

January 2012

STATE OF ALASKA
FIVE-YEAR PROGRAM
OF PROPOSED
OIL AND GAS
LEASE SALES



Alaska Department of
NATURAL
RESOURCES
DIVISION OF OIL & GAS

ties and communities, bidding methods, and the basis for the finding that, on balance, leasing the area would be in the state's best interest.

A preliminary finding is made available to the public at least six months before a sale and is followed by an opportunity for public comment for a period of at least 60 days. DNR gives public notice of a preliminary written finding by publishing legal notices in newspapers, making public service announcements, posting in conspicuous locations such as post offices and libraries, notifying parties known or likely to be affected, and other methods (such as the State of Alaska online public notice) calculated to reach affected parties.

During the public comment period, DNR may conduct workshops or hold open houses, public hearings, or public meetings in one or more of the affected communities. If the land is within the boundaries of a municipality or a regional corporation, that municipality or regional corporation may also hold a hearing with department personnel attending. Comments received during the comment period help in developing a final

finding. DNR releases the final finding, which determines whether the sale is in the state's best interests, at least 90 days before a scheduled sale.

Annual Lease Sales

In the ten years following the issuance of a best interest finding, DNR annually issues a "Call for New Information." The Call for New Information is a request for any substantial new studies, data, or research that has become available over the past year. The Call for New Information provides opportunity for public comment for a period of at least 30 days. Based on the information received, the commissioner determines whether it justifies supplementing the finding. The commissioner issues a supplement to the finding or a "Decision of No New Substantial Information" at least 90 days before the lease sale. The supplement has the status of a final written best interest finding.

Mitigation measures identified in the best interest finding are included as terms of the lease in all sales during the effective period of a finding.

Best Interest Finding Schedule

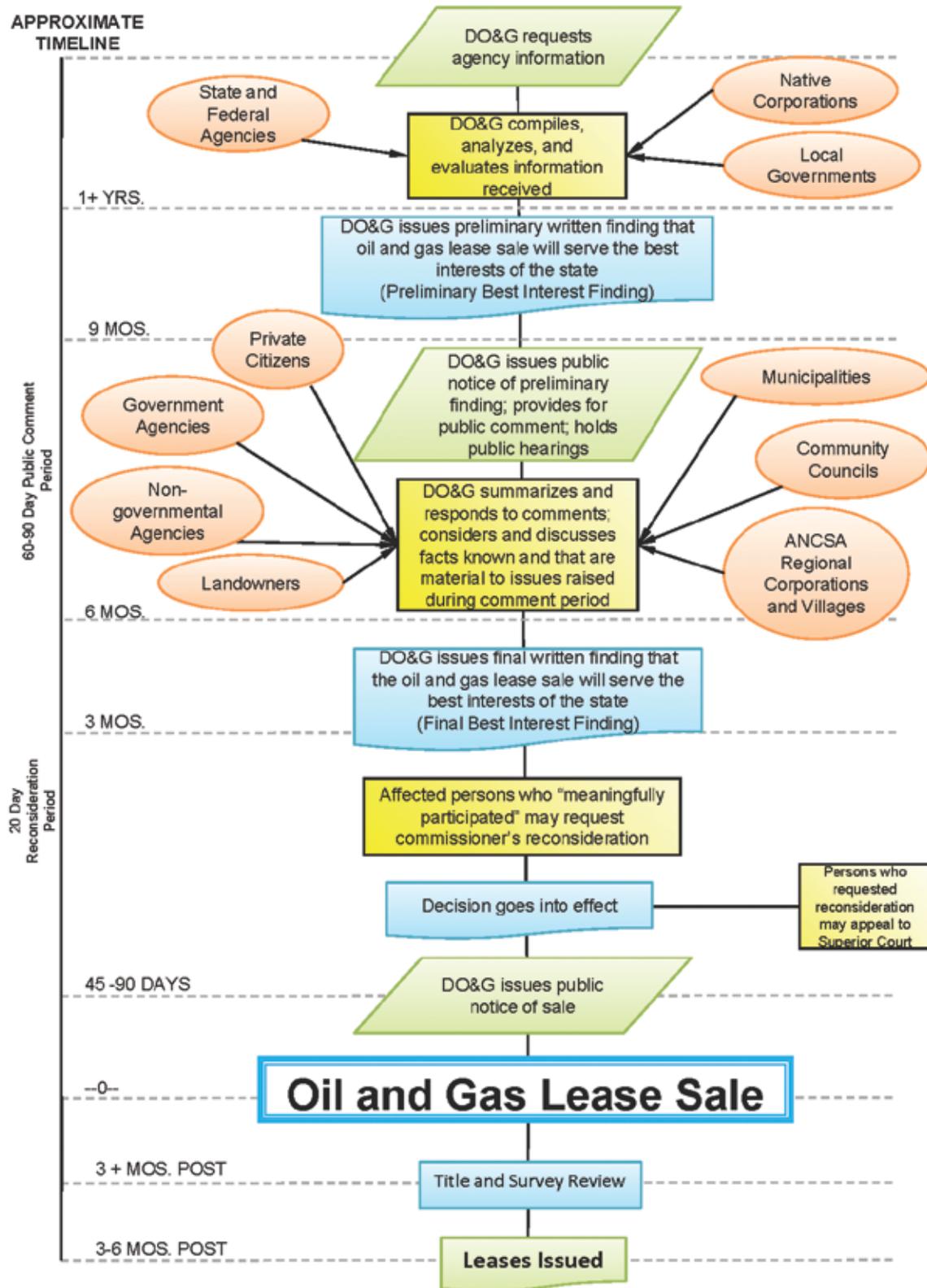
Once issued, a best interest finding is valid for ten years. The schedule for issuing new findings was modified in 2009 to spread the workload more evenly throughout the ten-year cycle. One of the five areawide best interest findings is now scheduled to be rewritten every two years. Findings for Cook Inlet and Beaufort Sea were issued in 2009, and a new finding for North Slope Foothills was issued in May 2011. The schedule for issuing 10-year best interest findings is provided below.

Areawide O&G Sale Area	Best Interest Finding Issued	Best Interest Finding Expires	New Finding Process Begins	Estimated Completion
Alaska Peninsula	July 25, 2005	July 24, 2015	2011	2013
Cook Inlet	January 20, 2009	January 19, 2019	2015	2017
Beaufort Sea	November 9, 2009	November 8, 2019	2017	2019
North Slope	July 15, 2008	July 14, 2018	2013	2015
North Slope Foothills	May 26, 2011	May 25, 2021	2018	2021



Photo: DOG Staff
Snowy owl perching on pipeline, North Slope.

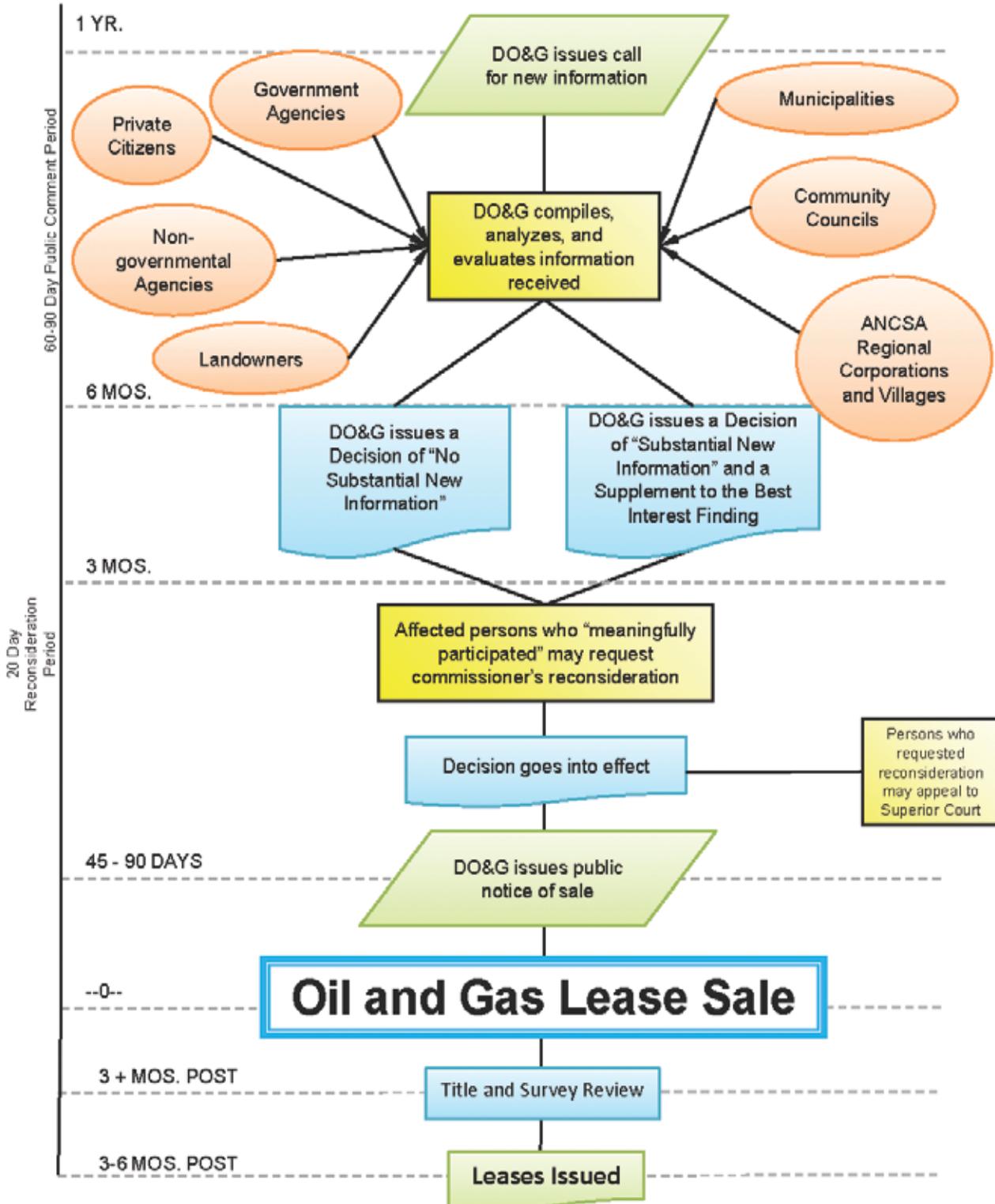
Lease Sale Process With New Best Interest Finding



Annual Lease Sale Process

(between scheduled best interest findings)

APPROXIMATE TIMELINE



Cover Photo: TAPS. Photo courtesy of Mark Morones

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STATE OF ALASKA

**FIVE-YEAR PROGRAM
OF PROPOSED
OIL AND GAS
LEASE SALES**

**With Reports On
Exploration Licensing
Geothermal Lease Sales
and Financial Incentives
and Tax Credit Programs**

**Sean Parnell
Governor**

**Daniel S. Sullivan
Commissioner
Department of Natural Resources**

January 2012

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Introduction

The Alaska State Legislature has found that “the people of Alaska have an interest in the development of the state’s oil and gas resources” and has specified in AS 38.05.180 that the commissioner of the Department of Natural Resources (DNR) prepare a five-year proposed oil and gas leasing program.

The Five-Year Oil and Gas Leasing Program provides a stable and predictable schedule of proposed lease sales, which helps promote the further development of Alaska’s petroleum resources. This program has become a reliable way for the petroleum industry to plan for exploration and development expenditures. Business and labor use the program to prepare for resultant economic opportunities.

The program is updated annually and is available on the Division of Oil and Gas Web site. This document presents DNR’s proposed lease sales for 2012 through 2016.

DNR has identified five areas of moderate to high potential for oil and gas development and designated these areas for leasing through competitive bid sales. This report contains a brief description of the process leading up to a lease sale, a brief description of each sale area, and the program of sales for the next five years. A list of all state oil and gas lease sales held since 1959 is listed in the “Summary of State Competitive Lease Sales” starting on page 38.

A total of 25 proposed areawide lease sales are scheduled over the next five years, with one sale scheduled annually for each of the following areas: Alaska Peninsula, Cook Inlet, Beaufort Sea, North Slope, and North Slope Foothills. Fact sheets and maps describing the proposed sale areas begin on Page 14.

Article VIII, Section 1 of the Alaska Constitution states that “[i]t is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.” Section 2 further states that “[t]he legislature shall provide for the utilization, development, and conservation of all natural resources be-



Photo: DOG Staff

DOG Geologist Laura Gregersen visiting a Cook Inlet facility.

longing to the state, including land and waters for the maximum benefit of its people.”

Although the primary purpose of leasing is to enable and manage oil and gas development on state lands and realize the subsequent economic benefits¹, the leasing program itself has been a significant revenue source.

During 2011, lease tracts were sold in 5 sales, resulting in an estimated \$32 million in bonus-bid income to the state². A report on the final results of the 2010 lease sales and preliminary results of the 2011 lease sales is included in this report.

Approximately 92 percent of the state’s income during Fiscal Year 2011 was generated through the process that starts with the state’s oil and gas lease sales.³

In addition to oil and gas lease sales, DNR authorizes and manages the exploration licensing program for areas outside the areawide sale boundaries. A summary of the program and the status of exploration licensing areas begin on page 46.

DNR is also responsible for geothermal leasing. Information about this program can be found on page 48.

¹As a result of oil and gas revenue from bonus bids, lease rentals, and royalty payments (including federal shares), and settlements during Fiscal Year 2011, approximately \$ 1.7 billion was deposited into the general fund and \$0.8 billion into the Permanent Fund and School Fund.

²Preliminary results are subject to title and administrative review, and may change significantly.

³FY2011 taxes, royalty, settlement, rental, federal share, and bonus revenue as percentage of general fund unrestricted revenue.

Five-Year Program of Proposed Oil & Gas Lease Sales

Five-Year Program for Oil and Gas Areawide Sales 2012-2016

Sale Area	Annually Held In
Alaska Peninsula Areawide	Spring
Cook Inlet Areawide	Spring
Beaufort Sea Areawide	Fall
North Slope Areawide	Fall
North Slope Foothills Areawide	Fall

DNR expects to continue areawide leasing for the next five-year program cycle, annually offering the five existing sale areas for leasing by competitive bidding.

The best interest finding issued for each sale area allows DNR to conduct areawide lease sales for up to ten years without repeating the best interest finding process each year. However, before holding a sale in the years following the issuance of the finding, DNR must determine whether a supplement to the finding is required.

DNR annually calls for comments from the public before a proposed lease sale, requesting substantial new

information, such as reports, data, and research that has become available over the past year.

Based on a determination of whether or not the information justifies a supplement, DNR issues either a “Decision of New Substantial Information” and a supplement to the finding, or a “Decision of No New Substantial Information” at least 90 days before the lease sale.

Several months before a scheduled sale, DNR prepares a geologic and economic evaluation of the sale area to determine the bidding method, leasing method, and the lease terms for the sale.

Areawide Leasing

To achieve stability and predictability in the oil and gas leasing program, and in response to industry’s request for more frequent sales, the state holds competitive annual areawide leasing in geographic regions of the state with known potential for oil and gas discoveries. Under areawide leasing, the state offers all available state acreage within those regions for lease by competitive bidding at annual lease sales.

Conducting annual areawide sales is cost-effective. It allows companies to plan for and develop exploration strategies and budgets years in advance, and to bid on any available acreage within an entire region. A regular schedule of areawide lease sales allows for quick turnaround of expired or terminated leases, or leases contracted out of units, for reoffer in the next annual sale. The result is more efficient exploration and earlier

development. It also allows smaller companies and individuals to acquire leases in areas of less interest to the major oil companies. The state has conducted annual areawide sales each year since 1998, totaling 56 sales.¹⁾

Administrative Process

DNR generally divides each lease sale area into tracts, irrespective of ownership. Because of the large number of tracts involved, the extent of the state’s ownership interest in these tracts is not determined before a lease sale. Instead, after a lease sale, DNR verifies state title and land status only for the acreage within tracts that receive bids. A sale tract may contain land that the state cannot legally lease (e.g., land that is within an existing lease or is federal, Native, or private land). For bidding purposes, DNR assigns an estimated acreage figure to

each tract, and the per acre bonus bid reflects the assigned acreage. The actual acreage available may differ, depending on the title and land status within each tract. Acreage not owned by the state, already leased, clouded by title claims, or withdrawn is excluded from the lease. Only free and unencumbered state-owned lands are included in any issued lease.

DNR publishes areawide tract maps showing generalized land status to assist potential bidders. However, it is the bidder's responsibility to determine availability of the land within a tract before bidding. Current or more detailed title or land status information for a particular tract may be obtained from state land records at DNR's Public Information Center, located in Anchorage at 550 West 7th Ave., Suite 1260; phone (907) 269-8400; or the DNR Web site at <http://plats.landrecords.info/>.

DNR sends out a public notice for the competitive lease sale 45 to 90 days before the sale. Sealed bids must be received by a specified date as stated in the Instructions to Bidders. Bids received are opened and read in public at the sale location, and apparent high bidders are announced.

Once state title to the tracts receiving bids is verified and the acreage calculated, the bonus bid amounts are adjusted and the lease is issued based on the actual available acreage. Depending on the number of tracts receiving bids and the complexity of the land ownership, it may take several months following the lease sale before the leases are issued.

Leasing Methods

Alaska has several leasing method options designed to encourage oil and gas exploration and maximize state revenue, as described in AS 38.05.180(f). These methods include combinations of fixed and variable bonus bids, royalty shares, and net profit shares. Minimum bids for state leases vary but have recently ranged from \$5 to \$25 per acre. Fixed royalty rates are generally 12 1/2 percent or 16 2/3 percent, although some have been as high as 20 percent. A sliding scale royalty has also been used. Primary lease terms are initially set between five and ten years.

¹⁾ 1998 to 2011 areawide sales: 14 were in the North Slope, 13 in Cook Inlet (added in 1999), 12 in Beaufort Sea (added in 2000), 11 in North Slope Foothills (added in 2001), and 6 in Alaska Peninsula (added in 2005).

Best Interest Findings

Before disposing of an interest in state land, including an oil and gas lease sale, DNR must prepare a written finding that determines if the sale is in the best interest of the state.

If a finding determines it is in the state's best interest to hold an oil and gas lease sale in a particular area, DNR may conduct lease sales in that area for ten years without having to repeat the entire best interest finding process. However, before each subsequent sale, DNR calls for comments from the public and determines whether new information received justifies a supplement to the most recent best interest finding.

The development of a new best interest finding is a lengthy process that begins years before a sale. The pro-

cess involves the participation of state agencies, with DNR serving as the lead, along with federal agencies, Native corporations, local governments, non-governmental agencies, industry, and the public.

In the preliminary written finding for an oil and gas lease sale, DNR considers and discusses the facts that are known at the time of preparation of the finding and that are material to the following: property descriptions, petroleum potential, fish and wildlife species and their habitats, current and projected uses, governmental powers to regulate oil and gas, reasonably foreseeable cumulative effects, lease stipulations and mitigation measures, methods most likely to be used to transport oil or gas, reasonably foreseeable effects on municipali-