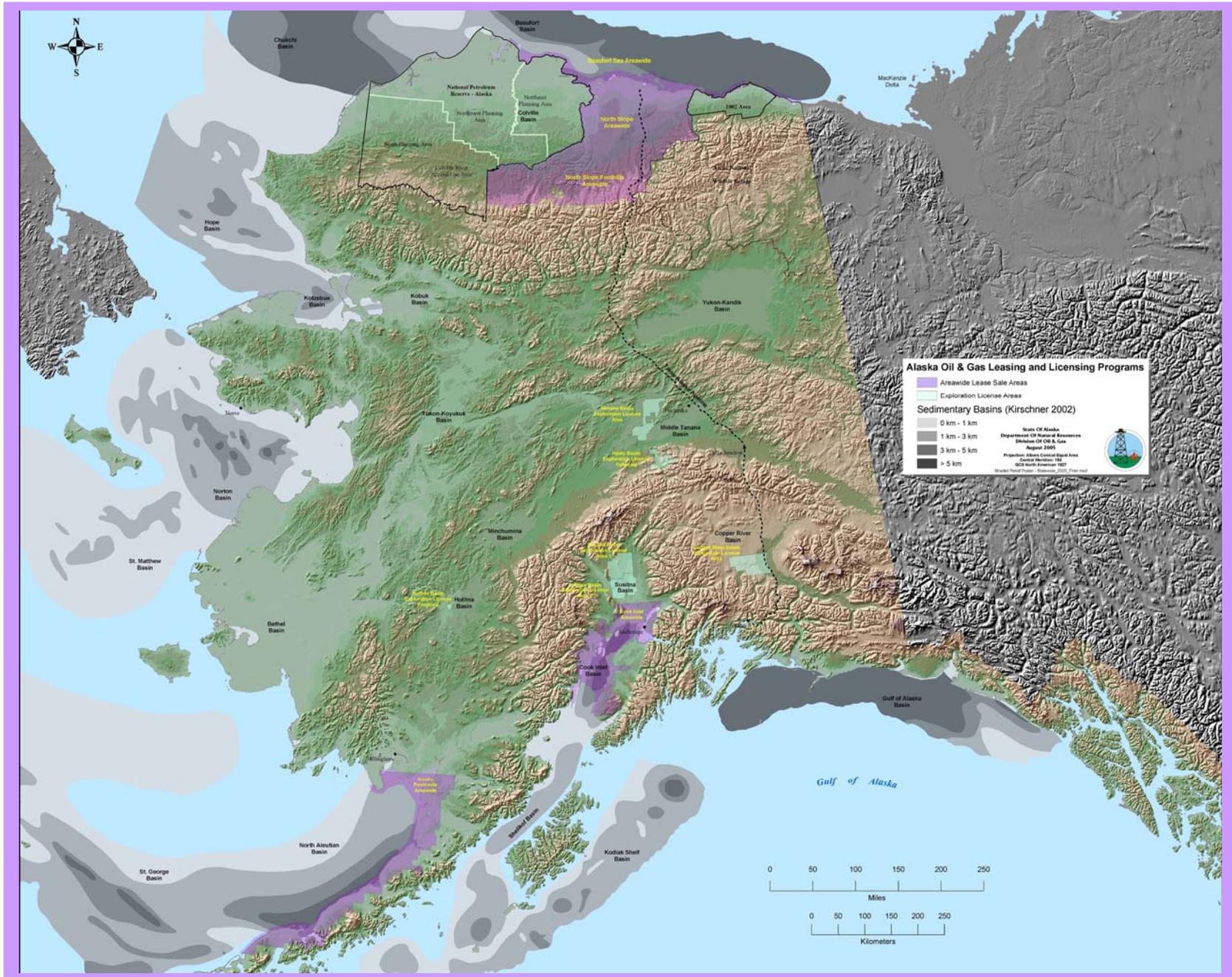


Section One

Leasing Licensing, and Incentives



Areawide Leasing

Oil and gas lease sales are the initial step in a process that generates nearly 80 percent of the state's general fund revenue. Although the primary purpose of leasing state lands is to provide for oil and gas development and the subsequent economic benefits, the program in itself has been a significant revenue source. Through lease sale bonus bids alone, the state has received more than \$2 billion in revenue.

Since 1959 the state has held more than 100 competitive lease sales in which it has offered millions of acres throughout Alaska. Several leasing methods, authorized under the AS 38.05, were used to encourage responsible oil and gas exploration and development and maximize state revenue. These methods include combinations of fixed and variable bonus bids, royalty shares, and net profit shares. The fixed lease terms generally involve an obligation to remit royalty payments in the form of a 12^{1/2} percent or 16^{2/3} percent share of gross production paid in-kind or in-value. Occasionally, the state has imposed a fixed royalty rate of 20 percent. The state has also used sliding-scale royalty terms in its leases based on production or oil price or gross revenue.



Areawide leasing
ADNR, DO&G

The most common bid variable used by the state is the cash bonus. The state may require minimum bids of \$5 to \$10 per acre (and sometimes higher). The state may also use the royalty rate or the net profit share as the bidding variable, though this has happened only rarely (Sale 30, the joint Federal-State Beaufort Sea sale held in 1979, was one of these occasions).

Since 1998, state oil and gas lease sales have been conducted on an areawide basis. This means that each sale includes all unleased state oil and gas resources within the lease sale area. The five geographic regions that have been subject to areawide leasing are the North Slope, North Slope Foothills, Beaufort Sea, Cook Inlet, and Alaska Peninsula. The first such sale was the North Slope Areawide Sale held in June 1998. Since then, areawide sales have been held in the other regions. In 2005, the state added the Alaska Peninsula Areawide Sale, located in Southwest Alaska. Areas outside these regions are available for exploration through exploration licensing, discussed later in this report.

Prior to an area being subject to an areawide lease sale, the commissioner must determine that it is in the state's best interest to hold such a sale in the area. The best interest finding is effective for up to 10 years, however, prior to each sale, the commissioner must solicit public comment and determine if substantial new information has become available that justifies supplementing the best interest finding. If the decision is to proceed with a sale, a sale announcement — including the sale terms, bidding method, and tract map — will be issued at least 45 days prior to that sale. If a best interest finding or a supplement to a previous finding is required, it will be released at least 90 days prior to the sale.

The Division of Oil and Gas annually issues a new *Five-Year Oil and Gas Leasing Program* that sets out the sale schedule for the succeeding five years. Also included in this document are maps with results from the most recent areawide sales, a summary report of all previous state oil and gas lease sales, and an update on exploration licensing in the state. In addition, full information on each previous areawide lease sale is available on the division's Web site.

Leasing



January
2006



FIVE-YEAR OIL AND GAS LEASING PROGRAM PUBLIC NOTIFICATION SCHEDULE

ALASKA
DEPARTMENT OF
NATURAL RESOURCES
DIVISION OF OIL & GAS

Proposed Sale Area & Date	2006												2007												2008												2009												2010														
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D			
North Slope Arcawide 2006 *Mar																																																															
Beaufort Sea Arcawide 2006 *Mar																																																															
North Slope Foothills Arcawide 2006 *May																																																															
Cook Inlet Arcawide 2006 May																																																															
North Slope Arcawide 2006 A Oct																																																															
Beaufort Sea Arcawide 2006 A Oct																																																															
Alaska Peninsula Arcawide 2007 Feb																																																															
North Slope Foothills Arcawide 2007 Feb																																																															
Cook Inlet Arcawide 2007 May																																																															
North Slope Arcawide 2007 Oct																																																															
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Cook Inlet Arcawide 2010 May																																																															
North Slope Arcawide 2010 Oct																																																															
Beaufort Sea Arcawide 2010 Oct																																																															

C = Call for Comments; Request for New Information Made Available Since Last Finding. * = 2006 Only
E = End of Comment Period. **P** = Preliminary Best Interest Finding / ACMP Consistency Analysis.
F = Final Finding. **F_S** = Supplement to Final Finding and/or Notice of Sale and Terms.
N = Notice of Sale and Terms. **S** = Sale.

Public Process 1/20/06
www.dog.dnr.state.ak.us

SUMMARY OF STATE COMPETITIVE LEASE SALES

Sale Date	Sale	Sale Area	Acres Offered	Acres Leased	Percent Leased	Average \$/Acre	Tracts Offered	Tracts Leased	Bonus Received	Bid Variable	Fixed Terms
12/10/1959	1	Cook Inlet	88,055	77,191	87.66%	\$52.08	37	31	\$4,020,342	Bonus; No Min	12.5% Royalty
7/13/1960	2	Cook Inlet	17,568	16,506	93.86%	\$24.70	27	26	\$407,655	Bonus; No Min	12.5% Royalty
12/7/1960	3	Mixed	73,048	22,967	31.30%	\$1.54	26	9	\$35,325	Bonus; No Min	12.5% Royalty
1/25/1961	4	Cook Inlet	400	400	100.00%	\$678.04	3	3	\$271,614	Bonus; No Min	12.5% Royalty
5/23/1961	5	Mixed	97,678	95,900	98.08%	\$74.71	102	99	\$7,170,465	Bonus; No Min	12.5% Royalty
8/4/1961	6	Gulf Ak	13,257	13,257	100.00%	\$8.35	6	6	\$110,672	Bonus; No Min	12.5% Royalty
12/19/1961	7	Mixed	255,708	187,118	73.18%	\$79.43	88	53	\$14,883,048	Bonus; No Min	12.5% Royalty
4/24/1962	8	Cook Inlet	1,062	1,062	100.00%	\$4.80	8	8	\$5,097	Bonus; No Min	12.5% Royalty
7/11/1962	8	Mixed	315,668	264,437	83.77%	\$58.42	88	76	\$15,714,113	Bonus; No Min	12.5% Royalty
5/8/1963	10	Cook Inlet	167,583	141,491	84.43%	\$28.23	200	158	\$4,136,226	Bonus; No Min	12.5% Royalty
12/1/1963	12	Cook Inlet	346,782	247,088	71.25%	\$12.31	308	207	\$3,042,681	Bonus; No Min	12.5% Royalty
12/9/1964	13	Mixed	1,194,373	721,224	60.39%	\$7.68	610	341	\$5,537,100	Bonus; No Min	12.5% Royalty
7/14/1965	14	North Slope	754,033	403,000	53.45%	\$15.25	297	159	\$6,145,473	Bonus; \$1/acre Min	12.5% Royalty
9/28/1965	15	Cook Inlet	403,042	301,751	74.87%	\$15.49	293	218	\$4,874,344	Bonus; \$1/acre Min	12.5% Royalty
7/19/1966	16	Mixed	184,410	133,987	72.66%	\$52.55	205	153	\$7,040,880	Bonus; \$1/acre Min	12.5% Royalty
11/23/1966	17	Cook Inlet	19,230	16,590	86.27%	\$7.33	36	35	\$136,280	Bonus; \$1/acre Min	12.5% Royalty
1/24/1967	18	Mixed	47,728	43,657	91.47%	\$33.90	23	20	\$1,478,806	Bonus; \$1/acre Min	12.5% Royalty
3/28/1967	19	Kachemak Bay	2,560								
7/25/1967	20	Cook Inlet	311,250	256,447	82.39%	\$73.14	285	220	\$10,757,341	Bonus; \$1/acre Min	12.5% Royalty
3/26/1968	21	Ak Pen	348,623	184,981	47.59%	\$18.24	308	147	\$3,009,224	Bonus; \$1/acre Min	12.5% Royalty
10/29/1968	22	Cook Inlet	111,199	60,272	54.20%	\$17.29	230	125	\$1,042,220	Bonus; No Min	12.5% Royalty
9/10/1969	23	North Slope	450,858	412,548	91.50%	\$2,181.66	179	164	\$900,041,805	Bonus; No Min	12.5% Royalty
5/12/1971	24	Cook Inlet	196,635	92,618	47.10%	\$4.92	244	106	\$455,641	Bonus; No Min	12.5% Royalty
9/26/1972	25	Cook Inlet	325,401	178,245	54.78%	\$7.43	259	152	\$1,324,673	Bonus; No Min	12.5% Royalty
12/1/1972	26	Cook Inlet	399,921	177,973	44.50%	\$8.75	218	105	\$1,557,849	Bonus; No Min	12.5% Royalty
5/8/1973	27	Cook Inlet	300,401	113,992	38.93%	\$9.92	210	86	\$1,130,325	Bonus; No Min	12.5% Royalty
12/13/1973	28	Cook Inlet	166,648	87,804	52.69%	\$253.77	86	62	\$24,818,180	Bonus; No Min	16.67% Royalty
10/23/1974	29	Cook Inlet	278,269	127,120	45.68%	\$9.19	164	82	\$1,040,810	Bonus; No Min	16.67% Royalty
7/24/1979	29B	Copper Riv	34,878	34,878	100.00%	\$45.66	20	20	\$158,042	Bonus; No Min	20% Royalty
12/12/1979	30	Beaufort Sea	341,140	280,306	82.18%	\$1,914.07	71	62	\$57,381,497	Net Profit Share (NPS)	20% Royalty, \$650 & \$1750/acre
9/16/1980	31	North Slope	196,288	196,288	100.00%	\$63.12	76	76	\$12,387,470	Bonus; No Min	20% Royalty, 30% NPS
5/13/1981	33	Cook Inlet	815,000	429,978	52.76%	\$10.00	202	103	\$4,299,782	Royalty; 20% Min	\$10/acre Bonus
8/25/1981	32	Cook Inlet	202,837	152,426	75.15%	\$10.00	78	59	\$1,524,282	Royalty; 20% Min	\$10/acre Bonus
2/2/1982	35	Cook Inlet	601,172	131,191	21.82%	\$10.00	148	31	\$1,311,807	Royalty; 12.5% Min	\$10/acre Bonus
5/26/1982	*36	Beaufort Sea	56,862	56,862	100.00%	\$573.02	13	13	\$32,583,452	Bonus; No Min	12.5% Royalty & 40% NPS
8/24/1982	*37	Copper River	652,803	168,848	19.80%	\$3.33	217	33	\$562,944	Bonus; No Min	12.5% Royalty & 30% NPS
8/24/1982	37A	Cook Inlet	1,875	1,875	100.00%	\$52.00	1	1	\$97,479	Bonus; No Min	43% Royalty
9/28/1982	*34	North Slope	1,231,517	571,954	46.44%	\$46.70	261	119	\$26,713,018	Bonus; No Min	Royalty; 16.67%-40%NPS, 12.5%-30%NPS
5/17/1983	*39	Beaufort Sea	211,988	211,988	100.00%	\$90.05	42	42	\$20,998,101	Bonus; \$10/acre Min	12.5% Royalty & 30% or 40% NPS
9/28/1983	40	Cook Inlet	1,044,745	443,355	42.44%	\$7.17	294	140	\$3,177,178	Bonus; \$1/acre Min	12.5% Royalty
5/22/1984	43	Beaufort Sea	288,074	281,794	97.83%	\$114.32	69	66	\$32,214,794	Bonus; \$10/acre Min	16.67% Royalty
5/23/1984	*43A	North Slope	78,078	70,078	100.00%	\$125.44	15	15	\$1,612,593	Bonus; \$10/acre Min	12.5% Royalty & 30% NPS
9/10/1984	41	Eristol Bay	1,437,830	278,008	19.40%	\$3.03	309	63	\$643,865	Bonus; No Min	12.5% Royalty
2/26/1985	48A	Cook Inlet	248,585	190,042	76.45%	\$19.28	85	50	\$2,523,334	Bonus; \$1/acre Min	12.5% & 16.67% Royalty
9/24/1985	45A	North Slope	606,385	164,885	27.19%	\$28.25	113	32	\$4,857,478	Bonus; \$5/acre Min	16.67% Royalty
9/24/1985	47	North Slope	192,589	182,580	94.80%	\$63.79	50	48	\$11,845,003	Bonus; \$5/acre Min	12.5% Royalty
2/25/1986	48	North Slope	526,011	266,736	50.70%	\$9.16	104	54	\$2,444,342	Bonus; \$5/acre Min	12.5% Royalty
2/25/1986	48A	Beaufort Sea	42,053	42,053	100.00%	\$12.13	11	11	\$510,255	Bonus; \$5/acre Min	12.5% Royalty
6/24/1986	49	Cook Inlet	1,189,100	394,891	33.21%	\$2.40	260	98	\$947,171	Bonus; \$1/acre Min	12.5% & 16.67% Royalty
1/27/1987	51	North Slope	592,142	100,632	16.98%	\$2.88	119	26	\$289,625	Bonus; \$2/acre Min	12.5% Royalty
6/30/1987	50	Beaufort Sea	118,147	118,147	100.00%	\$56.05	35	35	\$6,621,723	Bonus; \$5/acre Min	16.67% Royalty
1/26/1988	*54	North Slope	421,909	336,887	80.29%	\$13.83	89	72	\$4,883,388	Bonus; \$5/acre Min	12.5% Royalty
9/28/1988	55	Beaufort Sea	201,707	96,832	47.91%	\$152.13	58	26	\$14,700,602	Bonus; \$10&25/ac Min	12.5% & 16.67% Royalty
9/28/1988	60A	North Slope	775,555	380,490	47.51%	\$16.81	155	75	\$6,119,135	Bonus; \$5/acre Min	12.5% Royalty
1/24/1988	52	Beaufort Sea	175,861	52,483	29.81%	\$33.12	43	15	\$1,737,513	Bonus; \$10/acre Min	12.5% Royalty
1/24/1988	72A	North Slope	877	877	100.00%	\$871.90	1	1	\$454,977	Bonus; \$10/acre Min	12.5% Royalty
1/29/1991	*70A	Cook Inlet	549,964	191,588	34.87%	\$28.77	140	55	\$5,511,338	Bonus; \$5/acre Min	12.5% Royalty
1/29/1991	*70A	North Slope	532,153	420,568	79.03%	\$65.88	135	109	\$27,707,541	Bonus; \$5/acre Min	12.5% Royalty
8/4/1991	64	North Slope	754,542	34,143	4.52%	\$7.10	141	6	\$242,388	Bonus; \$5/acre Min	12.5% Royalty
8/4/1991	*65	Beaufort Sea	491,091	172,865	35.20%	\$40.46	108	36	\$6,993,948	Bonus; \$5/acre Min	16.67% Royalty
9/24/1991	*74A	Cook Inlet	805,851	26,805	3.33%	\$12.08	134	5	\$320,853	Bonus; \$5/acre Min	12.5% Royalty
1/22/1992	81	North Slope	991,087	260,550	26.29%	\$9.32	181	48	\$2,429,551	Bonus; \$5/acre Min	12.5% Royalty
8/2/1992	88	Beaufort Sea	153,445	0	0.00%	\$0.00	36	0	\$0	Bonus; \$10/acre Min	12.5% Royalty
12/8/1992	75	North Slope	217,205	124,832	57.47%	\$78.11	90	55	\$9,750,111	Bonus; \$10/acre Min	Royalty State = 12.5% & ASRC = 16.67%
1/26/1993	76	Cook Inlet	393,025	141,504	36.00%	\$461.25	86	36	\$95,268,167	Bonus; \$5/acre Min	12.5% Royalty
1/26/1993	67 A-W	Cook Inlet	282,577	128,810	45.94%	\$18.75	89	33	\$2,433,664	Bonus; \$5/acre Min	12.5% Royalty
5/25/1993	77	North Slope	1,280,148	45,721	3.53%	\$25.47	228	9	\$1,164,555	Bonus; \$5/acre Min	12.5% Royalty
5/25/1993	70 A-W	North Slope	37,855	20,055	53.00%	\$48.41	11	0	\$1,359,027	Bonus; \$10/acre Min	12.5% Royalty
9/21/1993	57	North Slope	1,033,248	0	0.00%	\$0.00	198	0	\$0	Bonus; \$5/acre Min	12.5% Royalty
9/21/1993	75A	North Slope	14,343	14,343	100.00%	\$31.38	11	11	\$449,847	Bonus; \$10/acre Min	16.67% Royalty
10/30/1994	78	Cook Inlet	398,760	138,307	34.68%	\$12.14	90	34	\$1,854,137	Bonus; \$5/acre Min	12.5% Royalty
11/4/1995	67A-W2	Cook Inlet	152,768	13,804	9.04%	\$7.29	36	3	\$100,638	Bonus; \$5/acre Min	12.5% Royalty
11/4/1995	74W	Cook Inlet	66,703	17,015	25.51%	\$31.76	16	4	\$540,406	Bonus; \$5/acre Min	12.5% Royalty
11/4/1995	76W	Cook Inlet	251,614	14,220	5.65%	\$5.61	50	4	\$79,722	Bonus; \$5/acre Min	12.5% Royalty
11/4/1995	78W	Cook Inlet	280,453	36,478	14.01%	\$7.06	56	11	\$257,583	Bonus; \$5/acre Min	12.5% Royalty
12/5/1995	80	North Slope	951,302	151,587	15.93%	\$22.02	202	42	\$3,337,485	Bonus; \$10/acre Min	12.5% Royalty
10/1/1996	88A	North Slope	15,494	5,801	38.11%	\$343.40	13	5	\$7,026,247	Bonus; \$100/acre Min	16.67%& 16.67-33.33% Sliding Scale Ryty
12/18/1996	85A	Cook Inlet	1,061,555	173,503	16.33%	\$11.92	224	44	\$3,109,603	Bonus; \$5/acre Min	12.5% Royalty
11/18/1997	86**	Beaufort Sea	365,054	323,856	88.70%	\$86.42	181	162	\$27,955,125	Bonus; \$10/acre Min	16.67% Royalty
2/24/1998	85A-W	Cook Inlet	757,878	86,011	12.90%	\$8.46	157	24	\$829,807	Bonus; \$5/acre Min	12.5% Royalty
6/24/1998	87	North Slope	518,889	N/A	N/A	\$99.86	N/A	137	\$51,794,173	Bonus; \$5/acre Min	12.5% Royalty
2/24/1998	NS 1988	North Slope	174,823	N/A	N/A	\$14.85	N/A	40	\$2,586,838	Bonus; \$5/acre Min	12.5% Royalty
4/21/1998	CI 1988	Cook Inlet	114,514	N/A	N/A	\$10.75	N/A	41	\$1,436,885	Bonus; \$5/acre Min	12.5% Royalty
8/16/2000	CI 2000	Cook Inlet	100,490	N/A	N/A	\$9.15	N/A	27	\$919,750	Bonus; \$5/acre Min	12.5% Royalty
11/15/2000	BS 2000	Beaufort Sea	25,840	N/A	N/A	\$13.13	N/A	11	\$338,822		

Exploration Licensing

Exploration Licensing

Exploration licenses are designed to stimulate exploration in Alaska's frontier basins and complement the state's oil and gas leasing program. The North Slope, Cook Inlet, and Alaska Peninsula, which are subject to the state's competitive leasing program, remain off limits to exploration licensing.

There are, however, several large sedimentary basins within Interior Alaska, some of which are virtually unexplored. The highly variable structural geology of these basins offers the potential for structural traps in overthrust belts and strike slip systems. Various types of clastic and carbonate stratigraphic traps may also be present. Exploration licensing will allow companies to explore these frontier basins with minimal added costs by the state.

An area selected for exploration licensing must be between 10,000 and 500,000 acres. A license will be awarded to the applicant who has committed the most dollars to an exploration program. The recipient of a license will be required to post a bond in the amount of the work commitment and pay a \$1-per-acre license fee. There are no additional charges during the term of the license, which can be up to 10 years.

During its term, and following satisfaction of the required work commitment, any portion of the licensed area may be converted to oil and gas leases. The term of the leases can extend beyond the original term of the license. If converted, annual lease rentals are set at \$3 per acre.



Mat-Su coring program
C. Ruff



Susitna basin
aeromagnetic survey
K. Dirks

Licensing Process

The licensing process will be initiated in one of two ways: Each year during the month of April, applicants may submit to the commissioner of the Department of Natural Resources a proposal to conduct exploratory activity within an area they have specified. Or the commissioner, at any time, can issue a notice requesting the submittal of proposals to explore an area designated by the commissioner. Once a request for proposals has been issued, applicants will have 20 days to notify the commissioner of their intent to submit a proposal, and 60 days in which to submit.

Submitted proposals must (1) describe the area proposed to be subject to the license, (2) state the specific minimum work commitment expressed in dollars, (3) describe the amount and form of security to be posted based on the projected cost of the planned exploration work, (4) propose the term of the license (unless already established by the commissioner) and (5) verify that a prospective licensee meets minimum qualifications.

Within 30 days of receiving any proposal, the commissioner will either reject it in a written decision or give public notice of the intent to evaluate the proposal's acceptability. This notice will solicit public comments on the proposal(s) and request competing proposals. The commissioner may also modify any proposal and request a new one based on those modifications.

After considering all submitted proposals and public comment on those proposals, the commissioner shall issue a written finding determining whether or not granting the exploration license is in the state's best interests. The finding must describe the limitations, conditions, stipulations, or changes from the initiating proposal or competing proposals that are required to make the issuance of the license conform to the best interests of the state. If only one proposal was submitted, the finding must also identify the prospective licensee.

Exploration Licensing

If the finding concludes that an exploration license should be awarded and there has only been a single applicant, that applicant will have 30 days after issuance of the finding to accept or reject the license award. If competing proposals are submitted and the commissioner determines that an exploration license should be awarded, the successful licensee will be determined by a sealed bid process.

Relinquishment of Lands

If by the fourth anniversary of the exploration license the licensee has completed less than 25 percent of the total work commitment, the license will be terminated, with the remainder of the security forfeited to the state. If the licensee has completed less than 50 percent of the total work, then 25 percent of the licensed area will be relinquished, with an additional 10 percent relinquished each successive year until half of the original acreage has been relinquished.

License Applications

The state has issued four exploration licenses covering 1.66 million acres and has received applications for three other areas.

Licenses Issued:

<u>Copper River</u>	
Licensee:	Forest Oil Corporation
Size:	318,756.35 Acres
Exploration Commitment:	\$1,420,000
Term:	5 years
Effective Date:	October 1, 2000
Status:	Lease conversion pending
<u>Nenana Basin</u>	
Licensee:	Andex Resources
Size:	483,942 Acres
Exploration Commitment:	\$2,525,000
Term:	7 years
Effective Date:	October 1, 2002
Status:	Active; work commitment has been met.
<u>Susitna Basin I</u>	
Licensee:	Forest Oil Corporation
Size:	386,204 Acres
Exploration Commitment:	\$2,520,000
Term:	7 years
Effective Date:	November 1, 2003
Status:	Active
<u>Susitna Basin II</u>	
Licensee:	Forest Oil Corporation
Size:	471,474 Acres
Exploration Commitment:	\$3,000,000
Term:	7 years
Effective Date:	November 1, 2003
Status:	Active

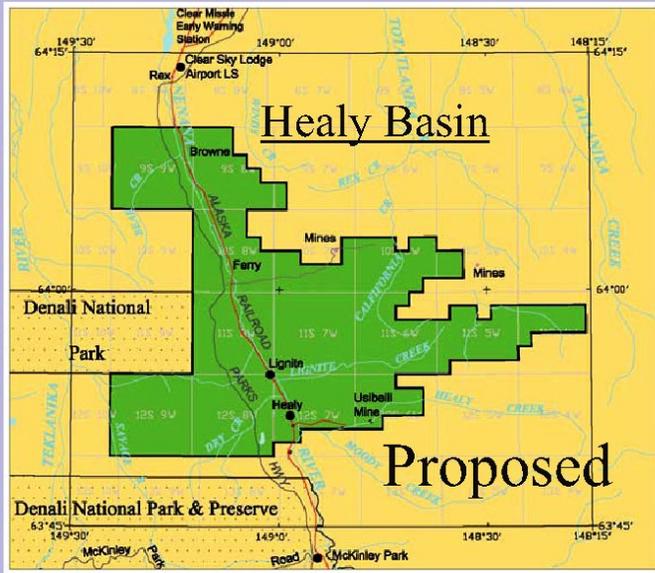
License Not Executed by Licensee:

<u>Bristol Bay (Proposed)</u>	
Licensee:	Bristol Shores LLC
Size:	329,113 Acres
Exploration Commitment:	\$3,200,000
Term:	7 years
Status:	License Issued but not executed by Licensee; file closed

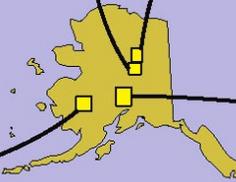
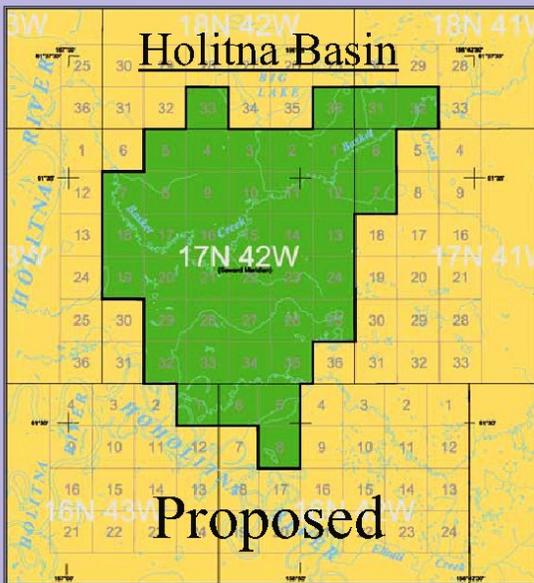
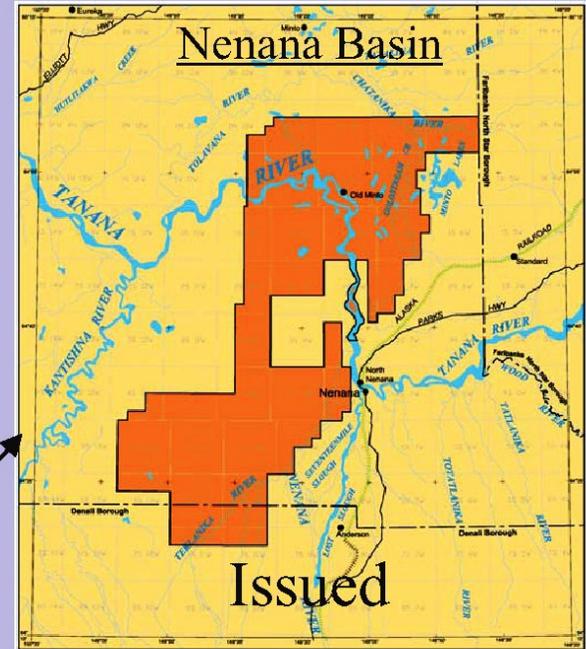
License Applications and Best Interest Finding Pending:

<u>Healy Basin (Proposed)</u>	
Licensee:	Usibelli Coal Mine, Inc.
<u>Holitna Basin (Proposed)</u>	
Licensee:	Holitna Energy Company LLC

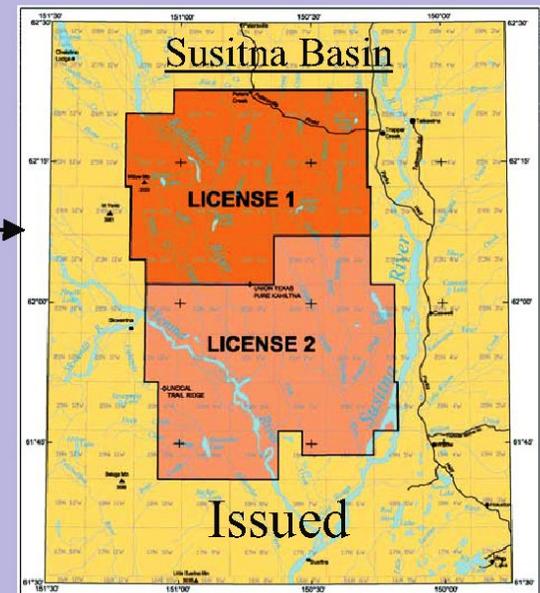
Exploration Licensing



Exploration Licensing Program



ADNR 1/06



Incentives and Credits

Exploration Incentive Credit and Tax Credit Programs

AS 38.05.180(i): Exploration Incentive Credits (EIC)

This EIC may be included as a term of an oil and gas lease. AS 38.05.18(i) provides for a system in which a lessee of state land drilling an exploratory well may earn credits depending on the footage drilled and the region in which the well is located. 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 on land included within the sale area. The geophysical information obtained is made public after the sale. Information is held confidential for two years, but confidentiality may be extended if the lessee meets certain requirements. The Department of Natural Resources commissioner grants credits as high as 50 percent of the costs. Credits may be applied against state royalty and rental payments or taxes, or they may be assigned. Since the state began offering this program, lessees have earned \$54.7 million in credits for exploratory drilling.

AS 41.09.010: Exploration Incentive Credits

This EIC, adopted in 1994 under AS 41.09.010, allows the Natural Resources commissioner to grant an EIC for exploratory drilling, the drilling of a stratigraphic test well, and for geophysical work on land in the state, regardless of whether the minerals are state-owned. This program is designed to encourage oil and gas exploration within remote parts of the state and to provide a means for the state to obtain exploration data from federal, private, and Native corporation lands. As with the Title 38 program, the credits may be applied against oil and gas royalties, rentals, lease sale bonus bids and taxes, or they may be assigned. Drilling data will be kept confidential for two years, with no extension of this period. Copies of geophysical data may be shown to interested parties by the state, but may not be transferred to third parties. Credits may be as high as 50 percent of eligible costs if performed on state land, and as high as 25 percent when performed on federal or private land. A credit may not exceed \$5 million per eligible project, and the total of all credits may not exceed \$30 million. Drilling credits are based upon the footage (measured depth) drilled. All activity qualifying for this EIC must be completed by July 1, 2007.

AS 43.55.025: Oil and Gas Exploration Tax Credit

This program, adopted in 2003, allows for a production tax credit of 20 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 spudded more than 150 days but less than 35 years prior to the spud date of the eligible exploration well. The program also allows for an additional production tax credit of 20 percent of the cost of an exploratory well if the bottom hole location is 25 miles or more from the boundary of any unit under a plan of development as of July 1, 2003. The program also offers seismic exploration tax credits of 40 percent of eligible costs for those portions of activities outside of a unit that is under a plan of development or plan of exploration. Seismic data qualifying for this credit will be held confidential for 10 years and 30 days. This tax credit is transferable. This program only applies to exploration expenditures incurred prior to July 1, 2007, for the North Slope, or July 1, 2010, for elsewhere.



Imnaitchiak Cherts
P. Decker

AS 43.20.043: Gas Exploration and Development Tax Credit

This program, adopted in 2003, 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 (excludes North Slope and Beaufort Sea). 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 credits 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

Incentives and Credits

AS 43.20, but not for tax credit or royalty modification provided under any other title. This program expires January 1, 2013.

Royalty Reduction

Since 1995, AS 38.05.180(j) has allowed the commissioner of Natural Resources to adjust the royalty reserved to the state in order to encourage otherwise uneconomic production of oil and gas. If a delineated field or pool has not previously produced, the royalty can be lowered to 5 percent. In an existing producing field or pool, the royalty may be reduced to as low as 3 percent in order to prolong its economic life as costs per barrel or barrel equivalent increase. In order to establish production of shut-in oil or gas, the royalty may also be reduced to as low as 3 percent. These royalty reduction provisions expire on July 1, 2015.

Discovery Royalty

Alaska law permits the granting of reduced royalty for wells in the Cook Inlet sedimentary basin that have discovered oil or gas in a previously undiscovered oil or gas pool, providing that the wells are capable of producing in paying quantities. The discovery royalty is established at 5 percent for 10 years following the discovery of a pool. The discovery royalty applies to all oil or gas from that pool that is attributable to the lease.

Cook Inlet Royalty Reduction

In 1998 the governor signed legislation granting a 5 percent temporary royalty rate on the first 25 million barrels of oil and the first 35 billion cubic feet of gas produced in the first 10 years of production from six specified fields in the Cook Inlet sedimentary basin. The six fields eligible for royalty reduction were discovered before January 1, 1988, and had been undeveloped or shut in. The fields identified in the law are Falls Creek; Nicolai Creek; North Fork; Point Starichkof; Redoubt Shoal; and West Foreland. Production from these fields had to begin before January 1, 2004, to be eligible for the royalty reduction.



Tree Row
S. Schmitz



Polar Resolution
PTI



Cook Inlet platform
D. Colley

Other Programs

Permitting in Alaska

The Division of Oil and Gas is responsible for issuing permits for operations and development activities on state lands and waters, oil and gas leases, or within state-managed oil and gas units. The division's approval process is generally a 30-day comment and review period for plans of operation or for multi-permit projects. The extent of review time usually depends on the complexity of the project, the environmental sensitivity of the area of activity, and the number of state, federal, and local permits required for the project.

Gas Storage

Gas storage is a new area of interest in the Cook Inlet basin. Gas storage is used when the rate and timing of production of natural gas does not match the local demand. When production exceeds demand, the gas can be injected back into the ground to be later extracted when demand exceeds production. Depleted gas reservoirs with good seals are ideal candidates for use as gas storage locations. The Division of Oil and Gas has issued two gas storage leases in Cook Inlet at Pretty Creek and Kenai gas fields.