

On August 27, 1965, the Division certified the *Trading Bay #1A* well, located on oil and gas lease ADL 18731, to the north as capable of producing in paying quantities from the Kenai Group in the Trading Bay Field, which placed the lease on minimum royalty in accordance with Paragraph 10 of the lease agreement.

Minimum Royalty. Commencing with the lease year beginning on or after completion on said land of a well capable of producing oil or gas in paying quantities, Lessee shall pay Lessor, at the expiration of each lease year, in lieu of rental a minimum royalty equal to \$1.00 per acre, or fraction thereof then included in this lease, or the difference between the actual royalty paid on production during the year if less than \$1.00 per acre and the prescribed minimum royalty.

A portion of oil and gas lease ADL 18731 is included in the Trading Bay Unit and allocated production from the Hemlock PA. Notwithstanding Paragraph 10 of the lease, Article 18(g) of the Trading Bay Unit Agreement places the non-unitized acreage in ADL 18731 on rental status.

The entire lease shall continue in force and effect so long thereafter as production is allocated to a portion of said lease and so long as annual rentals are paid on the portion not within the participating area. The first rental payment is due and payable on the first day after the expiration of the above mentioned 90 day period with allowance for proration of rentals. Thereafter, annual rentals are due and payable on the anniversary date of the lease.

In addition, Paragraph 9 of the lease agreement provides that “any rental paid for any one lease year shall be credited on any royalty for that year.”

The State and the public’s primary interest in oil and gas leases is in the royalty and taxes received on production. Economic benefits to the State and local economy from oil and gas development are also relevant. The Division’s evaluation of the economic criteria in section 11 AAC 83.303(b)(5) supports approval of the Application.

5. Other Relevant Factors to Protect the Public Interest

DNR issued all of the Trading Bay Unit leases on lease form DL-1 (Revised April 1961). The Division believes that it is appropriate to revise the Trading Bay Unit lease agreements by deleting Paragraph 10 to eliminate the Minimum Royalty provision. This amendment applies to all eleven of the Trading Bay Unit leases: ADL 17579, ADL 17594, ADL 17602, ADL 18716, ADL 18729, ADL 18730, ADL 18731, ADL 18758, ADL 18772, ADL 18777, and ADL 21068. The Working Interest Owners will submit rental payments at the beginning of the lease year rather than calculating whether a minimum royalty is due at the end of the year. Paragraph 9 of the lease agreements provides that “any rental paid for any one lease year shall be credited on any royalty for that year.” Therefore, this amendment to the lease agreements is not financially detrimental to the Working Interest Owners.

Deleting the Minimum Royalty provision in the leases will require adjustments to the Working Interest Owners’ accounting processes; however, the benefit to the State outweighs the initial

6. The Division approves Schedule 1, a map; and Schedule 2, tract participation schedule for the Middle Kenai PA and West Foreland PA received December 31, 2002, effective June 1, 2003.
7. The Division amends the Trading Bay Unit lease agreements by deleting Paragraph 10 and eliminating the Minimum Royalty provision, effective June 1, 2003, for all of the Trading Bay Unit leases. Annual rental at the rate of \$1.00 per acre or fraction of an acre will be due on the lease anniversary date each year. The first annual rental payment, prorated for the period from June 1, 2003 until the next anniversary date for each lease is due within 90 days of this decision. This amendment to the lease agreements will remain in effect after the Trading Bay Unit terminates or the leases contract out of the unit area.
8. Annual rental payments, at the rate of \$1.00 per acre or fraction thereof, will be due on the Trading Bay Unit leases anniversary dates each year as specified in Paragraph 9 of the lease agreements.
9. The proposed plan of development satisfies the requirements of 11 AAC 83.301 and protects the public interest. The Division approves the 39th POD for the period August 27, 2003 through August 26, 2004. Under 11 AAC 83.343, the Thirtieth Plan of Development for the Trading Bay Unit will be due in this office on or before May 28, 2004, 90 days before the 39th POD expires. All specific field operations require separate approval under 11 AAC 83.346, Unit Plan of Operations.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Thomas Irwin, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr_appeals@dnr.state.ak.us. This decision takes effect immediately. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31st day after issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Signed by Bonnie Robson for Mark Myers

6/25/03

 Mark D. Myers
 Division of Oil and Gas

 Date

cc: Thomas E. Irwin, Commissioner DNR
 Dan Seamount, Commissioner AOGCC
 Jeff Landry, Department of Law