

Invitation to Submit Expressions of Interest Cook Inlet Royalty in Kind Gas

The Commissioner of the State of Alaska Department of Natural Resources is considering the sale of royalty-in-kind gas in Cook Inlet. Before deciding whether to move forward with a preliminary best interest finding on such a sale, the state is soliciting “expressions of interest” from parties that may be interested in and/or affected by such action. Specifically, the state seeks written comment on topics such as whether a party is interested in purchasing state royalty-in-kind gas; what length of time such contracts should be effective; what volume of gas should be sold; what price provisions or parameters should be considered; what individual fields and leases should be considered; transportation considerations; institutional and commercial factors; and potential public advantages and disadvantages.

The State has a right to a one-eighth royalty share of gas production under the terms of most of its leases with Cook Inlet gas producers. Some leases provide for a different royalty rate. The leases, along with various unit agreements and royalty settlement agreements, grant the State the right to take its royalty share of gas production in-kind (RIK) or in-value (RIV). When the State takes its royalty share as RIV, the lessees market the royalty share. When the State takes its royalty share as RIK, it takes possession of the gas and sells it in the market.

Currently, Cook Inlet royalty gas production from state leases is approximately 15 billion cubic feet per year. The production rate varies significantly between summer and winter months. To date, the State has elected to take all its royalty share of Cook Inlet gas in-value. In prior years the State has considered taking its royalty share of Cook Inlet gas in-kind but has not actually sold RIK gas. The lessees sell gas directly to industrial and commercial users and to local power and gas utilities. A small amount of gas also is used for lease operations.

This invitation for “expressions of interest” ensures that the Commissioner’s evaluation will be fully informed by private and public comments. **The parties have until April 2, 2004 to respond in writing to the Commissioner at the Department of Natural Resources, 550 West 7th Avenue, Suite 1400, Anchorage Alaska 99501.** The decision on whether or not to proceed with a solicitation for offers and sale of Cook Inlet royalty gas will await the Commissioner’s evaluation of the expressions of interest and other relevant factors.

If, after reviewing the expressions of interest the commissioner decides to proceed, a solicitation for offers to purchase State royalty gas will be forthcoming accompanied with a preliminary best interest finding and determination. Public comment will again be accepted at that point in time. The commissioner reserves the right to cancel or postpone the solicitation for offers and the competitive RIK sale at any time. If an RIK sale offering is conducted, the State will negotiate the final contract terms with successful buyers. RIK gas sale contracts in excess of one-year duration will not be effective until they are approved by the Legislature.

If you have questions concerning this request for expressions of interest please contact Will Nebesky at the Division of Oil and Gas at 269-8799 or by email at wen@dnr.state.ak.us

March 15, 2004