

# Chapter One: Executive Summary and Director’s Final Finding and Signature

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# Chapter One: Executive Summary

The State of Alaska is offering for lease all available state-owned acreage in Beaufort Sea Areawide oil and gas lease sales from 2009-2018 (see Map 1.1, Map 1.2, and Map 1.3). The director of the Department of Natural Resources (ADNR), Division of Oil and Gas (DO&G), has made a final finding that holding these lease sales is in the best interest of the state. The director reviewed all facts and issues known or made known to him and limited the scope of the finding to the lease phase of oil and gas activities and the reasonably foreseeable significant effects of issuing leases (AS 38.05.035(e)(1)(A)). Conditions for phasing have been met under AS 38.05.035(e)(1)(C). The content of best interest findings is specified in AS 38.05.035(e), and topics that must be considered and discussed are prescribed in AS 38.05.035(g).

After weighing the facts and issues known to him at this time, considering applicable laws and regulations, and balancing the potential positive and negative effects given the mitigation measures and other regulatory protections, the director has concluded that the potential benefits of lease sales outweigh the possible negative effects, and that Beaufort Sea Areawide oil and gas lease sales will be in the best interests of the state of Alaska.

## **A. Description of the Lease Sale Area**

The area of the Beaufort Sea lease sale contains approximately 2,000,000 acres in 573 tracts and consists of coastlands, nearshore, and submerged land, located along the Beaufort Sea coast from Barrow to the Canadian border. The lease sale also includes numerous islands.

Evidence of human occupation and use of the Arctic Coastal Plain dates back to 10,000 BC. The environmental characteristics of the Arctic shaped Inupiat culture into a semi-nomadic society with a tradition of whaling and an emphasis on seasonal inland hunting. Sites across the North Slope contain sod houses, graves, storage pits, ice cellars, bones, and relics and attest to the historical use and presence of Arctic people in the area of the lease sale. There are 14 known historic and archaeological sites onshore within the area of the lease sale. There are also several reported shipwreck sites within the area. It is likely that there are additional sites that have not been previously documented.

The lease sale is within the North Slope Borough and is adjacent to the communities of Barrow, Kaktovik, and Nuiqsut. The borough is a home rule borough, incorporated in 1972, which extends from the Chukchi Sea to the Canadian border. It has the powers of taxation, land management, and zoning, and is responsible for providing borough communities with public works, utilities, education, health, and other public services. In 2007, the population of the borough was 6,751. Approximately 70 percent of borough residents are Alaska Native or part Native.

Climate conditions in the Arctic vary dramatically. Summers are generally mild and the three-month ice-free season is critical to biological productivity. In contrast, winters are severe, forcing many species to migrate south. The amount of precipitation is so low along the Beaufort Sea coast that the region is classified as a desert.

The primary geologic hazards in or near the sale area include faults and earthquakes; sea ice; ice gouging; ice movement; sub-sea permafrost; onshore permafrost, frozen ground, and thermokarst; waves and erosion; coastal currents; flooding; overpressured sediments; unstable sediments; and shallow gas deposit and natural gas hydrates. Although geologic hazards could damage oil and gas infrastructure, the measures in this final best interest finding, along with regulations imposed by state, federal, and local agencies, are expected to avoid, minimize, or mitigate those hazards.

The lease sale is within Alaska's coastal zone and is subject to the Alaska Coastal Management Program (ACMP) and the local coastal district plan. Currently, there is no district plan in effect for the North Slope Borough. Future exploration, development, and production activities requiring additional authorizations will undergo separate coastal zone consistency analyses if and when they are actually proposed. Future activities must comply with the ACMP and, once its plan is in effect, the enforceable policies of the North Slope Borough Coastal Management Program.

## **B. Habitat, Fish, and Wildlife**

The Beaufort Sea area includes terrestrial, freshwater, estuarine, and marine habitats. At least 17 species of marine fishes, 14 species of freshwater fishes, and 12 anadromous species may be found in the waters of the Beaufort Sea area. The area is seasonally inhabited by large numbers of migratory birds, especially sea ducks, which breed, molt, migrate, and forage in the area each summer. Terrestrial mammals inhabiting the area include caribou, moose, brown bears, muskoxen, arctic and red fox, wolf, and wolverine. Marine mammals inhabiting the area include polar bear, bowhead whale, beluga whale, ringed seal, spotted seal, bearded seal, and walrus. Some species, including the bowhead whale, spectacled eider, Steller's eider, and polar bear, have been listed as threatened or endangered under the federal Endangered Species Act. The Arctic National Wildlife Refuge (ANWR) is a federal refuge adjacent to the lease sale area and is the primary area of northern Alaska set aside to protect habitat.

## **C. Current and Projected Uses**

The Beaufort Sea area provides important habitat for freshwater and marine fishes, many species of birds, and terrestrial and marine mammals. The fish and wildlife of the area provide the resource base for subsistence fishing and hunting, and for several small sport fisheries and sport hunting. There are no commercial fisheries for marine species in the Beaufort Sea area although there is a very limited commercial whitefish fishery. To a small extent, the area is used for recreation and tourism. The primary industrial use of the area is for oil and gas development.

## **D. Oil and Gas in the Beaufort Sea**

The Alaska Department of Natural Resources has determined that the Beaufort Sea lease sale area has moderate to high petroleum potential. This determination is based on a resource evaluation involving several factors including geology, seismic data, exploration history of the area, and proximity to known hydrocarbon accumulations. The area has all the geologic conditions favorable for a recoverable accumulation of hydrocarbons. Considering the exploration history of the area, the chances of finding undiscovered petroleum reservoirs are very good. However, under current market conditions, the remaining undiscovered reservoirs are expected to be non-economic to marginally economic accumulations. In light of this, the petroleum potential of this basin for the discovery of new fields is moderate.

Oil and gas activities proceed in phases with the activities of each subsequent phase depending on the completion or initiation of the preceding phase. The lease sale phase is the first step in the process of developing the state's oil and gas resources after the director issues a best interest finding. During the lease sale phase, the state conducts competitive areawide sales of oil and gas leases, offering for lease all available state acreage within the lease sale area. An oil and gas lease grants to the lessee the exclusive right to drill for, extract, remove, clean, process, and dispose of oil, gas, and associated substances; however, a plan of operations, subject to a myriad of regulatory authorities and permits, must be approved before any operations may be undertaken on or in the leased area. In the exploration phase, information is gathered about the area's petroleum potential by examining surface geology, researching data from existing wells, performing environmental assessments, conducting geophysical surveys, and drilling exploratory wells. During the development phase,

operators evaluate the results of exploratory drilling and develop plans to bring the discovery into production. Production operations bring well fluids to the surface and prepare them for transport to the processing plant or refinery.

Since the first North Slope lease sale in December 1964, the State of Alaska has held 56 oil and gas lease sales involving North Slope and Beaufort Sea acreage. More than 11.5 million acres in 3,065 tracts have been leased. Of the leased tracts, 407 (about 13 percent) were drilled and only 292 tracts, or about 10 percent of those leased, have been commercially developed. About 81 percent of the state-leased acreage was onshore, and about 19 percent was offshore.

Directional drilling from onshore is the method generally most favored for bringing oil and gas discovered in offshore areas of Alaska's northern coast to shore. If directional drilling is not feasible, oil produced from offshore tracts in the Beaufort Sea could be brought onshore by a number of methods. While the location and nature of oil or gas deposits determine the type and extent of facilities necessary to develop and transport the resource, modern oil and gas transportation systems usually include: pipelines, marine terminals, and tank vessels. Shallow waters in the lease sale area will likely preclude the use of marine terminals or tankers to transport oil. Oil and gas produced in the lease sale area not brought to shore by directional drilling would most likely be transported by pipeline, depending on the type, size, and location of the discovery. If commercial quantities of oil are found in the lease sale area, the oil will go to market via the Trans-Alaska Pipeline System (TAPS). In-field gathering lines bring the oil from individual well sites to processing facilities for injection into TAPS.

The risk of a spill exists any time crude oil or petroleum products are handled. Accidental discharges into the sea from exploration and production account for 2 percent of the total releases of petroleum spilled into North American seas. Oil consumption accounts for 32 percent and marine transportation 3 percent. The largest source of oil in the sea is natural seeps (63 percent of the total inputs). Since 1995, there have been nine spills of crude oil or process water in the North Slope subarea over 1,000 bbl (42,000 gal), and 80 spills over 23.81 bbl (1,000 gal). Most spills are smaller; about 85 percent of crude spills since 1995 have been less than 2.381 bbl (100 gal) and about 55 percent of process water spills are less than 2.381 bbl (100 gal). Companies do not store large volumes of crude at their facilities on the North Slope. Produced oil is processed and transported as quickly as possible reducing the possible size of a potential spill on the North Slope.

The oil and gas industry have been actively exploring and producing North Slope resources for more than three decades. In this time, the vast majority of oil, produced fluid, seawater, and other industry-related spills have been smaller than 10 gallons with very few larger than 100,000 gallons.

Some of the measures to prevent oil spills during the exploration, development, production, and transportation of crude oil are presented as mitigation measures in Chapter Nine. Some are discussed in Chapter Six. Prevention measures are also described in the oil discharge prevention and contingency plans that the industry must prepare before beginning operations. Plans must include measures designed to prevent spills and must have sufficient resources available to contain or control and clean up spills.

Cleanup plans, regardless of the location and nature of the spill, must balance the objectives of maximizing recovery and minimizing ecological damage. Plans must also address the complications of working in the Arctic. The North Slope/Beaufort Sea can present extremes that might make it difficult to effectively contain and clean up a major spill. Plans must address specific steps to accommodate these conditions.

Recognition of the difficulties of containment and cleanup of oil spills has encouraged innovative and effective methods of preventing possible problems and handling them if they arise. Oil spill prevention, response, and cleanup and remediation techniques are continually being researched by

state and federal agencies and the oil industry. Risks of a spill can be avoided, minimized, and mitigated through preventive measures, monitoring, and rigorous response capability. Mitigation measures addressing the possibility of oil spills are included in this final best interest finding. If exploration and development take place, additional site-specific and project-specific mitigation measures may be imposed as necessary.

## **E. Governmental Powers to Regulate Oil and Gas**

All exploration lease activities are subject to numerous federal, state, and local laws and regulations with which the lessee is obligated to comply. These government agencies have a broad spectrum of authorities to regulate and condition activities related to oil and gas; their roles in the oversight and regulation of oil and gas activities differ, although some agencies may have overlapping authorities. These agencies include the Alaska Departments of Natural Resources, Environmental Conservation, and Fish and Game; the Alaska Oil and Gas Conservation Commission; the U.S. Environmental Protection Agency; the U.S. Army Corp of Engineers; the U.S. Fish and Wildlife Service; the National Marine Fisheries Service; and the North Slope Borough.

## **F. Reasonably Foreseeable Cumulative Effects of Leasing and Subsequent Activity**

Potential effects of oil and gas lease sales can be both positive and negative. Most potentially negative effects on fish and wildlife species, habitats, and their uses, on subsistence uses, and on local communities and residents can be avoided, minimized, or mitigated through mitigation measures. A full listing of mitigation measures can be found in Chapter Nine. Leasing activities alone are not expected to have any effects, other than to generate initial revenue to the state. Potential post-lease activities that could have cumulative effects on the area's habitats and fish and wildlife include seismic surveys, environmental and other studies, excavation of material sites, construction and use of support facilities, transportation of machinery and labor to the sites, and drilling and production activities. Unintended occurrences such as oil spills could have effects as well.

Air quality throughout the sale area is good. Although oil and gas exploration, development, and production activities may produce emissions that have the potential to affect air quality, federal and state air quality regulations, particularly the Clean Air Act (42 USC §§ 7401-7671), 18 AAC 50, and AS 46.14, are expected to avoid, minimize, and mitigate those potential effects.

Potential cumulative effects on marine water quality would be due primarily to three factors: discharges of drilling muds, cuttings, and produced waters; increased turbidity from construction of gravel islands and pipeline trenches; and oil spills. Drilling muds, cuttings, produced waters, and other effluents from oil and gas exploration, development, and production can have short- and long-term negative effects on aquatic life, including fish and benthic organisms. Turbidity could be affected by construction of gravel islands and pipelines and from pipeline repair. Cumulative impacts from exploration and development activities could affect water quality. However, recent monitoring studies near Beaufort Sea oil facilities have not shown any significant changes to water characteristics. Impacts of oil spills are discussed in Chapter Six.

Although this is primarily an offshore lease sale, a very small portion of the lease sale area lies onshore between the Colville and Canning rivers. During oil and gas development and production, various activities could potentially impact vegetation in the lease sale area. Oil and gas activities subsequent to leasing could potentially have cumulative effects on land habitat. Measures in this final best interest finding, along with regulations imposed by other state, federal, and local agencies, are expected to avoid, minimize, and mitigate those potential effects.

Potential effects include degradation of stream banks and erosion; reduction of or damage to overwintering areas; habitat loss due to gravel removal, facility siting, and water removal;

impediments to migration; and fish kills due to oil spills. Oil and gas activities subsequent to leasing could potentially have cumulative effects on uses of fish populations and on wildlife. Most of these potential effects would likely occur as secondary effects from effects on habitat. Measures in this final best interest finding, along with regulations imposed by other state, federal, and local agencies, are expected to avoid, minimize, and mitigate those potential effects.

Potential post-lease activities that could have cumulative effects on subsistence uses of the Beaufort Sea lease sale area include seismic surveys, discharges from well drilling and production, construction of support facilities, and ongoing disturbances from production activities such as vehicle, boat, and aircraft traffic. In addition, gas blowouts and oil spills could potentially occur during development and production. Subsistence uses of the Beaufort Sea area depend on the area's fish, wildlife, and habitats. Therefore, potential cumulative effects from oil and gas exploration, development and production on the area's fish, wildlife, and habitats could also affect subsistence uses. Potential effects on subsistence uses could include: increased or decreased access to hunting and fishing areas; concerns about safety of subsistence foods; and increased competition for nearby subsistence resources. Avoiding, minimizing, and mitigating impacts to subsistence resources from oil and gas development is an important goal for mitigation measures in this finding.

Historic and cultural resources could be affected by oil and gas exploration, development, and production activities. For example, historic and cultural resources may be encountered during field-based activities, and these resources could be affected by accidents such as an oil spill. Cumulative effects on archaeological sites from oil and gas exploration, development, and production are expected to be low. In the event that an increased amount of ground-disturbing activity takes place, the mitigation measures, along with regulations imposed by state, federal, and local agencies, are expected to avoid, minimize, and mitigate effects to historic and cultural resources.

## **G. Fiscal Effects and Effects on Municipalities and Communities**

Alaska's economy depends heavily on revenues related to oil and gas production and the government spending resulting from those revenues. Oil and gas lease sales generate income to state government through royalties (including bonuses, rents, and interest), production taxes, petroleum corporate income taxes, and petroleum property taxes. Unrestricted oil revenue totaled \$11.2 billion in fiscal year (FY) 2008 and comprised approximately 90 percent of the state's general fund unrestricted revenue.

Alaska North Slope production peaked at 2.006 million barrels per day in FY 1988 and has declined steadily since then. The Alaska Department of Revenue anticipates volumes will decline by 3.8 percent in FY 2009 to about 0.689 million barrels per day. For FY 2010, ADOR projects a 3.5 percent decrease in North Slope production to 0.665 million barrels per day. The Department of Revenue expects oil prices to average \$57.78 a barrel in FY 2010 down from \$90.46 in FY 2008.

The production center for the state's oil industry is located in the North Slope Borough, and no other borough is more influenced by the oil and gas industry. More than two thirds of all jobs in the borough are directly linked to the oil industry or to its support industries. Although the borough relies on oil revenues, most local residents pursue a traditional and community-based economic life. The finances of the borough government depend predominately on tax revenues from oil properties. Approximately 98 percent of all local property tax collections come from oil producers. For fiscal year 2008/2009, property tax receipts are anticipated to be \$248 million.

Oil and gas property is exempt from local municipal taxation, but the state levies a 20-mill tax against this property. Each municipality with oil and gas property within its boundaries is reimbursed an amount equal to the taxes which would have been levied on the oil and gas property, up to the 20-mill limit. The 2005 property tax rate for the North Slope Borough was 19.03 mills. Since the 1980s,

the North Slope Borough property tax base has consisted mainly of high-value property owned or leased by the oil industry in the Prudhoe Bay area.

Health status on the North Slope is determined by a wide array of factors, including genetic susceptibility, behavioral change, environmental factors, diet, and socio-cultural impacts. Under AS 38.05.035(g)(B)(x), the scope of review for this best interest finding is limited to effects of exploration, development, production, and transportation involving oil and gas or gas only. The state is currently developing a policy regarding Health Impact Assessments for large resource extraction projects. Health Impact Assessment is a tool that seeks to identify potential lasting or significant changes, both positive and negative, of different actions on the health and social well-being of a defined population as a result of a program, project, or policy.

## **H. Mitigation Measures and Other Regulatory Protections**

Mitigation measures address facilities and operations; habitat, fish, and wildlife; subsistence, commercial, and sport harvest activities; fuel, hazardous substances, and waste; access; prehistoric, historic, and archaeological sites; and local hire, communication, and training. Specific mitigation measures protect polar bears, brown bears, hauled out seals and brant, white-fronted goose, snow goose, tundra swan, king eider, common eider, Steller's eider, spectacled eider, and yellow-billed loon nesting and brood rearing areas. A comprehensive set of mitigation measures protects subsistence whaling and other subsistence activities. Other regulatory requirements (lessee advisories) address other regulatory, permitting, or management authorities including the Alaska Departments of Natural Resources, Environmental Conservation, Fish and Game, and Labor and Workforce Development; U.S. Army Corps of Engineers, Fish and Wildlife Service, and National Marine Fisheries Service; and the North Slope Borough.

## **I. Director's Final Finding and Signature**

The director of the Division of Oil and Gas has made a final finding that, on balance, holding annual Beaufort Sea areawide oil and gas lease sales from 2009-2018 is in the best interests of the state. State law AS 38.05.035(e) and (g) requires that before an oil and gas lease sale, the director determine whether the lease sale is in the best interests of the state; state law also specifies what must be considered in making that determination. Annually, the DO&G issues a call for substantial new information that has become available since the most recent finding, and based on information received, the commissioner determines whether it is necessary to supplement the finding.

This final determination is based upon a review of all facts and issues known, or made known, to the director. The director limited the scope of the finding to the lease sale phase of oil and gas activities and the reasonably foreseeable significant effects of a lease sale (AS 38.05.035(e)(1)(A)). Conditions for phasing were met under AS 38.05.035(e)(1)(C). At the lease sale phase, the type, location, duration, timing, or level of any exploration or development activity that might subsequently occur cannot be predicted precisely. Therefore, the director has not considered possible specific effects of unknown future exploration, development, and production activities that are outside the scope of the finding. The effects of future exploration, development, and production will be considered at each subsequent stage, when government agencies and the public review permit applications for the specific activities proposed at specific locations in the area. However, the director did consider, in general terms, the potential effects that may occur subsequent to leasing.

In making this final finding, the director considered and discussed the property description and location of the lease sale area; the petroleum potential of the lease sale area; the area's fish and wildlife species and their habitats; the current and projected uses in the area, including uses and value of fish and wildlife; the governmental powers to regulate oil and gas exploration, development, production, and transportation; the reasonably foreseeable cumulative effects of oil and gas exploration, development, production, and transportation on the lease sale area, including effects on

subsistence uses, fish and wildlife habitats and populations and their uses, and historic and cultural resources; lease stipulations and mitigation measures, including any measures to prevent and mitigate release of oil and hazardous substances, to be included in the lease, and a discussion of the protections offered by these measures; the methods most likely to be used to transport oil or gas from the lease sale area and the advantages, disadvantages, and relative risks of each; the reasonably foreseeable fiscal effects of the lease sale and the subsequent activity on the state and affected municipalities and communities, including the explicit and implicit subsidies associated with the lease sale; the reasonably foreseeable effects of oil and gas exploration, development, production, and transportation on municipalities and communities within or adjacent to the lease sale area; and the bidding method or methods adopted by the commissioner (AS 38.05.035(g)).

Although the initial benefit to the state will be the primary effect of leasing itself, the director recognizes that oil and gas exploration, development, and production subsequent to leasing could result in effects such as habitat changes; behavior changes in fish, wildlife and birds; and contamination of terrestrial, freshwater, and marine habitats. Therefore, general mitigation measures are included that will avoid, minimize, and mitigate potential negative effects. These address facilities and operations; habitat, fish, and wildlife; harvest activities; fuel, hazardous substances, and waste; access; prehistoric, historic, and archaeological sites; and local hire, communications, and training.

Lessees must comply with all applicable local, state, and federal codes, statutes, and regulations. Lessee advisories notify lessees of other regulatory requirements, including those administered by the Alaska Departments of Natural Resources, Environmental Conservation, Fish and Game, and Labor and Workforce Development; the U.S. Army Corp of Engineers, Fish and Wildlife Service, and National Marine Fisheries Service; and the North Slope Borough. Additional project-specific and site-specific mitigation measures will be applied as appropriate to future authorizations.

The state has sufficient authority through general constitutional, statutory, and regulatory empowerments; the terms of the lease sale; the lease contract; and plans of operation to ensure that lessees conduct their activities safely and in a manner that protects the integrity of the environment and maintains opportunities for subsistence and other concurrent uses.

No activity may occur without further review and proper authorization from the appropriate permitting agency, and all activities must comply with the ACMP. When lessees propose specific activities, more detailed information, such as site, type, and size of facilities, will be known. In most cases, permit applications are public information, and most permitting processes include public comment periods. The department may impose additional terms during the permitting process if additional issues are identified.

After weighing the facts and issues known to him at this time, comments received during the public comment period, and applicable laws and regulations, and balancing the potential positive and negative effects given the mitigation measures and other regulatory protections, the director concludes that the potential benefits of the lease sale outweigh the possible negative effects, and that Beaufort Sea Areawide oil and gas lease sales will best serve the interests of the state of Alaska.

Chapter One: Executive Summary

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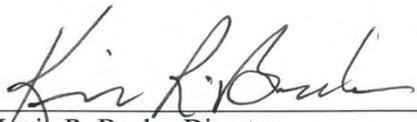
A person affected by this decision who provided timely written comments or oral testimony may request reconsideration, in accordance with 11 AAC 02. Any reconsideration request must be received by November 30, 2009, and may be mailed or delivered to:

Thomas E. Irwin, Commissioner  
Department of Natural Resources  
550 W. 7th Avenue, Suite 1400  
Anchorage, Alaska 99501

Fax: 1-907-269-8918

Email: [dnr.appeals@alaska.gov](mailto:dnr.appeals@alaska.gov).

If reconsideration is not requested by that date or if the commissioner does not order reconsideration on his own motion, this decision goes into effect as a final order and decision on December 10, 2009. Failure of the commissioner to act on a request for reconsideration within 30 days after issuance of this decision is a denial of reconsideration and is a final administrative order and decision for purposes of an appeal to Superior Court. The decision may then be appealed to Superior Court within a further 30 days in accordance with the rules of the court, and to the extent permitted by applicable law. An eligible person must first request reconsideration of 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.

  
Kevin R. Banks, Director

November 9, 2009  
Date

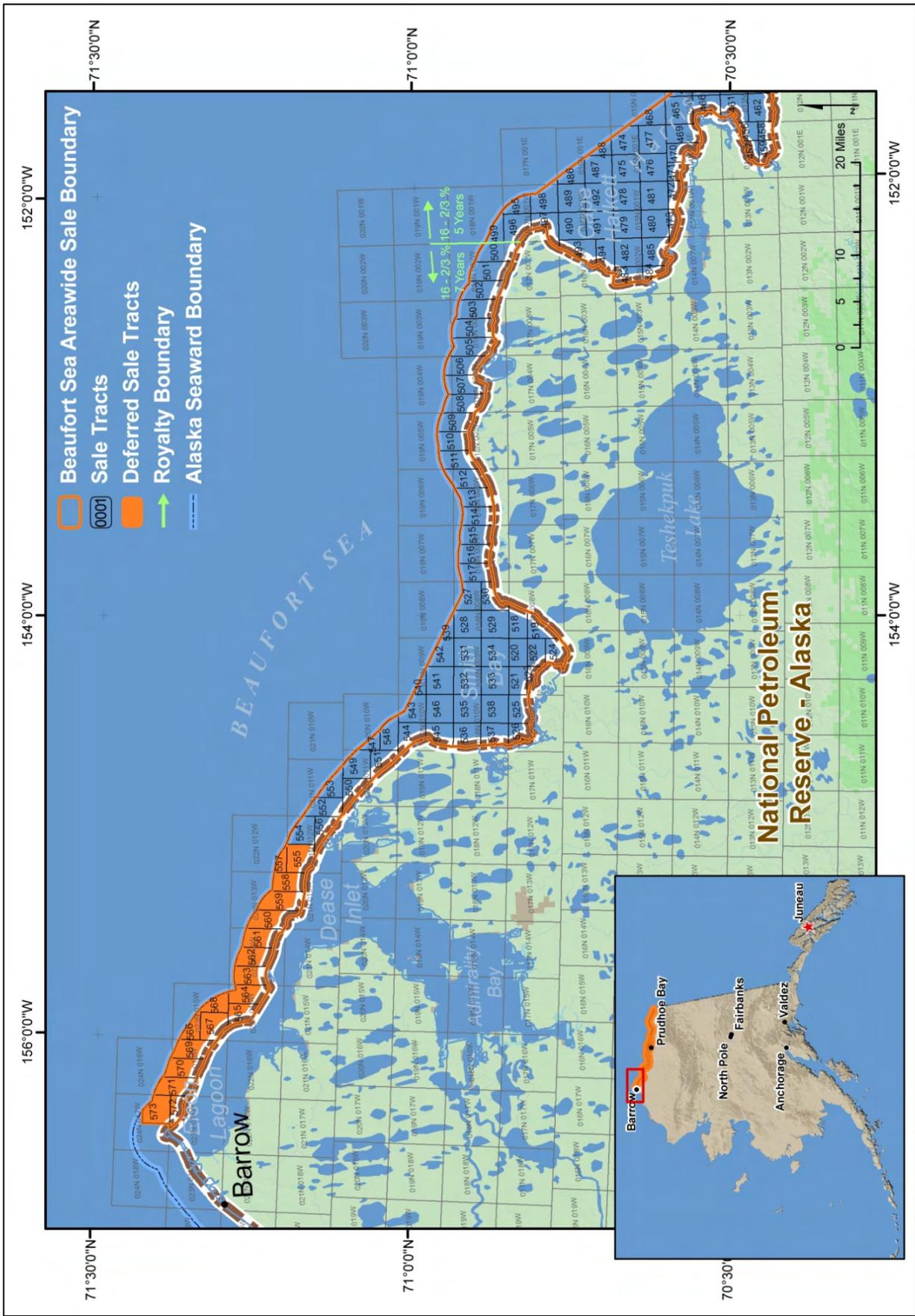
I concur with the director that Beaufort Sea Areawide oil and gas lease sales are in the state's best interest.

  
Thomas E. Irwin, Commissioner

November 9, 2009  
Date

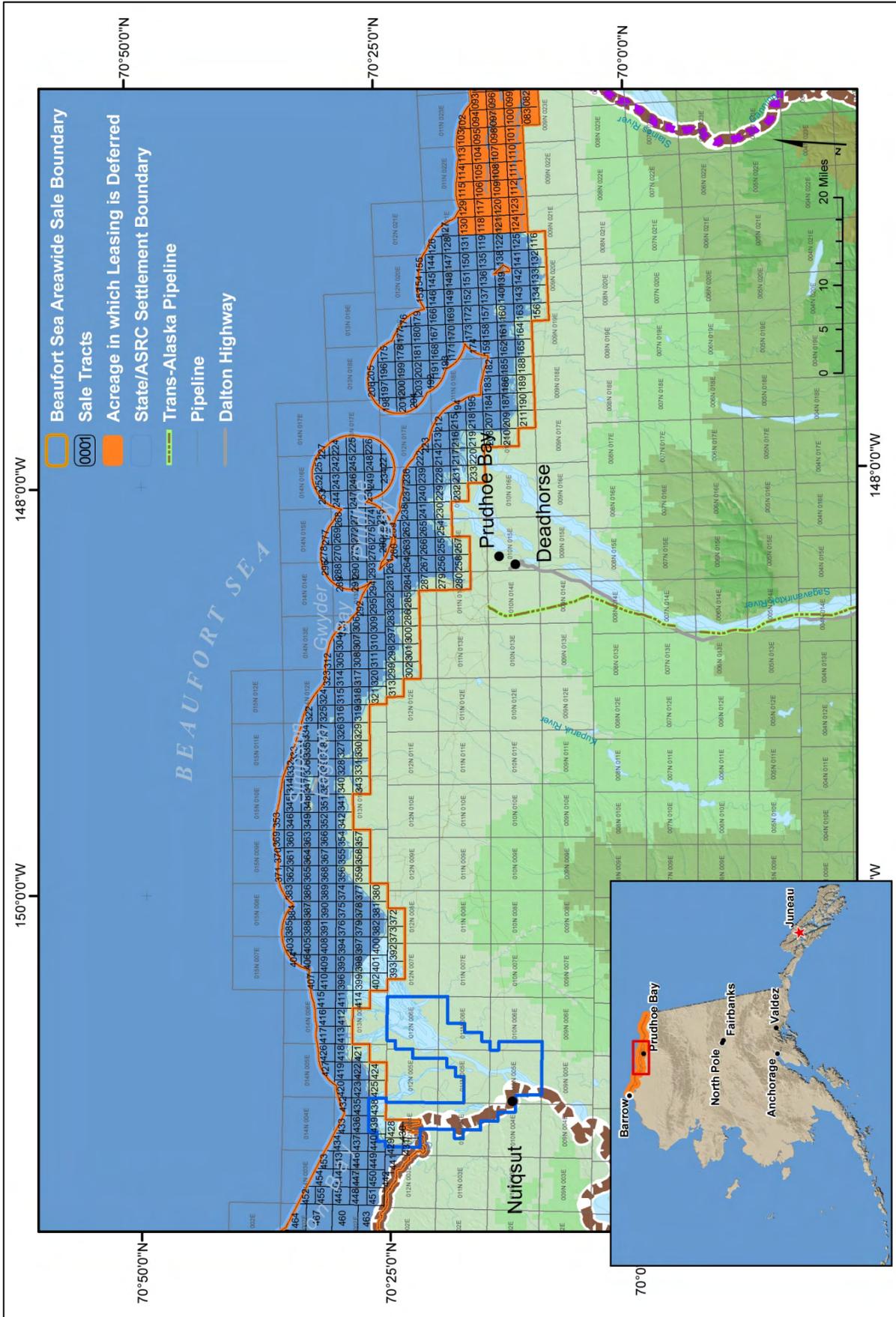
# Maps





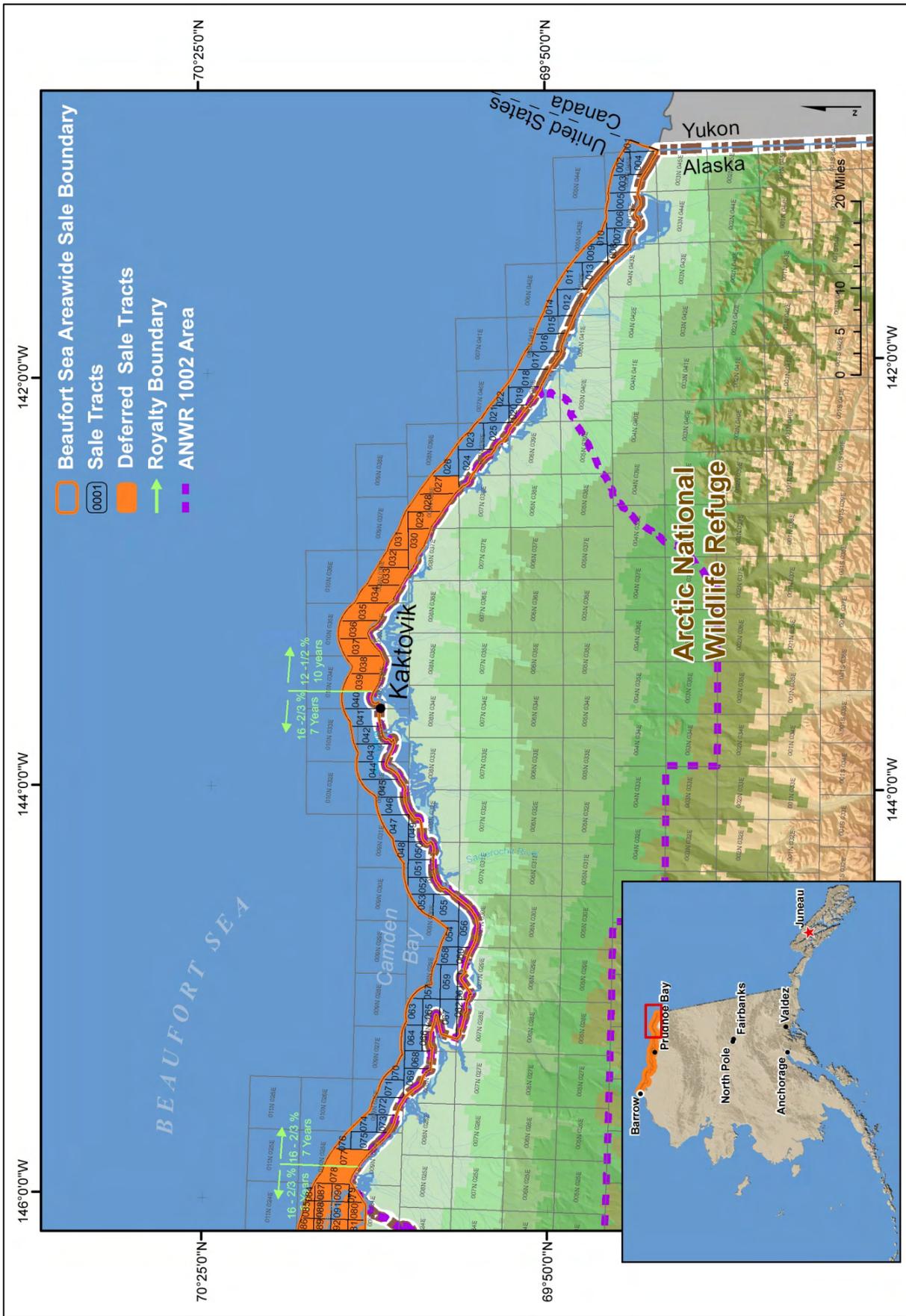
Map 1.1. Tract map of the Beaufort Sea Areawide lease sale area (west).





Map 1.2. Tract map of the Beaufort Sea Area-wide lease sale area (central).





Map 1.3. Tract map of the Beaufort Sea Areawide lease sale area (east).

