

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SEAN PARNELL, GOVERNOR

550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560
PHONE: (907) 269-8800
FAX: (907) 269-8938

April 7, 2011

Phone: (907) 269-8757

SALE ANNOUNCEMENT COOK INLET AREAWIDE 2011 PART A AND PART B COMPETITIVE OIL AND GAS LEASE SALE

The Alaska Department of Natural Resources (ADNR), Division of Oil and Gas (DO&G), gives notice under Alaska Statute (AS) 38.05.945(a)(4) that it will offer lands for competitive oil and gas leasing in the Cook Inlet Areawide 2011 lease sale (CI 2011), consisting of Part A and Part B.

Bid opening will begin at 9:00 a.m. on June 22, 2011, at the Dena'ina Civic and Convention Center, located at 600 W. 7th Avenue, Anchorage.

The Cook Inlet Areawide lease sale area encompasses approximately 4 million acres divided into 815 tracts ranging in size from 640 to 5,760 acres. The sale area consists of state-owned uplands and tide and submerged lands lying between the cities of Houston to the north, Homer to the south, the Chugach and Kenai mountain ranges to the east, the Aleutian Range to the west, and within the Cook Inlet. The sale area is located entirely within the Kenai Peninsula Borough, the Matanuska-Susitna Borough, and the Municipality of Anchorage. 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.

The CI 2011 lease sale will be conducted in two parts, Part A and Part B. Each part will have different terms and conditions. The DO&G has prepared tract maps that display the location of all tracts within the lease sale area. Only state-owned lands that were available before April 1, 2011 may be leased in the CI 2011 lease sale. Lands that are conveyed to the state or that become available for leasing on or after that date may be offered in a future Cook Inlet Areawide lease sale.

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

Part A of the CI 2011 lease sale is being held under AS 38.05.180(d)(1) and 38.05.035(e)(6)(F). Under these provisions, the commissioner of the ADNR 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 justified a supplement to the finding.

Part B of the CI 2011 lease sale is being held under 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.

The ADNR DO&G issued a written finding and decision under AS 38.05.035(e) and (g) on January 20, 2009. The decision sets forth the facts, policies, and applicable laws and regulations upon which the director based his determination that oil and gas lease sales in the Cook Inlet area

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

will best serve the interests of the state. The 2009 finding was supplemented on February 4, 2010, and February 8, 2011. In addition, a final coastal determination was made on January 12, 2009, that oil and gas lease sales, as conditioned, were consistent with the standards of the ACMP and the enforceable policies of the coastal management programs of the Municipality of Anchorage and the Matanuska-Susitna and Kenai Peninsula boroughs.

Decision of Substantial New Information for the Cook Inlet Areawide 2011 Lease Sale

On November 18, 2010, the DO&G issued a Call for New Information for the CI 2011 lease sale. The DO&G requested any new information subsequent to publication of the 2009 finding. Based upon the information received in response to the 2010 Call for New Information, the DO&G issued a Decision of Substantial New Information (Decision) and a Supplement to the 2009 written finding (Supplement) on February 8, 2011.

In the Decision and Supplement, information was presented about the events of the Deepwater Horizon incident in the Gulf of Mexico in 2010, the findings of the report of the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling issued in 2011, and the findings of the reports related to the Alaska Risk Assessment Project, the North Slope Spills Analysis, and Oversight Report, dated 2010. In the Supplement, the DO&G issued a lessee advisory that informs the public that the state is reviewing and evaluating this information, and new or modified mitigation measures, lessee advisories, or other statutory or regulatory requirements may be forthcoming. The February 8, 2011 Decision and Supplement are available on the DO&G website.

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 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 DO&G will review the plans for consistency with the ACMP under Alaska Administrative Codes (AAC) 11 AAC 110, 112, and 114. 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.

Part A

Part A of the CI 2011 lease sale will consist of all tracts within the Cook Inlet Areawide sale area except tracts 784, 786, and 804. The CI 2011 Part A 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 leasable 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. Estimated acreage for each tract in Part A of the CI 2011 lease sale is available in Attachment A of the Instructions to Bidders. 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.

Tract Deletions and Deferrals

Tracts 784, 786 and 804 are deferred from Part A of the CI 2011 lease sale. These tracts will be offered in Part B of the CI 2011 lease sale.

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

Bidding Method

The bidding method for all tracts in Part A will be cash bonus bidding with a minimum bid of **ten dollars (\$10.00) 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 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, and 735 will have a primary term of ten (10) years.

All other tracts will have an initial primary term of seven (7) years.

Royalty Rates

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

Lease Forms

Leases will be executed on Competitive Oil and Gas Lease Form # DOG 200604 (rev. 3/2009). A sample lease form is available on the DO&G website at www.dog.dnr.alaska.gov/oil/programs/leasing/leaseadmin/sample_lease.pdf

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.

Part B

Only tracts 784, 786, and 804 from the Cook Inlet Areawide lease sale area will be offered in Part B of the CI 2011 lease sale. These three tracts are located just north of Anchor Point in the Kenai Peninsula Borough. These tracts will only be offered as a bundle; these tracts may not be bid on individually. **Bidding methods, lease terms, and other conditions for Part B of the CI 2011 lease sale are different from Part A.**

The CI 2011 Part B tract map does not show detailed land ownership, but does show land immediately available for leasing 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 leasable acreage in each tract in the CI 2011 lease sale has been determined and rounded up to the nearest whole acre for bidding. Award letters will be sent soon after the high bidder has been determined. Acreage not owned by the state, already subject to an

oil and gas lease, or clouded by title claims has been excluded from the leased area. The exact acreage of each tract, rounded to the nearest whole acre, and the combined total of the three tracts in Part B of the CI 2011B lease sale are available in Attachment A of the Instructions to Bidders.

Tract Deletions and Deferrals

All three tracts (784, 786, and 804) are being offered in Part B of the CI 2011 lease sale. There are no deletions or deferrals.

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

Bidding Method

The bidding method for all three tracts will be cash bonus bidding with a minimum bid of **fifty dollars (\$50.00) per acre**. Bids for less than the minimum bid will be rejected. **Bidders must bid on all three tracts as a bundle and the bonus bid offered must apply to each tract's acreage within the bundle.**

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 leases will have an initial primary term of five (5) years.

Royalty Rates

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

Lease Forms

Leases will be executed on Competitive Oil and Gas Lease Form # DOG 200604 (rev. 4/2011). This lease form is a revision of Competitive Oil and Gas Lease Form # DOG 200604 (rev. 3/2009) to reflect the specific terms and conditions of Part B of the CI 2011 lease sale. A sample lease form will be available on the DO&G website.

Rental

Annual rental will be \$50.00 per acre for the first year, \$100.00 per acre for the second year, \$100.00 per acre for the third year, \$400.00 per acre for the fourth year, and \$500.00 per acre for the fifth and following years. In any year after the work commitment is fulfilled, the lessee shall pay rentals at the rate established in AS 38.05.180(n) on the date that the work commitment is fulfilled.

Work Commitment

Within six months of the date the leases are issued, the lessee is required to file a lease plan of exploration for each lease for approval by the state. The plan must describe the lessee's proposed exploration activities, including the bottom-hole locations and depths of proposed wells, and the estimated dates drilling will commence. The plan of exploration must be updated and submitted to the state for approval at least 60 days before the expiration date of the previously approved exploration plan. The lessee shall also file bi-annual reports with the state substantiating adherence to the work commitment terms.

Before the end of the fourth year following the date of lease issuance, the lessee is required to complete, suspend, or plug and abandon a well that has penetrated and evaluated the stratigraphic interval correlative to the oil reservoir discovered in the Starichkof State #1 well (API No. 50-83110002-00-00) between the depths of 6,740 and 7,005 feet measured depth, unless the state has approved allocation of production to the 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 (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 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 Cook Inlet Areawide 2011 lease sale, including the following documents, are on the DO&G website at www.dog.dnr.alaska.gov/oil

- Sale Announcement
- Mitigation Measures
- Instructions to Bidders with estimated tract acreage figures (Attachment A)
- Bid Form
- Final Finding (January 20, 2009) and 2010 Supplement (February 4, 2010)
- Decision of Substantial New Information and 2011 Supplement (February 8, 2011)
- Tract Map, Part A (April 1, 2011)
- Tract Map, Part B (April 1, 2011)

Paper copies of these documents are available for a fee. Printed copies of the tract map can be ordered for \$25. To order any of these documents, please contact:

Holly Poydack
Alaska Department of Natural Resources
550 West 7th Ave, Suite 800
Anchorage, AK 99501-3560
Phone: (907) 269-8757
Email: holly.poydack@alaska.gov

Copies of these documents have been provided to the following locations: Public libraries in Palmer, Wasilla, Kenai, Ninilchik, Homer, Soldotna, Anchor Point and Seldovia; the Matanuska-Susitna Planning Department offices in Palmer; the Kenai Peninsula Borough Planning Department offices in Soldotna; the Anchorage Municipal Clerk's office; 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 format upon request. Please contact Holly Poydack at (907) 269-8757 or holly.poydack@alaska.gov to make any necessary arrangements.



Kevin R. Banks
Director