil and Gas

Frank H. Murkowski, Governor

550 WEST 7th AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501

April 7, 2006

Phone: 375-8242

SALE ANNOUNCEMENT

COOK INLET AREA WIDE 2006 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 2006 (CI 2006). CI 2006 will be held in Anchorage beginning at 8:30 a.m. on May 24, 2006, 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, Ninilchik, 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. The tract map does not show detailed land ownership or state selected land. Only those lands within the sale area that, as of March 15, 2006, have been conveyed to the state and are not covered by existing 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 Cook Inlet Areawide 2007, scheduled for May 2007. **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

CI 2006 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 and February 18, 2004, DO&G issued supplements to the final finding.

Decision of No Substantial New Information

On January 23, 2006, DO&G issued a Call for New Information for the Cook Inlet Areawide 2006 Oil and Gas Lease Sale. On April 5, 2006, DO&G issued a Decision of No Substantial New Information, which is available on the Division's website and at the locations listed below. See the decision for appeal procedures and deadlines. An eligible person must first request reconsideration of the decision in accordance with 11 AAC 02 before appealing the 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 2006. 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.

Tract Deletions and Deferrals

DNR has deferred Tracts 485, 486, 488 and 489. These tracts cover the area previously included in ADLs 369100 and 369101. All tracts affected by these ADLs have been deferred due to litigation contesting actions taken by the Alaska Oil and Gas Conservation Commission (S-11519). Leasing of these tracts is stayed pending final rulings in this case.

There is an appeal pending within Tracts 284, 285, and 287. The commissioner may withdraw or defer these tracts at any time prior to the sale.

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

Sale Terms

The bidding method for all tracts in CI 2006 will be 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.

Length of Lease:

Leases for tracts 11-13, 15-17, 33, 34, 36-46, 62, 63, 65-69, 72, 91-95, 97, 98, 133-137, 140, 163-171, 174, 200, 276, 279-281, 283-287, 289, 342, 345-354, 357, 360, 361, 396, 397, 399-403, 414, 415, 418, 420, 421, 425, 428, 429, 476-484, 487, 490, 735 will have a primary term of seven (7) years.

All other tracts will have a primary term of five (5) years.

Royalty Rate:

All Leases will have a fixed royalty rate of **twelve and one half percent (12 1/2%).**

Lease Form

Leases will be executed on Competitive Oil and Gas Lease Form # DO&G 200604.

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 by April 11, 2006. Complete details regarding CI 2006, including the following documents, are on the DO&G's Webpage at <http://www.dog.dnr.state.ak.us/oil>:

- Sale Announcement
- Mitigation Measures
- Instructions to Bidders w/ Estimated Tract acreage figures in "Attachment A"
- Bid Form
- Decision of No Substantial New Information
- Final Finding; 2000 and 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: Anna Motschenbacher, (907) 269-8814, email at am@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 Anna Motschenbacher, (907) 269-8814 to make any necessary arrangements.

A handwritten signature in blue ink that reads "William Van Dyke". The signature is fluid and cursive, with "William" on top and "Van Dyke" below it.

William Van Dyke,
Acting Director

CIA-2006, -Announcement