

FIVE-YEAR OIL AND GAS LEASING PROGRAM

January 2008

With Reports On
Exploration Licensing and Exploration Incentive and Tax Credit Programs



Alaska Department of
**NATURAL
RESOURCES**
DIVISION OF OIL & GAS

Winter sunlight silhouettes an onshore tie-in pad serving Pioneer's Oooguruk development project on the North Slope.

Photo by Steve Schmitz, Division of Oil and Gas.

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STATE OF ALASKA

FIVE-YEAR OIL AND GAS
LEASING PROGRAM

With Reports On
Exploration Licensing
and
Exploration Incentive
and Tax Credit Programs

Sarah Palin
Governor

Thomas E. Irwin
Commissioner
Department of Natural Resources

January 2008

Prepared for the Second Session
Twenty-Fifth Alaska State Legislature

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INTRODUCTION

Oil and gas lease sales are the initial step in a process that generates nearly 80 percent of the state's income. 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 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 2008 through 2012.

The Five-Year Oil and Gas Leasing Program provides a stable and predictable schedule of proposed lease sales which, if held, could result in the further development of Alaska's petroleum resources. The petroleum industry has come to rely on this program to plan for exploration and development expenditures. Business and labor use the program to prepare for resultant economic opportunities.

Although the primary purpose of leasing state lands is to provide for oil and gas development and the subsequent economic benefits¹, the program itself has been a significant revenue source. During 2007, 85 lease tracts were sold in five sales, resulting in an estimated \$5,352,685.76² in bonus-bid income to the state. A report on the results of the 2007 lease sales begins on Page 31.

A brief description of lands included in each sale is found under "State Competitive Sale Areas" (Page 47). All lease sales held since 1959 are listed in the "Summary of State Competitive Lease Sales" (Page 50).

Sale Areas: 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, North Slope Foothills, Cook Inlet, North Slope, and Beaufort Sea. Fact sheets and maps describing these proposed sale areas begin on Page 17.

¹ As a result of oil and gas revenue from bonus bids, rentals, and royalty payments (including federal shares), and settlements during Fiscal Year 2007, approximately \$1.613 billion was deposited into the general fund and \$.545 billion into the Permanent Fund and School Fund.

² Preliminary results, subject to title and administrative review.

AREAWIDE LEASING

To achieve stability and predictability in the leasing program, and in response to industry's request for more frequent sales, the state has implemented competitive annual areawide leasing. Under areawide leasing, the state annually offers for lease all available state acreage within the Alaska Peninsula, North Slope Foothills, Cook Inlet, North Slope, and Beaufort Sea sale areas. Conducting annual areawide sales allows companies to fiscally plan for and develop their exploration strategies and budgets years in advance. The result is more efficient exploration, leading to earlier development. The state's first areawide sale was conducted on the North Slope in June 1998. Since then, the state has conducted 36 areawide sales.

Administrative Process

Areawide leasing brought about changes to DNR's administrative process prior to and following a sale. Previously, industry was asked to nominate areas to include in a sale, and DNR sought public comment on the proposed sale areas being considered for addition to the program. Since areawide leasing includes all available state acreage within each geographic region, there is no longer a need for industry nominations. Additionally, since the sale area within each region remains the same, it is no longer necessary to solicit public comment on the inclusion of these lands prior to issuing the five-year schedule.

DNR has divided each sale area into tracts. Because of the large number of tracts involved, the extent of the state's ownership interest in these tracts is no longer determined prior to a sale. Instead, after a sale, DNR verifies title only for the acreage within tracts that receive bids. Should a potential bidder require title or land status information on state land for a particular tract prior to the sale, it is the bidder's responsibility to obtain that information from DNR's public land records. State land records are maintained at the department's Public Information Center, located in Anchorage at 550 West 7th Ave., Suite 1260; phone (907) 269-8400; or on its Web site at <http://plats.landrecords.info/>. A tract may contain land that the state cannot legally lease (i.e., land that is part of an existing lease; federal, Native, or private land; etc.). For bidding purposes, DNR assigns an estimated acreage figure to each tract, which in many cases is greater than the actual acreage available, and the per acre bonus bid must reflect that assigned acreage. Once title has been verified, bids are adjusted to reflect the actual acreage available and the lease is issued. Depending upon the number of tracts and the complexity of the land ownership, it may take several months following the lease sale before all of the leases are issued.

The lease sale consists of a public opening and reading of sealed bids received by DNR during the time period specified in the sale. The highest qualified bidder on a tract is awarded that lease.

Best Interest Finding Process

In 1996, to facilitate areawide leasing, the Legislature passed legislation establishing that a best interest finding developed for a lease sale be valid for 10 years (previously, a finding was good for only five years). Once a finding for an area is written, DNR can conduct lease sales in that area for 10 years without having to repeat the entire process. However, prior to each subsequent sale, DNR is required to solicit information from the public and make a determination on whether substantial new information has become available, justifying a supplement to the most recent best interest finding.

The planning and execution of an oil and gas lease sale that requires a new best interest finding is a lengthy process that begins years before a sale. The process involves the participation of a number of state agencies, with DNR serving as the lead, along with federal agencies, industry, local communities, environmental organizations, and the public. DNR researches and analyzes social, economic, environmental, geological, and geophysical information about a sale area and develops a preliminary best interest finding.

A preliminary finding describes the sale area and discusses the potential effects that may occur as a result of oil and gas exploration, development, production, and transportation. It also contains mitigation measures to be imposed on plans of operation as lease terms designed to reduce or eliminate negative effects. The preliminary finding is published at least six months before the sale and is followed by a public comment period of at least 60 days. DNR gives public notice of the preliminary finding through a public mailing, display ads and legal notices in newspapers, postings in local post offices and libraries, and public service announcements.

During the public comment period, DNR may conduct workshops or hold public meetings in one or more of the affected communities. Local boroughs and municipalities may also conduct hearings, which division personnel attend. Comments received during the comment period help in developing a final finding. DNR releases the final finding, including a decision determining whether the sale is in the state's best interests, at least 90 days before a scheduled sale. The final finding is also public noticed.

Concurrent with a best interest finding, when a sale involves land within the state's coastal zone, DNR analyzes a proposed lease sale for consistency with the Alaska Coastal Management Program (ACMP), including any affected local coastal management plans. The ACMP consistency analysis is published with the preliminary finding; the final ACMP consistency determination is issued concurrently with the final finding.

When A New Finding Is Not Required: In the years following the issuance of a best interest finding (up to 10 years), DNR issues a "Call for New Information" prior to the notice of a lease sale. The Call for New Information requests any new information made available since the most recent best interest finding or supplement to the best interest finding for that region was completed. The Call for New Information is public noticed and interested parties have at least 60 days to submit new information. Based on the information received, DNR determines whether a supplement to the best interest finding is justified. At least 90 days prior to a sale, DNR issues either a supplement or a decision that there is no substantial new information requiring a supplement. The supplement or finding of no substantial new information is public noticed, usually with the notice of the lease sale.

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. A new coastal management consistency review is done whenever the commissioner determines that new information or conditions suggest a proposed lease sale may no longer be consistent with ACMP standards.

ALASKA OIL AND GAS LEASING PROGRAM



ALASKA
DEPARTMENT OF
NATURAL RESOURCES
DIVISION OF OIL AND GAS
 KEVIN R. BANKS, ACTING DIRECTOR

AREAWIDE SALES 2008-2012

- NS Foothills Feb
- Ak Peninsula Feb
- Cook Inlet May
- Beaufort Sea Oct
- North Slope Oct

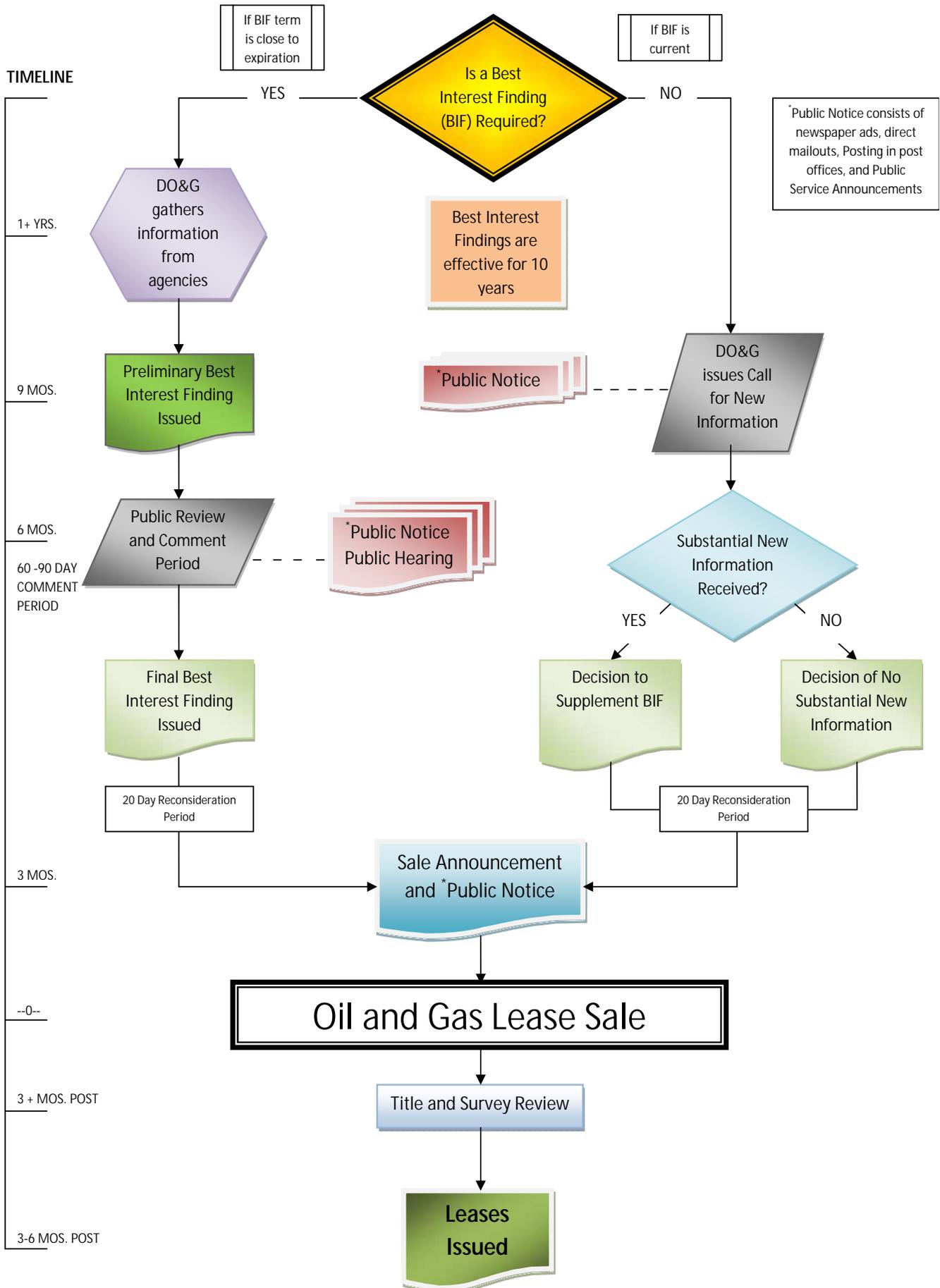


Base Map: Albers Equal-Area Conic Projection, 1927 North American Datum, Clarke 1866 ellipsoid with a central meridian of 154°, origin latitude of 50°, northern parallel of 65°, southern parallel of 55°.
 This map is for informational purposes only. January 2008

Best Interest Finding Schedule

Areawide O&G Sale Area	Best Interest Finding Issued	Best Interest Finding Expires	New Finding Process Begins	Estimated Completion
North Slope	March 17, 1998	March 16, 2008	Feb 2007 In progress	Early 2008
Cook Inlet	January 20, 1999	January 19, 2009	September 2007 In progress	Mid-2008
Beaufort Sea	July 15, 1999	July 14, 2009	February 2008	November 2008
North Slope Foothills	February 7, 2001	February 6, 2011	June 2009	March 2010
Alaska Peninsula	July 25, 2005	July 24, 2015	N/A	N/A

Oil and Gas Lease Sale Process



**LEASING METHODS
AND
EXPLORATION INCENTIVE AND TAX CREDIT PROGRAMS**

Leasing Methods:

Alaska has several leasing method options designed to encourage oil and gas exploration and maximize state revenue. These methods include combinations of fixed and variable bonus bids, royalty shares, and net profit shares. Minimum bids for state leases are generally \$5 or \$10 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 on occasion. Lease terms are set at five, seven, or 10 years, depending on geographical location.

Exploration Incentive Credit (EIC) and Tax Credit Programs:

AS 38.05.180(i): This statute authorizes the commissioner of the Department of Natural Resources to establish an EIC system under which a lessee drilling an exploratory well on state-owned land may earn credits based upon the footage drilled and the region in which the well is located. This EIC must be designated by the commissioner as a lease sale term. Drilling information is held confidential for two years. If demonstrated by the lessee as necessary, confidentiality may be extended. The statute also provides for an EIC for geophysical work on state land, if that work is performed during the two seasons immediately preceding an announced lease sale and is on land included within the sale area. The geophysical information must then be made public after the sale. Credits are granted by the commissioner for a limited period and may be assigned. A credit may not exceed 50 percent of the cost of the drilling or geophysical work. Credits may be applied against royalty and rental payments to the state, or taxes payable under AS 43.55. Amounts due the Alaska Permanent Fund (AS 37.13.010) are considered before the application of credits.

Since the state began offering EICs under this program, 22 exploratory wells qualifying for credit have been drilled on state leases. There have been no applications for geophysical EICs.

AS 43.55.025: Beginning on July 1, 2008, this program allows for a production tax credit of 30 percent of the cost of an exploratory well if the bottom hole location is three or more miles from the bottom hole location of a pre-existing well that was spud more than 540 days, but less than 35 years, prior to the spud date of the eligible exploration well, and 30 percent of the cost of an exploratory well if the bottom hole location is at least 25 miles from the boundary of any unit. The credits may not be combined. The program also offers seismic exploration tax credits of 40 percent of eligible costs for those portions of activities outside of a unit. Seismic data qualifying for this credit will be held confidential for 10 years and 30 days. This tax credit is transferable unless you are tax exempt. This program expires on July 1, 2016. The expenses that qualify for credits under this tax program cannot be claimed as qualified capital expenditure under AS 43.55.011 (Petroleum Profits Tax), so an expense cannot qualify for multiple credits.

AS 43.020.043: This program was adopted in 2003, and is applicable only to operators and working interest owners engaged in exploration for and development of gas resources and reserves south of 68 degrees north latitude. The program allows for a 10 percent tax credit equivalent of qualified capital investments made after June 30, 2003, and 10 percent of the annual

cost of activity in the state during each tax year. The total allowable yearly tax credit may not exceed 50 percent of the taxpayer's total tax liability. Unused tax credit may be carried forward for up to five years. Credit is transferable only as part of a conveyance, assignment, or transfer of the taxpayer's business. Credit under this program may be used in conjunction with any other credit authorized by AS 43.20, but not for tax credit or royalty modification provided under any other title. This program expires January 1, 2013.

Nonconventional Gas Incentive: Under AS 38.05.180(n)(2), if the lessee under a gas-only lease demonstrates that the potential resources underlying the lease are reasonably estimated to be nonconventional gas, the rental payment on the lease will be reduced and the royalty may be reduced to 6.25 percent.

Royalty Reduction: The state also allows royalty reduction for certain Cook Inlet fields for the first 10 years of production. Under AS 38.05.180(f)(5) the commissioner may also reduce royalty down to a minimum of 5 percent under AS 38.05.180(j) for delineated fields from which production would not otherwise be economically feasible.

EXPLORATION INCENTIVE CREDITS

AS 38.05.180(i)

Report Month: October 2004

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
343109	G-2 Well	Exxon Company USA	10/05/83	\$6,197,625.00
		Sohio Alaska Petro.	12/27/83	4,152,408.75
		BP Alaska Exploration	10/05/83	2,045,216.25
344010	Leffingwell	ARCO Alaska Inc.	10/02/84	\$3,706,000.00
		Unocal	10/02/84	3,706,000.00
344033	J-1 Well	Exxon Company USA	10/31/84	\$5,119,500.00
355005	Long Island Well	Exxon Company USA	11/14/84	\$1,367,738.00
		Sohio Alaska Petroleum	11/14/84	1,378,076.00
345130	Totek Hills	ARCO Alaska Inc.	08/02/85	\$715,530.81
355037	Colville Delta #1	Texaco Inc.	07/09/86	\$952,179.00
		Amerada Hess	07/08/86	888,594.00
		Diamond Shamrock (Maxus)	07/08/86	100,128.00
		Rosewood Resources	07/08/86	12,662.00
		Hunt Petroleum Co.	07/08/86 (1)	8,866.36
		BP Alaska Exploration	02/31/87	475,631.00
		Mobil	02/05/87	432,511.00
364478 (2)	Colville Delta Area AHC 25-13-6 #1 Well	Amerada Hess	10/12/87 (3)	\$140,071.13
		Texaco Inc.	10/12/87 (4)	771,743.46
		Maxus Exploration	10/12/87 (5)	100,297.41
		Rosewood Resources	10/12/87 (6)	4,111.82
355038 (2)	Colville Delta #2	Amerada Hess	10/28/87	\$757,731.46
		Texaco Inc.	10/28/87	898,563.40
		BP Alaska Exploration	10/28/88	423,982.26
355039 (2)	Colville Delta #3	Amerada Hess	10/28/87 (7)	\$ 0.00
		Texaco Inc.	10/28/87 (8)	0.00
		BP Alaska Exploration	10/28/87 (9)	63,228.39
		Union Texas Petroleum	10/28/87 (10)	14,097.50
344176	Gyr #1	ARCO Alaska, Inc.	11/15/90 (11)	\$699,302.43
		Amerada Hess	11/15/90 (11)	732,804.63
		Conoco	11/15/90 (12)	732,804.62
355021	NW Milne #1	Conoco	07/10/92 (13)	\$1,371,691.42
		Conoco	02/09/93	660,321.00
375044	Sequoia #1	Conoco	07/10/92 (13)	\$275,521.32
		Petrofina	07/10/92 (14)	227,594.08
		Conoco	02/09/93	16,333.56
		Petrofina	02/09/93	19,963.24

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
375076	Cirque #2	ARCO Alaska, Inc.	02/09/93 (15)	\$845,018.43
375108	Tarn #1	ARCO Alaska, Inc.	02/09/93 (16)	\$727,939.95
355036	Kalubik #1	ARCO Alaska, Inc.	02/09/93 (17)	\$2,599,602.13
		ARCO Alaska Inc. (UTP)	03/04/93	250,822.50
		ARCO Alaska Inc. (UTP)	04/22/93	11,779.91
372104	Fiord #1	ARCO Alaska Inc. (UTP)	02/09/93 (18)	\$1,811,218.84
		ARCO Alaska Inc.	03/04/93	191,018.62
372006	Tulaga #1	ARCO Alaska Inc.	03/25/93 (19)	\$1,241,177.00
355011	Jones Island #1	ARCO Alaska Inc.	07/12/93	\$2,160,000.00
		ARCO Alaska Inc. (UTP)	07/20/93 (20)	1,910,175.00
375133	Cascade Well #1	BP Exploration (AK) Inc	04/04/94 (21)	\$893,245.73
375061	Yukon Gold #1	BP Exploration (AK) Inc	08/08/94 (22)(23)	\$2,394,546.77
		Union Oil Co. of Cal (H)	08/23/94 (24)	487,240.46
TOTAL EICs GRANTED TO-DATE:				\$54,692,614.64

- (1) Hunt's EIC balance reduced through a commissioner's decision dated March 18, 1998. Hunt made a subsequent payment in April 1998.
- (2) Colville Delta wells were settled through the Colville Delta EIC settlement agreement dated 12/31/98.
- (3) Amerada Hess EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/29/99.
- (4) Texaco's EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/28/99.
- (5) Maxus' EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/26/99.
- (6) Rosewood's EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/7/99.
- (7) Amerada Hess EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/29/99.
- (8) Texaco's EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/28/99.
- (9) BP's EIC balance reduced through an EIC settlement agreement and subsequent payment on 12/31/98.
- (10) Union Texas' EIC balance reduced through an EIC settlement agreement and subsequent payment on 1/29/99.
- (11) ARCO and Amerada's EIC balances reduced through an EIC audit and subsequent payment in February 1997.
- (12) Conoco's EIC balance reduced through an EIC audit and subsequent payment in March 1997.
- (13) Conoco's EIC balance reduced through an EIC audit and subsequent payment in July 1997.
- (14) \$125,190.33 of EIC expired for Petrofina on March 31, 1996.
- (15) ARCO's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
- (16) ARCO's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
- (17) ARCO's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
- (18) ARCO's EIC balance increased through an EIC audit and subsequent payment in December 1997.
- (19) Union Texas (ARCO) EIC balance reduced through an EIC audit and subsequent payment on 8/18/98.
- (20) Union Texas (ARCO) EIC balance reduced through an EIC audit and subsequent payment on 8/18/98.
- (21) BP's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
- (22) BP's EIC balance reduced through an EIC audit and subsequent payment in December 1997.
- (23) BP's EIC balance reduced through an EIC audit and subsequent payment on 12/31/98.
- (24) Union's EIC balance reduced through an EIC audit and subsequent payment in July 1998.

Source: Alaska Department of Natural Resources, Division of Oil and Gas

QUALIFYING TO APPLY FOR, OBTAIN, OR TRANSFER AN INTEREST, PERMIT, OR LEASE RELATING TO OIL AND GAS IN ALASKA

Who Must File: Every individual, association or partnership, corporation, or person authorized to act on behalf of another party must qualify with the Division of Oil and Gas prior to bidding for lease tracts. Qualification also must be obtained prior to applying for, obtaining, or transferring interest in a permit or lease issued under AS 38.05.135 - 38.05.184.

Where to File: Address any required information or inquiries regarding qualifications to State of Alaska, Department of Natural Resources, Division of Oil and Gas, 550 West 7th Avenue, Suite 800, Anchorage, Alaska 99501-3560. Hand-carried material should be delivered to the same address.

How to File: The following is a list of the information and documents required when qualifying under 11 AAC 82.200 - 11 AAC 82.205. Information and documents that have been filed previously and are still current may be sufficient to qualify individuals or other entities.

A. Individuals: 11 AAC 82.205(a)(2). Individuals must submit a signed, dated statement that includes the applicant's name, address, and telephone number, preferably notarized, attesting that:

- 1) The individual has reached the age of majority (in Alaska the age of majority is 18 years, except for those who are emancipated earlier by marriage or by court order), a citizen of the United States or an alien qualified under AS 38.05.190.

Forms may be obtained from the division upon request or a statement including the necessary information may be composed and submitted by an individual.

- 2) Any legal representative, guardian, or trustee for an individual must submit a certified copy of the court order authorizing the representative to act in that capacity and to fulfill, on behalf of the individual, all obligations arising under the lease or permit. The representative must also submit a signed statement as to the age of the individual and themselves.
- 3) Agents for an individual must submit an original or certified copy of a notarized power of attorney instrument authorizing the agent to act on behalf of the individual.

B. Corporations: Corporations must submit

- 1) the current name, mailing address, phone and fax numbers of the corporation;
 - 2) a list of the individuals authorized to act on its behalf with respect to oil and gas leasing or permitting;
 - 3) an original or certified copy of a notarized power of attorney authorizing any agent who is not a current officer but who has been authorized by the corporation to act on its behalf with respect to the mineral specified in the permit or lease;
 - 4) a current Certificate of Compliance (Certificate of Good Standing) for those corporations qualified to do business in Alaska;
- or-
- 5) if filing for the first time, either:

- a) a Certificate of Incorporation (Certificate of Organization for an LLC) from those corporations which have been incorporated in the state of Alaska (also known as “domestic” corporations), or
- b) a Certificate of Authority (Certificate of Registration for an LLC) from those corporations which have been incorporated outside the state of Alaska (also known as “foreign” corporations).

The required certificates must be requested from the Alaska Department of Commerce, Community and Economic Development (DCCED). Certificates may be purchased online at www.dced.state.ak.us/occ/, e-mail: corporations@alaska.gov.

These documents may also be obtained by mail from the Alaska Department of Commerce, Community and Economic Development (DCCED), Attention: Corporations Section, 9th Floor, State Office Building, P.O. Box 110808, Juneau, Alaska 99811-0808, (907) 465-2530, or the Alaska Department of Commerce and Economic Development, Attention: Corporations Section, 550 W 7th Ave., Suite 1500, Anchorage, Alaska 99501, (907) 269-8173.

Inquiries about incorporating in the state of Alaska, or qualifying as a foreign corporation to do business in the state of Alaska should be addressed to personnel at either of the above addresses.

C. Unincorporated Associations: Unincorporated Associations, partnerships or joint ventures must submit

- 1) a statement describing the business relationships between members of the association, partnership or joint venture;
- 2) a statement of qualifications for each member of the association, partnership, or joint venture (outlined in Section A);
-and/or-
if some or all of the members are incorporated entities, all information required for corporations (described in Section B) must also be submitted; and
- 3) in the case of an agent acting on behalf of an individual, an original or certified copy of a notarized power of attorney defining the agent’s authority to sign with respect to the mineral specified in the permit or lease on behalf of the partnership, association or joint venture.

If still current, material previously filed with the department satisfying all or part of the requirements of this section may be incorporated in an application by appropriate reference together with a statement as to any material changes or amendments.

Sources: 11 AAC 82.200, 11 AAC 82.205, AS 38.05.020, AS 38.05.145(a)

Further Information: For further information regarding qualifying for Alaska oil and gas leases, please contact the State of Alaska, Department of Natural Resources, Division of Oil and Gas, 550 West 7th Avenue, Suite 800; Anchorage, Alaska 99501-3560; Phone number (907) 269-8816; or visit our Web site at <http://www.dog.dnr.state.ak.us/oil/>.