

# Exploration Licensing

Exploration licensing supplements the state's oil and gas leasing program and encourages oil and gas exploration outside of the known oil and gas provinces in the Alaska Peninsula, Cook Inlet, Beaufort Sea, North Slope, and North Slope Foothills 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 ten years.

Rather than an up-front bonus payment to the state, as is done in competitive leasing, a licensee must commit direct expenditures for exploration. Because a license has no annual rental payments, 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.

Each application for an exploration license must go through a public notice and written finding process to determine whether issuance of a license is in the state's best interest. DNR first issues a notice of intent to evaluate the exploration license proposal and solicits any competing proposals for the area. It then requests public comment on the proposal(s) and goes through a written finding process similar to that for oil and gas leasing to determine whether issuing a license for the area is in the best interest of the state. If competing proposals

are submitted for an area, the applicants must submit sealed bids. The successful bidder is determined by the highest bid in terms of the minimum work commitment dollar amount.

The licensee must commit 25 percent of the total specified work commitment by the fourth anniversary of the exploration license. Once the total work commitment is met, the licensee may convert all or a portion of the license area to oil and gas leases without going through a competitive bidding process. Upon conversion, the lessee begins paying the state annual rental fees of \$3 per acre. Should exploration lead to development and production, the state is entitled to a royalty share of at least 12.5 percent.

## Five-Year Licensing Program

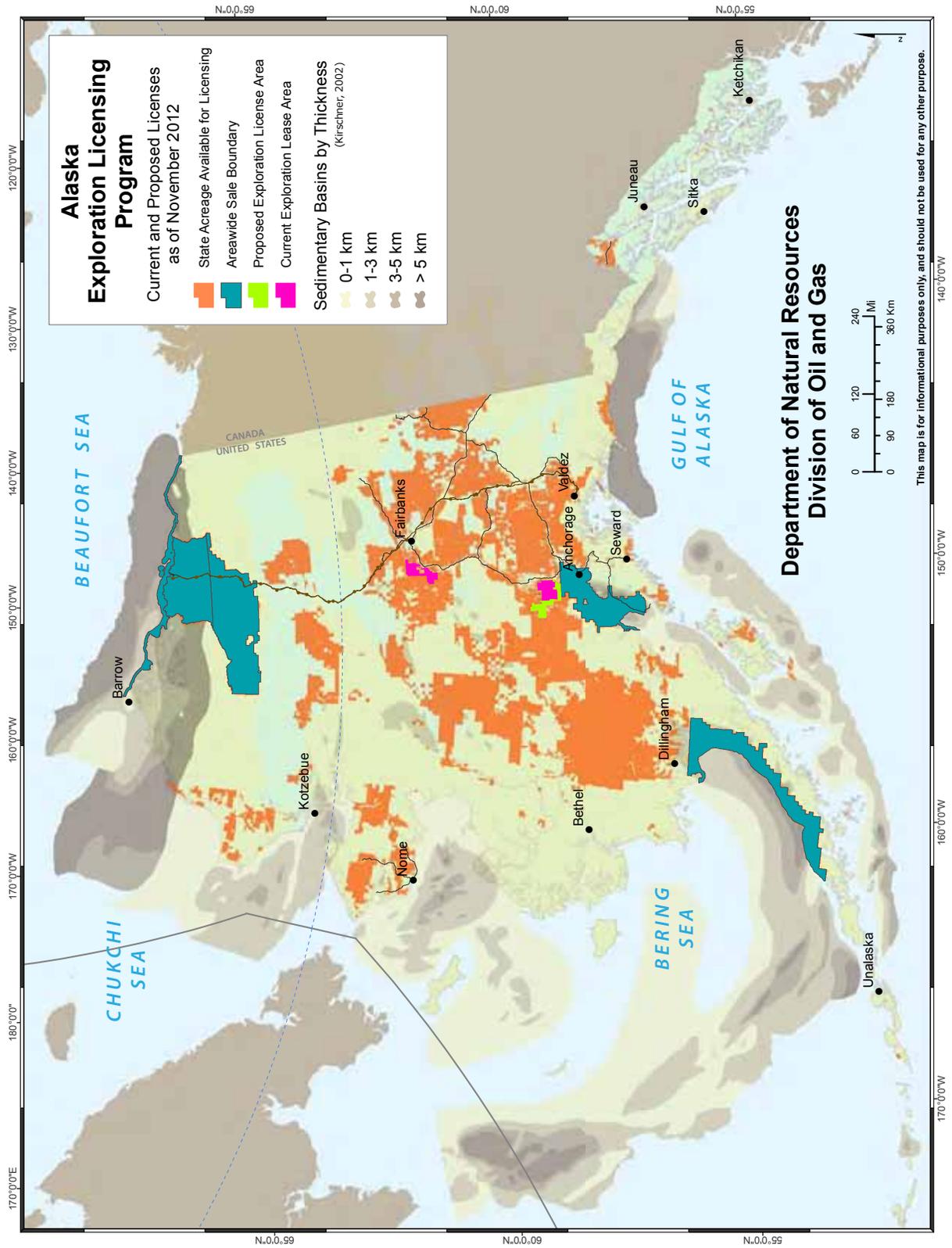
DNR accepts proposals for oil and gas exploration licenses during April of each year, as specified in 11 AAC 82.909. Land not eligible for licensing is specified in AS 38.05.131. The following table shows current active licenses and pending applications, and their current status. The Healy exploration license was issued on December 20, 2010. A final finding on remand for the Holitna exploration license was issued on December 9, 2009. The Crooked Creek-Circle and Houston-Willow applications have received public notice and are pending issuance of preliminary best interest findings.

## Exploration Licenses

| Location                   | ADL/ Status        | Licensee                             | Acres   | Work Commitment | Effective Date | Term    |
|----------------------------|--------------------|--------------------------------------|---------|-----------------|----------------|---------|
| Susitna Basin II*          | 390078 Active      | Cook Inlet Energy LLC                | 471,474 | \$3,000,000     | 11/1/2003      | 10 Yrs  |
| Nenana Basin**             | 390079 Active      | Doyon Ltd; ASRC; Usibelli Energy LLC | 482,942 | \$2,525,000     | 10/1/2002      | 10 Yrs  |
| Crooked Creek-Circle Basin | 391236 Application | BGI North America LLC                | 72,443  | \$500,000       | Proposed       | 10 Yrs) |
| Holitna Basin              | 390607             | Holitna Energy Co. LLC               | 26,791  | \$80,373        | Pending        |         |
| Healy Basin                | 390606 Active      | Usibelli Coal Mine Inc.              | 197,635 | \$500,000       | 1/1/2011       | 10 Yrs  |
| Houston- Willow Basin      | 391282 Application | LAPP Resources Inc.                  | 21,080  | \$500,000       | Proposed       | 10 Yrs  |
| Susitna Basin IV           | 391628 Active      | Cook Inlet Energy LLC                | 62,909  | \$2,250,000     | 4/1/2011       | 10 Yrs  |
| Susitna Basin V            | 391794 Application | Cook Inlet Energy LLC                | 45,886  | \$250,000       | Pending        | 10 Yrs  |

\* License extended from seven to ten years on November 1, 2010. Cook Inlet Energy LLC committed an additional \$750,000.00 in work commitments.

\*\*License extended from seven to ten years on October 21, 2008. Part of the license area will be patented to University of Alaska per 2005 legislation and settlement agreement.



# Geothermal Leasing

**D**NR has held a total of three geothermal lease sales, all for areas along the southern flanks of Mount Spurr, located about 40 miles northwest of Tyonek. The first two sales, held in 1983 and 1986, did not result in any development. In 2006, amid renewed interest in Alaska's geothermal resource potential, DNR received requests from industry to make Mt. Spurr available for geothermal leasing again. On September 10, 2008, DNR held the Mount Spurr Geothermal Lease Sale No. 3, and received 20 bids on all 16 available tracts, generating \$3,527,073.34 in bonus bids.

DNR has also received interest in geothermal resource development on Augustine Island, located in lower Cook Inlet. DNR is currently in the process of evaluating the area. A finding to determine whether it is in the state's best interest to offer the area for geothermal leasing is in progress.

The increasing interest in geothermal resources is further evidenced by two additional exploration projects taking place on private land, one on the Alaska Peninsula near Naknek, and one currently underway in the Aleutians at Akutan.

Geothermal leasing procedures are set out in 11 AAC 84.700 through .950. For areas of known geothermal potential, the commissioner may designate a proposed geothermal disposal area comprised of individual tracts of not more than 2,560 acres, and invites public comment on the proposed area, and applications for the tracts during a specified time period. After reviewing available geologic information and the response to the call for applications, the commissioner determines whether to offer the tracts for competitive leasing, or

issue noncompetitive geothermal prospecting permits. Noncompetitive prospecting permits may be issued for tracts receiving only one application; tracts receiving two or more applications must be leased competitively. A decision that the lease sale is in the best interests of the state of Alaska, or "Best Interest Finding," is required before the lease sale can occur.

The competitive geothermal lease sale process is conducted in the same manner as for oil and gas lease sales, which consist of a public opening and reading of sealed bonus bids. The highest qualified bidder per acre on a tract is awarded the lease.

Geothermal leases are issued for a primary term of ten years, with one five year extension possible if the lessee has begun operations necessary to drill a geothermal well. Geothermal lease extension requirements are set out in 11 AAC 84.745. Once commercial production has begun, leases will be extended for the duration of commercial production. Annual lease rentals are \$3 per acre, and the state's royalty rate is 1.75 percent of the gross revenues derived from the production, sale, or use of geothermal resources under the lease during the first ten years immediately following the date the geothermal resources first generates gross income, and 3.5 percent of the gross revenues derived from the production, sale or use of geothermal resources under the lease after that first ten-year period.

For more information on the state's geothermal leasing program, please see the division's web page at

<http://www.dog.dnr.state.ak.us/oil/products/publications/geothermal/geothermal.html>

## Active Geothermal Leases

| Location  | ADL             | Lessee            | Acres     | Effective Date | Expires    |
|-----------|-----------------|-------------------|-----------|----------------|------------|
| Mt. Spurr | 391354 - 391368 | Ormat Nevada Inc. | 35,806.90 | 11/1/2008      | 10/31/2018 |
| Mt. Spurr | 391369          | Chad Attermann    | 250.23    | 11/1/2008      | 10/31/2018 |