

Unitization

Promoting Conservation, Preventing Waste, & Protecting All Parties

When lessees propose to commit leases to a unit the Division's Petroleum Land Managers evaluate the application and negotiate the terms of the Unit Agreement in order to promote conservation of all natural resources, prevent economic and physical waste, and protect all parties of interest. Unit managers consider environmental costs and benefits, geological, geophysical and engineering characteristics of the reservoir, prior exploration activities, and economic costs and benefits to the state.

Unit managers review updated unit plans of exploration and development, approve contraction and expansion of Participating Areas, tract allocations, and other unit issues. They also oversee expansion, contraction, and termination of units.

Commercial Section

Helping Maximize Value

The Commercial Section provides support to all sections of the Division to fulfill the constitution's mandate of maximizing the use of Alaska's natural resources by providing economic expertise. Primary responsibilities of the section include royalty modification, Royalty-in-Kind contract negotiations, Royalty Settlement Agreements, supporting state tariff litigation and settlements, and improving the competitive environment.

The section also provides economic analysis such as project economics, market structure, optimization and price and cost assessments. It also supplies the expertise to support policy, legislative, and regulatory decisions by analyzing market implications of laws, regulations, and contract provisions, and works on negotiation strategy and support.

Royalty Accounting

Tracking Payments Due to the State

The Royalty Accounting Section maintains all records for reported values and volumes of oil and gas produced in the state. It processes royalty reports from lessees and unit operators, monitoring monthly production volumes, royalty values, and amounts paid to the state. They keep track of royalty ownership and makes sure the state receives its proper allocation of royalty revenue from each producing property.

The section is also responsible for reconciling a plethora of different reports, report monthly allocations, and distributes revenue to the General, School, Permanent, and Constitutional Budget Reserve funds.

Royalty Audit

Making Sure the State Receives Full Value of Royalty Payments

The Division's Audit Section is tasked with making sure the state receives the full value associated with royalty payments. This section conducts audits under a number of different authoritative rules including Royalty Settlement Agreements, Lease Agreements, Statutes and the Alaska Administrative Code. Audits examine volumes, values, Net Profit Share Leases and costs claimed as deductions such as marine tanker and tariffs.

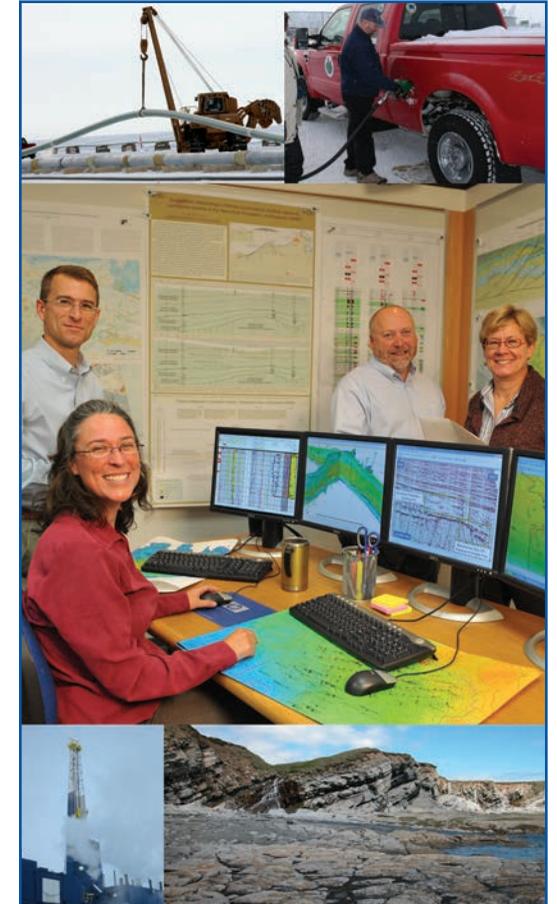
The Royalty Audit section also does federal audits through a contract with the U.S. Minerals Management Service. These audits are conducted under the authoritative guidelines and standards for federal leases such as, Government Auditing Standards and the Code of Federal Regulations. This program ensures that lessees correctly pay the royalties due from oil and gas development on federal leases where the state has a revenue share.

Our Primary Services

The primary services of the Division of Oil & Gas are:

1. Responsible for conveying the mineral interest in oil, gas, & geothermal resources for the purpose of exploration, development, & production, on a timely & predictable basis, & ensuring that the state receives full value for the sale of these resources;
2. Advancing innovative programs such as exploration licensing & expanded exploration incentive credits that will promote exploration development on state & private lands in frontier interior basins;
3. Ensuring that all royalty, rental and bonus revenues due the state from leasing & production are received, & that shared federal royalties are properly received and allocated;
4. Ensuring that the surface operations of lessees and permittees are conducted in an environmentally, socially, & economically sound manner;
5. Advocating petroleum resource development throughout the state;
6. Developing & advocating marketing strategies for Alaska oil & gas, including negotiating royalty oil purchase agreements with in-state refineries; and
7. Providing technical & policy support on oil & gas issues for the DNR Commissioner's & Governor's Office & Alaska's congressional delegation.

Division of Oil & Gas



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

550 West 7th Avenue, Suite 1100
Anchorage, Alaska 99501

tel: 907-269-8800
fax: 907-269-8939

<http://dog.dnr.alaska.gov/>



The Division of Oil and Gas is the state agency responsible for managing the state lands with oil, gas, and geothermal resources. The Division does this by making lands available for exploration, development and production through a public process to fulfill the Alaska Constitution's mandate 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."

Alaska is a model for responsible resource development, as seen both in how the oil and gas industry has explored, developed and produced our oil and gas resources across the state in a well regulated and open public process. This model continues to have our resource developed in a predictable, safe, environmentally responsible and economically beneficial manner. The best interest of the state is found in every division and decision.

Led by the Director's Office, the Division works in asset teams, pulling together the experts needed from different sections, in order to manage each different task or issue. Our staff come from a wide range of professions and have many years of experience in natural resources management or industry expertise, including Land Managers, Geophysicists, Geologists, Engineers, Economists, Commercial Analysts, Attorneys, Accountants, Auditors, and Biologists.

Exploration Licenses & Best Interest Findings

Research & Public Input on Possible Exploration & Development

In April of each year, the Division welcomes applications for exploration licenses for oil, gas, and geothermal energy. After an application is received, the Division starts its fact-finding process to determine whether it is in the best interest of the state to award such a license. The result of this process, which involves information gathered by the Division's own experts and information from other agencies, municipalities, Native corporations, non-government organizations, and the public, is called a Best Interest Finding. In this, the Division evaluates the possible cumulative impact of issuing the requested exploration license and issues a preliminary finding on whether to award the license.

The preliminary finding is subject to a public comment period of at least 60 days. During this period, the Division often conducts public meetings to provide an opportunity for residents in the proposed license area to submit their comments orally. Comments may also be submitted in writing. All comments become part of the public record and are included in the Final Best Interest Finding. After all public comments have been given due consideration, the Director issues his Final Finding on whether to issue an exploration license.

Exploration licenses can be awarded for areas of the state outside the areas covered by the Division's five existing Areawide Best Interest Findings. Exploration licenses that are issued evaluate the impact of suggested exploration and provide measures to mitigate any reasonably expected impact on the area.

Areas where oil and gas development is already in existence are covered by Areawide Best Interest Findings. These areas are today the Alaska Peninsula, Cook Inlet, Beaufort Sea, the North Slope, and the North

Slope Foothills. The Division publishes a new Best Interest Finding for each of these areas every ten years. These Findings, and the process of writing them, are subject to the same statutes and regulations as the Best Interest Findings for exploration licenses, except that they are subject to annual updates and revisions in the light of any new and substantial information that might come available.

Lease Sale & Administration

Conveying State Land for Exploration & Development & Performing Landlord Functions

After a Lease Sale, the Division initiates the title work, legal descriptions, and survey reviews of the tracts which have received bids. Once all regulatory requirements are met, the lease is issued.

Once a lease is issued, the Division's Lease Administration section performs "landlord functions" through tracking lease payments, handling revenue and billing, assignments, segregation or segmentation of leases, and expiration, surrender, and termination of leases.

Geothermal leasing and prospecting permits are handled differently. Based on available geologic information and indications of interest, land may be designated for a competitive lease sale or for noncompetitive prospecting permits for geothermal exploration and development.

Permitting

Ensuring That Activities Comply with Land Management Statutes, Regulations, & Terms of the Lease

When a company wants to initiate exploration on state land, the Division's Permitting Section reviews the applications, determines completeness of the plan, and issues exploration permits with appropriate conditions for environmental protection and safe operations.

The section also handles Lease Plans of Operations, ensures the proposed activity addresses all the mitigation measures identified in the lease and Best Interest Finding, and routinely conducts site inspections to monitor compliance with approvals. This section is also responsible for ensuring that proper bonds or other securities are in place before surface activities are started. Lease Plans of Operations generally require a \$100,000 bond for individual lease operations, or a statewide bond of \$500,000.

Resource Evaluation

Providing the Geological, Geophysical, & Engineering Data

The Resource Evaluation section oversees the regulatory side of reservoir management and evaluates the state's oil and gas resources.

The section employs petroleum geologists, geophysicists, engineers and natural resources specialists and technicians to manage geological and geophysical data and provide an objective look at data and facts about the geological and geophysical aspects of exploration and production to supply the scientific basis needed for other sections to make decisions.

Examples include providing lease sale analysis and identifying potential prospects on unleased lands, evaluating data for industry's Unit and Participating Area applications, evaluating the technical merits and adjudication of applications for oil and gas exploration tax credits and exploration licenses, and performing technical reviews for royalty modification applications.

The Section's professional staff also work cooperatively with consultants on reservoir studies, building static geologic models and dynamic reservoir models to understand the hydrocarbon distribution, in order to among other things, provide the basis for determining equitable tract allocations.