



January 30, 2018

The Honorable Cathy Giessel
President of the Senate
Alaska State Capitol
Juneau, AK 99801-1182

The Honorable Neal Foster
Speaker Pro Tempore
Alaska State Capitol
Juneau, AK 99801-1182

Dear Senator Giessel and Representative Foster:

AS 38.05.180(b) and AS 38.05.180(e) require the Alaska Department of Natural Resources (DNR) to make an annual report to the Legislature regarding the past year’s leasing activities and the proposed leasing activity for the coming five-year period. This letter meets those statutory requirements.

The DNR Division of Oil and Gas (DO&G) is pleased to provide you with this letter of notification for the 5-Year Program of Proposed Oil and Gas Lease Sales and Gas-Only Lease Sales to be held during the calendar period 2019-2023. Leasing during this period will continue under the areawide lease sale program that began in 1999 and includes five specific areawide sale areas. The areawide lease sale program allows industry to plan for leasehold acquisition based upon a known schedule of state oil and gas lease sales. Areawide lease sales offer industry the opportunity to competitively bid upon existing unleased tracts in each area that are available and not deferred.

This letter addresses the statutory requirements under AS 38.05.180(b) and AS 38.05.180(e).

AS 38.05.180(b) 5-Year Program

Under AS 38.05.180(b), the commissioner shall annually prepare and, before February 1 of each calendar year, notify the legislature of a 5-year program of proposed oil and gas lease sales and proposed gas only lease sales, specifying as precisely as practicable the location of tracts to be offered for leasing during the calendar year of the notification and the following four calendar years. The commissioner may, at any time, notify the legislature of revisions, including additions, to the program. Notification to each legislator, by electronic message or other written means, constitutes notification to the legislature under this subsection.

Proposed Oil and Gas Lease Sales

One areawide oil and gas lease sale per area is proposed to be held each year (Table 1). The Beaufort Sea, North Slope, and North Slope Foothills lease sales are typically held in the fall, while the Cook Inlet and Alaska Peninsula lease sales are typically held in the spring. No gas-only lease sales are proposed.

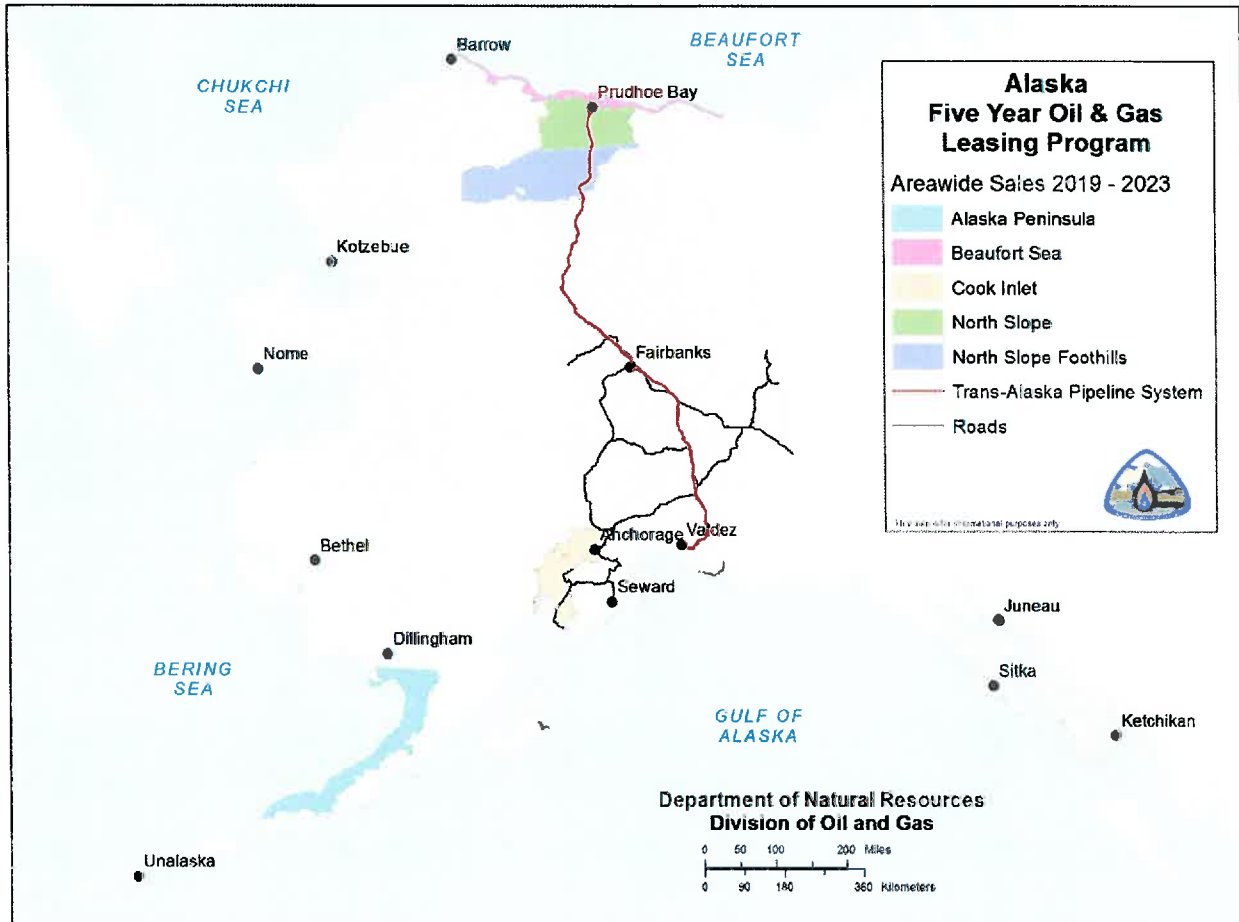
Table 1. Schedule of proposed oil and gas lease sales for 2019-2023.

Areawide	Timing	5-Year Schedule				
Beaufort Sea	Fall	2019	2020	2021	2022	2023
North Slope	Fall	2019	2020	2021	2022	2023
North Slope Foothills	Fall	2019	2020	2021	2022	2023
Cook Inlet	Spring	2019	2020	2021	2022	2023
Alaska Peninsula	Spring	2019	2020	2021	2022	2023

Location of Tracts to Be Offered

Figure 1 depicts the location of the five areawide lease sales. The Alaska 5-year oil and gas leasing program provides annual competitive bidding opportunities for state lands that are found to be prospective for oil and gas. Detailed descriptions and tract maps for the five areawide lease sales are available online at dog.dnr.alaska.gov/Services/BIFAndLeaseSale.

Figure 1. Areawide lease sales proposed for 2019-2023.



AS 38.05.180(e) Annual Report

AS 38.05.180(e) requires the commissioner shall annually prepare and notify the legislature of the availability of a report containing the following (1) the schedule of all lease sales held during the preceding calendar year, the bidding method or methods utilized, and an analysis of the results of the bidding; (2) if determined, a description of the bidding methods to be used for all lease sales to be held during the current and next two succeeding calendar years; (3) the reasons a particular bidding method has been selected in accordance with AS 38.05.180(f)(1) and (3).

Regarding AS 38.05.180(e)(1), five lease sales with various terms and conditions were held in 2018, as shown in Table 2. An analysis of the results of the bidding is found in the following section. Regarding AS 38.05.180(e)(2) and (3), the competitive bidding methods for proposed sales in 2019, 2020, and 2021 have not been determined.

Table 2. Schedule of oil and gas lease sales held in 2018.

Areawide Lease Sale	2018 Sale Date ^c	Method ^d	Procedure ^e	Minimum Bid (Per Acre)	Royalty Rate (Fixed)	Primary Lease Term (Years)	Annual Rental (Per Acre)
Beaufort Sea							
Gwydyr Bay Block ^f	November 15	Cash Bonus	Sealed Bid	\$25.00	16.66667%	8	\$10.00 ^b
Harrison Bay Block ^g	November 15	Cash Bonus	Sealed Bid	\$25.00	16.66667%	8	\$10.00 ^b
BSA 2018W Tracts	November 15	Cash Bonus	Sealed Bid	\$25.00	16.66667%	8	\$10.00 ^{bb}
North Slope							
Storms Block ^f	November 15	Cash Bonus	Sealed Bid	\$25.00	16.66667%	8	\$10.00 ^b
ASRC/State Tracts	November 15	Cash Bonus	Sealed Bid	\$25.00	16.66667%	10	\$10.00 ^b
North Sub-Region Tracts	November 15	Cash Bonus	Sealed Bid	\$25.00	16.66667%	8	\$10.00 ^b
South Sub-Region Tracts	November 15	Cash Bonus	Sealed Bid	\$25.00	12.5%	8	\$10.00 ^b
North Slope Foothills	November 15	Cash Bonus	Sealed Bid	\$10.00	12.5%	10	\$1.00 - \$3.00 ^a
Alaska Peninsula	May 9	Cash Bonus	Sealed Bid	\$5.00	12.5%	10	\$1.00 - \$3.00 ^a
Cook Inlet	May 9	Cash Bonus	Sealed Bid	\$15.00	12.5%	8	\$10.00 ^b

^a Per AS 38.05.180(n)(1). Year 1: \$1.00; Year 2: \$1.50; Year 3: \$2.00; Year 4: \$2.50; Years 5 and beyond: \$3.00.

^b Per AS 38.05.180(w). Years 1 – 8: \$10.00.

^c Date of sealed bid opening.

^d AS 38.05.180(f)(3)(A).

^e Per AS 38.05.180(f)(1).

^f Per AS 38.05.180(h) and 11 AAC 83.700 - .705. Blocks of leases were offered with work commitments to drill well to depth by 5th anniversary. State oil and gas lease work commitment terms may be modified under certain conditions.

^g Per AS 38.05.180(h) and 11 AAC 83.700 - .705. Block of leases was offered with work commitment to drill well to depth by 6th anniversary. State oil and gas lease work commitment terms may be modified under certain conditions.

Analysis of Bidding Results, 2018

Complete bidding results are available online at dog.dnr.alaska.gov/Services/BIFAndLeaseSale.

Northern Alaska Areawide Lease Sales

The November 2018 Northern Alaska lease sales included the Beaufort Sea Areawide, North Slope Areawide, and North Slope Foothills Areawide. Ranked by average high bid value, the North Slope Areawide netted the highest dollar per acre bid values since Areawide lease sales were first offered in 1999, with an average high bid of \$122.13 per acre. Ranked by bonus bid dollar amount, the North Slope Areawide was the third largest sale in the same period.

A total of 145 valid bids were submitted on 133 tracts in the North Slope Areawide lease sale. Winning bonus bids totaled \$27,318,329, surpassing the successful December 2017 North Slope Areawide lease sale by \$8 million. The 2018 North Slope Areawide lease sale saw more tracts receiving bids than in 2017, with a shift in competition on certain groups of tracts. New participant Lagniappe Alaska, LLC was the sole bidder on 120 tracts encompassing 195,200 acres in the eastern part of the areawide and south of Badami Unit. Repsol E&P USA, Inc. (Repsol) outbid three other bidder groups competing for 12 tracts encompassing 26,560 acres in the western part of the areawide between the Kuparuk River Unit and Pikka Unit. Repsol's highest bid was \$586 per acre on a tract approximately 4 miles west of the Kuparuk River Unit.

One North Slope Areawide tract along the Staines River received the first tie bid since Areawide lease sales were first offered in 1999. The bidders submitting tie bids of \$26.11 per acre were invited to submit new bids on the same tract. The tie was broken on January 3, 2019 when DO&G publicly opened a winning bid from Regenerate Alaska, Inc., outbidding Andrew J. Bachner and Keith C. Forsgren (Bachner and Forsgren), by almost \$20 per acre.

A total of 12 valid bids were submitted on eight (8) tracts in the Beaufort Sea Areawide lease sale. Winning bonus bids totaled \$848,197. The 2018 lease sale was the first state lease sale in which Oil Search (Alaska), LLC (Oil Search) participated, outbidding Bachner and Forsgren on four (4) tracts along

the Oooguruk Unit boundary. This was also the first Beaufort Sea Areawide lease sale to see Hilcorp Alaska, LLC (Hilcorp) bid since 2014, on a tract along the Duck Island Unit boundary. The remaining tracts were acquired by Bachner and Forsgren.

DO&G offered three groups of tracts as lease sale blocks in the North Slope Areawide and Beaufort Sea Areawide as listed in Table 2. These blocks were offered with work commitments to drill at least one well by a specified anniversary. This new leasing concept was an attempt to leverage recently released tax credit seismic data in these areas. The block offering aimed to accelerate exploration and development in these areas through offering large, contiguous lease areas. There were no bids received for the Gwydyr Bay Block, Storms Block, or Harrison Bay Block.

There were no bids received for the North Slope Foothills Areawide lease sale in November 2018. The North Slope Foothills has received bids in two sales since it was first offered in 2010; with the last two bids received in 2014. There are no oil and gas leases issued in the North Slope Foothills Areawide.

Factors such as existing infrastructure and exploration activity, the geologic potential of an area, and announcements of oil and gas discoveries likely influenced bidders.

Southern Alaska Areawide Lease Sales

The May 2018 Southern Alaska lease sales included the Cook Inlet Areawide and Alaska Peninsula Areawide.

A total of eight (8) bids were received from Hilcorp in the Cook Inlet Areawide lease sale for a total of \$289,792.22 in bonus bids. Hilcorp has participated in six (6) of the last seven (7) annual Cook Inlet Areawide lease sales. Overall sale rankings place the 2018 Cook Inlet Areawide lease sale near the bottom of the historical trend. There were no bids received for the Alaska Peninsula Areawide lease sale in May 2018. The Alaska Peninsula Areawide has received bids in three lease sales since it was first offered in 2005; with the last three (3) bids received in 2014. There are no oil and gas leases issued in the Alaska Peninsula Areawide.

The rapid and significant drop in oil prices starting in late 2014 combined with a relatively stable gas demand in southcentral Alaska are thought to be major factors contributing to low bidder activity in the Cook Inlet Areawide lease sales.

Conclusion

Please be advised this document constitutes DNR's statutory notification under AS 38.05.180(b) and AS 38.05.180(e). More detailed information on the areawide lease sale program, including the best interest findings that underpin the disposal of land for oil and gas leasing and exploration, the historical record of state lease sales, and the information on bidder qualifications are maintained online at dog.dnr.alaska.gov.

Please contact the DNR legislative liaison with questions or for additional information regarding oil and gas leasing in Alaska. Thank you for your continued interest in the oil and gas leasing program.

Sincerely,



Chantal Walsh
Director