

STATE OF ALASKA

Tony Knowles, Governor

Department of Natural Resources

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Division of Oil and Gas

July 24, 2002

Phone: 269-8804

SALE ANNOUNCEMENT

NORTH SLOPE AREAWIDE 2002 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 North Slope Areawide 2002 (NSA 2002). NSA 2002 will be held in Anchorage beginning at 8:30 a.m. on October 23, 2002, in the Wilda Marston Theater, Loussac Public Library, 3600 Denali Street.

The North Slope Areawide sale area encompasses a gross area of approximately 5.1 million acres that are divided into 1,225 tracts ranging in size from 640 to 5,760 acres. These tracts are located entirely within the North Slope Borough between the Canning River and Arctic National Wildlife Refuge (ANWR) on the East and the Colville River and National Petroleum Reserve - Alaska (NPRA) on the West. The southern boundary of the sale area is the Umiat Meridian baseline. The northern fringe of the sale area is set back from the Beaufort Sea to exclude any tide or submerged lands. Activities resulting from this sale may affect the native villages of Barrow, Nuiqsut, and Kaktovik, and the community of Deadhorse.

DO&G has prepared a regional tract map that displays the location of all tracts within the sale area. Only State-owned lands and lands jointly-owned by the State of Alaska (State) and Arctic Slope Regional Corporation (ASRC) that are available on August 2, 2002 may be leased in NSA 2002 (see Tract Deletions and Deferrals). Acreage becoming available after that date will be offered in North Slope Areawide 2003, scheduled for October, 2003.

The exact amount of the net leaseable acreage in each tract will not be determined until after the bids are received. At that time DO&G will complete a comprehensive evaluation of the lands within the tracts that received bids to determine which lands are available for lease. 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.

State/ASRC Acreage

The State and 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 NSA 2002. There appears to be jointly-owned acreage available in NSA 2002: Tracts 917,

918, 921, 924, 925, 927, 936, and 1048. Acreage within other jointly-owned tracts may be found to contain available acreage following the title/status review.

Tract Deletions and Deferrals

DO&G has deleted Tract 1146 from NSA 2002. The unleased acreage within the tract is not fully conveyed under the State/ASRC Settlement Agreement. DO&G may delete Tracts 925 and 936 from NSA 2002. The unleased acreage within these tracts is not fully conveyed under the State/ASRC Settlement Agreement. DO&G is actively working to resolve the title issues. Should this acreage not be fully conveyed before the sale, DO&G will delete these tracts.

DO&G may delete Tracts 917, 918, 921, 924 and 927 from NSA 2002. At this time DNR plans to offer these tracts on a contingency basis in NSA 2002. The 1431(o) Agreement entered into by ASRC and Kuukpik requires that any unleased ASRC acreage in these tracts be made subject to the same terms and conditions as those contained in the 1997 ARCO/Kuukpik Surface Use Agreement. That agreement, to this date, has not been made public. DO&G is offering these tracts contingent upon any apparent high bidder having access to the relevant parts of the surface use agreement following the sale. Should the apparent high bidder(s) for these tracts not be given access to the surface use agreement or not be able to negotiate satisfactory lease terms regarding surface use of Kuukpik lands prior to leases from NSA 2002 being awarded, the apparent high bidders will have the option to withdraw their bid(s) and receive a refund of their bid deposit (no interest will be paid). Should problems arise with this contingency based leasing approach before the sale, DO&G will reevaluate the offering of these tracts.

Note: The State reserves the right to delete any additional acreage or tract(s) from the sale at any time before the issuance of the lease.

Best Interest Finding and ACMP Consistency Determination

NSA 2002 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 North Slope Areawide Lease Sale 1998 (a.k.a. Lease Sale 87), the Director of DO&G issued a written final finding and decision under AS 38.05.035(e) and (g) on March 17, 1998. This finding sets forth the facts, policies, and applicable laws upon which he has based his determination that oil and gas lease sales on the North Slope of Alaska will best serve the interests of the State. In addition, a final coastal zone consistency determination was also made that oil and gas lease sales are consistent with the North Slope Borough and Alaska Coastal Management Programs (ACMP). On August 15, 2000, DO&G issued a Decision to Supplement that best interest finding with a Supplement to Chapter 5, Reasonably Foreseeable Effects.

On February 26, 2002, DO&G issued a Call for New Information regarding the proposal to re-offer available North Slope acreage in the year 2002. The final finding for the 1998 North Slope areawide sale and the final coastal zone management consistency determination were available for public review. DO&G requested new information subsequent to publication of the 1998 final

finding and the 2000 supplement. Based upon the information received, DO&G is issuing a *Decision of New Information* and a *Supplement to North Slope Areawide Best Interest Finding* concurrently with this sale announcement.

Appeal Procedures

A person affected by this decision who provided timely written comment or public hearing testimony on this decision may request reconsideration, in accordance with 11 AAC 02. Any reconsideration request must be received by August 13, 2002 and may be mailed or delivered to Pat Pourchot, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic 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 August 23, 2002. 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 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 operation, exploration and development and other permits. DO&G will review this plan for consistency with the ACMP the 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.

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

Bidding Method

The bidding method for all State and State/ASRC tracts in NSA 2002 will be cash bonus bidding with a minimum bid of **ten dollars (\$10) per 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 Lease

Leases on all State and State/ASRC tracts will have a term of **seven (7) years**.

Royalty Rates

Leases issued on State and State/ASRC Tracts **0520 through 0916, 0919, 0920, 0922, 0923, 0925, 0926, 0928 through 0935, 0937 through 1145, and 1147 through 1225** will have a **fixed royalty rate of sixteen and two-thirds percent (16.66667%)**.

Leases issued on State/ASRC Tracts **0917, 0918, 0921, 0924, and 0927** will have a **sliding scale royalty not less than sixteen and two-thirds percent (16.66667%) or more than thirty-three and one-third percent (33.33333%)**. The sliding scale royalty is calculated monthly by reference to the average of the daily high and low front month prices for West Texas Intermediate crude oil such that if that price is less than or equal to \$16 per barrel, the royalty percentage shall be 16.66667 percent. If the reference oil price is equal to or more than \$32 per barrel, the royalty percentage shall be 33.33333 percent. If the reference oil price is between \$16 and \$32 per barrel the royalty percentage shall vary linearly between 16.66667 percent and 33.33333 percent so as to equal 16.66667 percent plus an additional percentage equal to 16.66666 percent multiplied by a fraction having \$16 as its denominator and having as its numerator the excess of the reference oil price above \$16 per barrel.

$RP = 16.66667 + \frac{[16.66666 \times (ROP - 16)]}{16}$
RP = royalty percentage; $16.66667\% \leq RP \leq 33.33333\%$
ROP = reference oil price

Leases issued on all remaining State tracts will have a **fixed royalty rate of twelve and one-half percent (12.5%)**.

Lease Forms

Leases on State acreage will be executed on Form DOG 2000204. Leases on State/ASRC acreage will be executed on Forms DOG 2000204AS and DOG 200204AS (SSR).

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.

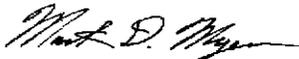
Sale Information

Copies of the final finding and supplements are available 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 be available at these locations on August 10, 2002. Complete details regarding NSA 2002, 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 with Attachment A (Estimated acreage figures) and Bid form
- Final Finding and Supplement
- Decision of No New Information
- Tract map (available August 2)

Paper copies of these documents, 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. Tract maps will cost \$25 per set. Checks should be made out to Alaska Dept. of Revenue.

The State of Alaska, DNR, DO&G, 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 Suzanne Gaguzis to make any necessary arrangements.



Mark D. Myers,
Director

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