

FAQ

What is an Exploration License?

Exploration licenses are designed to stimulate exploration in Alaska's frontier basins and complement the state's areawide leasing program. All acreage subject to the state's competitive areawide leasing program remains off limits to exploration licensing. Several large sedimentary basins, however, exist 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 allows companies to explore these frontier basins with minimal costs added by the state.

What is the licensing process?

The licensing process is initiated in one of two ways:

Each year during the month of April, applicants may submit to the commissioner a proposal to conduct exploratory activity within an area they have specified; or

The commissioner can, at any time, issue a notice requesting 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 to submit the proposal.

What is in a proposal?

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.

How long before a response?

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.

How many have been issued?

The state has issued five exploration licenses covering 1.72 million acres and has received applications for three other areas. Two others were either not accepted or denied.

(See table on next page.)

Current & Proposed Exploration Licenses

| License Name | ADL | Status | Licensee | Acres | Work Commitment | Effective Date | Term (Years) |
|----------------------|--------|----------|-------------------------|----------|-----------------|----------------|--------------|
| Healy Basin Gas Only | 390606 | Active | Usibelli Coal Mine Inc. | 204,883 | \$500,000 | 1/1/2011 | 10 |
| Houston-Willow Basin | - | Proposed | Proposed | Proposed | Proposed | Proposed | Proposed |
| North Nenana | 392535 | Pending | Rocky Riley | 25,294 | 500,000 | 6/1/2015 | 5 |
| Southwest Cook Inlet | 392536 | Active | Cook Inlet Energy LLC | 168,581 | \$1,501,000 | 10/1/2014 | 4 |
| Susitna Basin V | 391794 | Active | Cook Inlet Energy LLC | 45,764 | \$250,000 | 4/1/2012 | 5 |
| Tolsona | 392209 | Active | Ahtna, Inc | 43,492 | \$415,000 | 12/1/2013 | 5 |

Exploration Licensing



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

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

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

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Exploration licensing complements the state's oil and gas leasing program and encourages oil and gas exploration in basins outside of the annual areawide lease sale areas.

The holder of an oil and gas exploration license has the exclusive right to explore an area between 10,000 acres and 500,000 acres for up to 10 years.

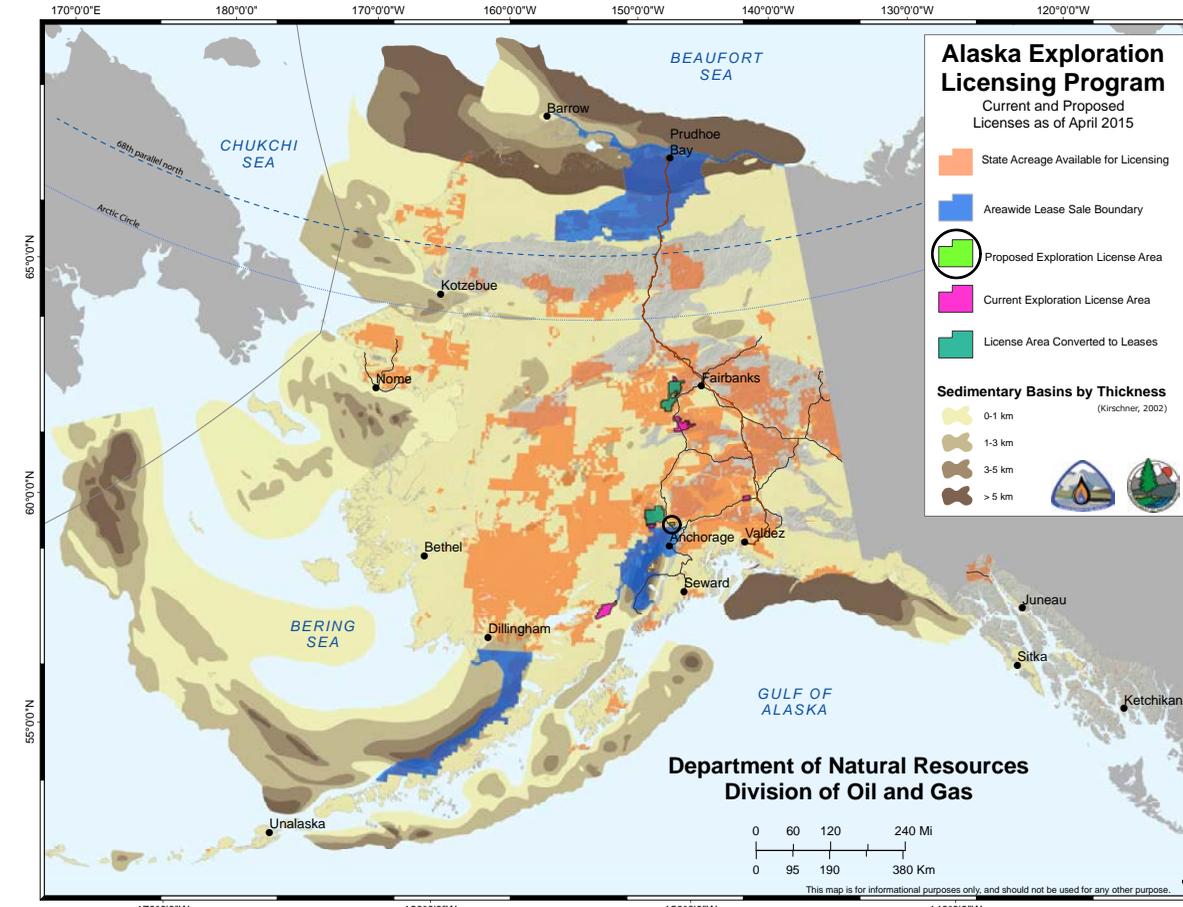
Instead of an up-front bonus payment to the state a licensee must commit direct expenditures for exploration.

The only money guaranteed the state is a one-time \$1 per acre licensing fee, which is paid upon acceptance. However, the state is provided all of the geological and geophysical information acquired by the licensee so it may evaluate an area's resource potential. There are conditions that allow this data for public release.

Applications for exploration licenses area accepted by the commissioner every April and must go through a public notice and written finding process to determine whether issuance of a license is in the state's best interest.

Best Interest Finding

After considering all submitted proposals and public comment on those proposals the commissioner will issue a written finding determining whether 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.

If the finding concludes that an exploration license should be awarded and there has only been a single ap-

plicant, that applicant will have 30 days after issuance of the finding to execute the license. 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, with the license awarded to the applicant who has committed the most dollars to an exploration program.

The recipient of a license must 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.

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.

Assignments

When an individual or company wants to transfer or receive an interest in an existing oil and gas license, an "assignment of interest" application must be completed in triplicate and submitted to the division with a \$150 filing fee. Both the assignor and the assignee must be "qualified" before the application can be approved.