



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Natural Resources

DIVISION OF OIL & GAS

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January 29, 2020

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

The Honorable Bryce Edgmon
Speaker of the House
Alaska State Capitol
Juneau, AK 99801-1182

Dear Senator Giessel and Representative Edgmon:

The Alaska Department of Natural Resources (DNR), Division of Oil and Gas (DO&G) is pleased to provide notice of the 5-Year Program of Proposed Oil and Gas Lease Sales and Gas-Only Lease Sales (5-Year Program) to be held during the calendar period 2020 – 2024 and notice of leasing activities in 2019.

Alaska Statute (AS) 38.05.180(b) and AS 38.05.180(e) require DNR to make an annual report to the Alaska State Legislature (Legislature) regarding proposed leasing activity for the coming five-year period and the past year's leasing activities. This letter addresses and meets the statutory requirements referenced above.

AS 38.05.180(b) 5-Year Program

AS 38.05.180(b) provides “The commissioner shall annually prepare and, before February 1 of each calendar year notify the legislature of a five-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

In this 5-Year Program period, DO&G proposes to offer oil and gas leases under the areawide lease sale program. Areawide leasing allows regularly scheduled competitive oil and gas lease sales on available state lands within five specific sale areas with known hydrocarbon potential: the Alaska Peninsula, Beaufort Sea, Cook Inlet, North Slope, and North Slope Foothills. Offering oil and gas leases on a regular schedule allows the state to have a stable, predictable leasing program. In turn, companies can plan and develop their strategies and budgets years in advance of a lease sale. Additionally, the public is afforded a consistent process and timeline during which to comment and provide new information on the proposed areawide lease sales. DO&G

proposes to offer one oil and gas sale per areawide lease sale in each of the next five (5) years (Table 1). No gas-only lease sales are proposed.

Table 1. Schedule of proposed oil and gas lease sales for 2020-2024.

Areawide	Timing	5-Year Schedule				
		2020	2021	2022	2023	2024
Cook Inlet	Spring	2020	2021	2022	2023	2024
Alaska Peninsula	Spring	2020	2021	2022	2023	2024
Beaufort Sea	Fall	2020	2021	2022	2023	2024
North Slope	Fall	2020	2021	2022	2023	2024
North Slope Foothills	Fall	2020	2021	2022	2023	2024

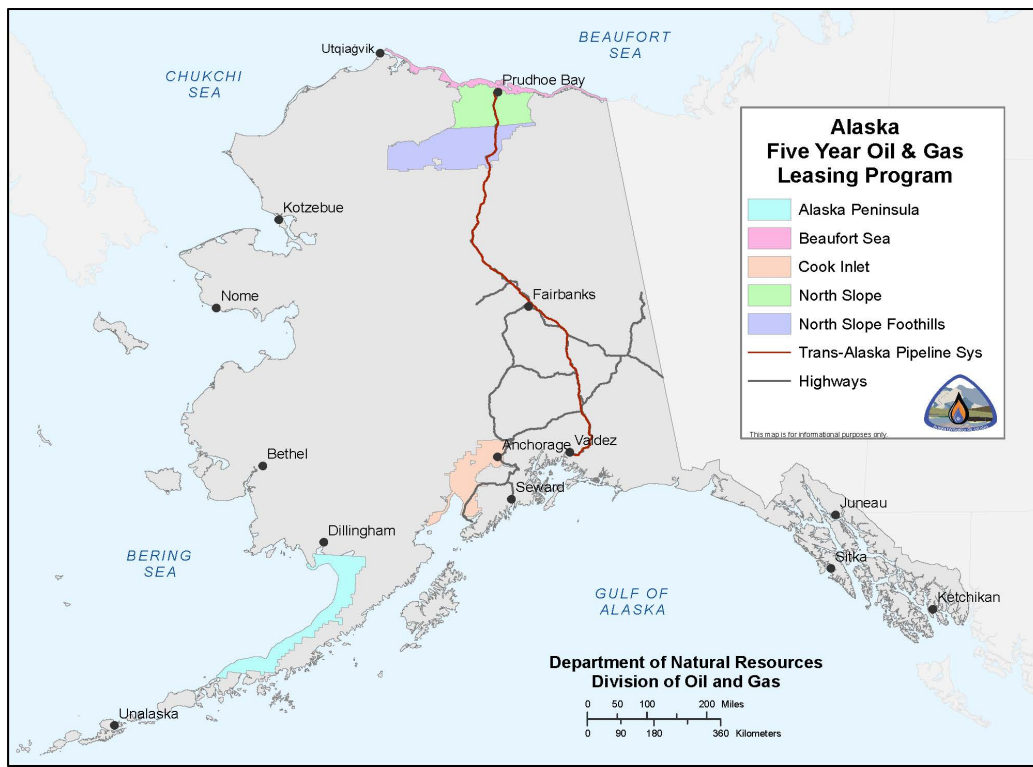
Location of Tracts to Be Offered

Figure 1 depicts the location of the five areawide lease sales.

DO&G will offer new tracts on 169,000 acres of state lands in the Cook Inlet Areawide in Spring 2020. DO&G issued the *Cook Inlet Areawide Oil and Gas Lease Sale Supplemental Finding of the Director* in December 2019, which expanded the sale area along the Iniskin Peninsula in an area with current oil and gas exploration.

Detailed descriptions, tract maps, and findings for the five areawide lease sales are available on the DO&G website at .

Figure 1. Areawide lease sales proposed for 2020-2024.



AS 38.05.180(e) Annual Report

AS 38.05.180(e) provides “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.”

Five areawide lease sales were held in 2019, with various terms and conditions. The schedule and analyses are found in the following sections. The competitive bidding methods for proposed sales in the 5-Year Program have not been determined. However, we anticipate offering lands through a sealed bid online auction in 2020 under new regulations adopted effective December 26, 2019.

Areawide lease sale documents, maps, and bidding results for the 2019 areawide lease sales are available on the DO&G website at dog.dnr.alaska.gov/Services/BIFAndLeaseSale.

Schedule of Lease Sales Held During the Preceding Calendar Year

DO&G held each of the five areawide lease sales proposed for 2019 under the preceding year’s 5-Year Program. All areawide lease sales were offered with a competitive sealed bid procedure per AS 38.05.180(f)(3)(A). The bidding method was cash bonus with fixed royalty rate per AS 38.05.180(f)(1). The areawide lease sales, dates, and terms and conditions are presented in Table 2.

Table 2. Schedule of oil and gas lease sales held in 2019.

Areawide Lease Sale	2019 Sale Date ^a	Minimum Bid (Per Acre)	Royalty Rate (Fixed)	Primary Lease Term (Years)	Annual Rental (Per Acre)
Alaska Peninsula	May 22	\$5.00	12.5%	10	\$1.00 - \$3.00 ^b
Cook Inlet	May 22	\$15.00	12.5%	8	\$10.00 ^c
Beaufort Sea					
Gwydyr Bay Block ^d	December 11	\$25.00	16.66667%	8	\$10.00 ^c
Harrison Bay Block ^d	December 11	\$25.00	16.66667%	8	\$10.00 ^c
BSA 2018W Tracts	December 11	\$25.00	16.66667%	8	\$10.00 ^c
North Slope					
Storms Block ^d	December 11	\$25.00	16.66667%	8	\$10.00 ^c
North Sub-Region Tracts	December 11	\$25.00	16.66667%	8	\$10.00 ^c
South Sub-Region Tracts	December 11	\$25.00	12.5%	8	\$10.00 ^c
North Slope Foothills	December 11	\$10.00	12.5%	10	\$1.00 - \$3.00 ^b

^a Date of sealed bid opening.

^b 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.

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

^d 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 7th anniversary. State oil and gas lease work commitment terms may be modified under certain conditions.

Bidding Results

The areawide lease sales results are presented in Table 3.

Table 3. Results for oil and gas lease sales held in 2019.

Areawide Lease Sale	Bids Received	Lease Tracts Sold	Lease Acres Sold	Bonus Bid
Alaska Peninsula	0	0	0	0
Cook Inlet	3	3	10,286	\$190,351
Beaufort Sea^a				
Gwydyr Bay Block	0	0	0	0
Harrison Bay Block	0	0	0	0
BSA 2018W Tracts	13	13	46,290	\$1,222,360
North Slope^a				
Storms Block	0	0	0	0
North Sub-Region Tracts	27	27	57,920	\$4,996,982
South Sub-Region Tracts	29	29	50,400	\$1,585,008
North Slope Foothills	0	0	0	0
2019 Total	72	72	164,896	\$7,994,701

^a Lease acres sold and bonus bid are preliminary figures and may change after leases are issued.

Analysis of Bidding Results – Southern Alaska Areawide Lease Sales

The May 2019 Southern Alaska lease sales included the Cook Inlet Areawide and Alaska Peninsula Areawide.

A total of three (3) bids were received from Hilcorp Alaska, LLC (Hilcorp) in the Cook Inlet Areawide lease sale for approximately \$190,000 in bonus bids. Hilcorp has participated in seven (7) of the last eight (8) annual Cook Inlet Areawide lease sales. Overall sale rankings place the 2019 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 2019. 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 ongoing low bidder activity in the Cook Inlet Areawide lease sales.

Analysis of Bidding Results – Northern Alaska Areawide Lease Sales

The December 2019 Northern Alaska lease sales included the Beaufort Sea Areawide, North Slope Areawide, and North Slope Foothills Areawide.

A total of 56 valid bids were submitted on 56 tracts in the North Slope Areawide lease sale. Winning bonus bids totaled \$6.6 million. The lease sale saw bids from exploration interests that already hold significant lease acreage in Alaska and appear to represent efforts to consolidate opportunities near existing leases into larger contiguous areas. These interests include Oil Search (Alaska), LLC and Great Bear Pantheon, LLC.

A total of 13 valid bids were submitted on 13 tracts in the Beaufort Sea Areawide lease sale. Winning bonus bids totaled \$1.2 million.

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 leasing concept was an attempt to leverage 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 December 2019. 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.

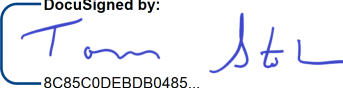
Factors such as existing infrastructure and exploration activity, the geologic potential of an area, and announcements of oil and gas discoveries likely influenced bidders.

You are invited to review additional oil and gas lease sale information on the DO&G website at dog.dnr.alaska.gov. DO&G publishes lease sale documents and maps, best interest findings authorizing disposal of state land for oil and gas leasing and exploration, historic state lease sale records, and lists of qualified bidders.

Please contact Laura Ogan, Legislative Liaison, with questions or for more information on oil and gas leasing in Alaska. She may be reached at laura.ogan@alaska.gov or (907)269-8431.

Thank you for your continued interest in the oil and gas leasing program.

Sincerely,
DocuSigned by:



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Tom Stokes
Director