



January 30, 2018

The Honorable Pete Kelly
President of the Senate
State Capitol, Room 111
Juneau, Alaska 99801-1182

Honorable Bryce Edgmon
Speaker of the House
State Capitol, Room 208
Juneau, Alaska 99801-1182

Dear President Kelly and Speaker Edgmon:

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 5-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 2018-2022. Leasing during this period will continue under the areawide 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.

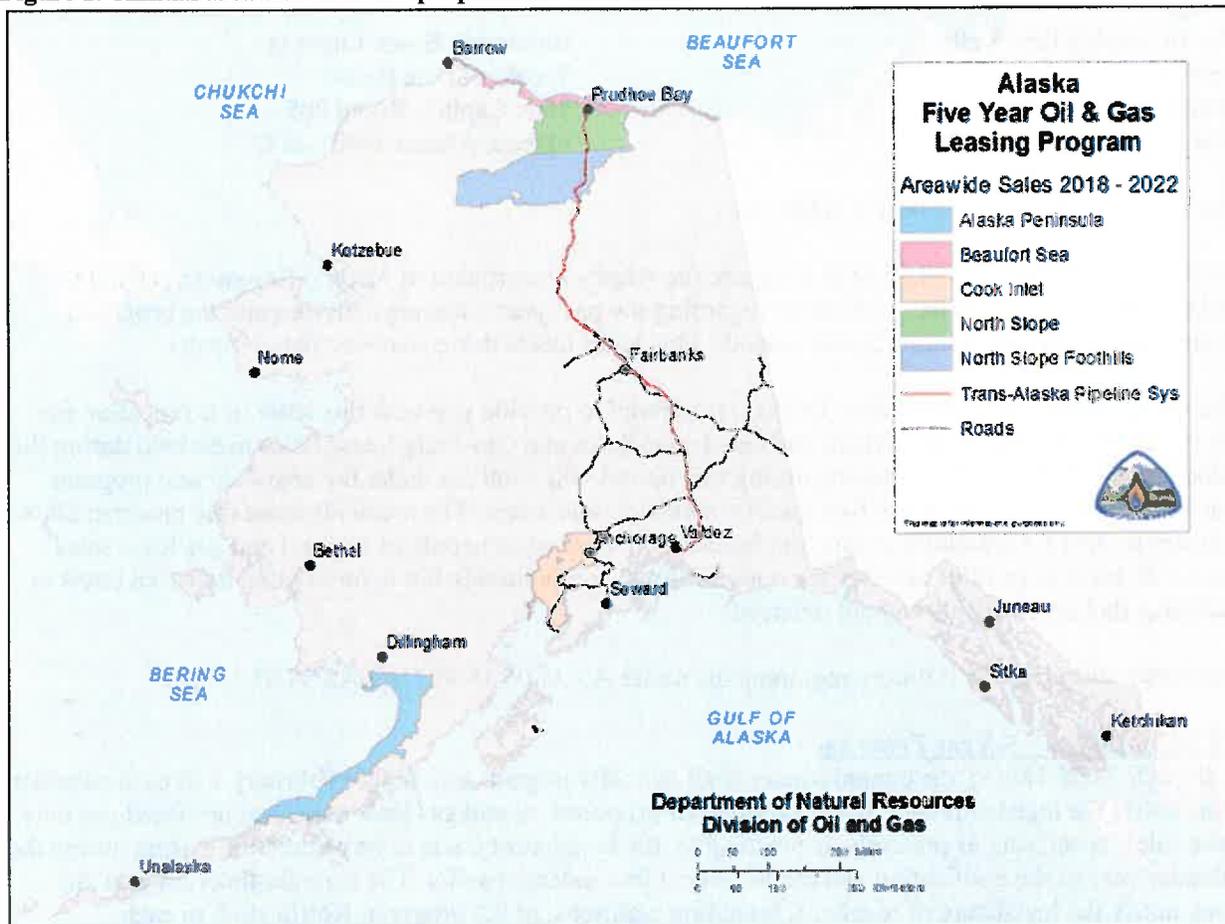
Table 1. Schedule of proposed oil and gas lease sales for 2018-2022.

Areawide	Timing	5-Year Schedule				
Beaufort Sea	Fall	2018	2019	2020	2021	2022
North Slope	Fall	2018	2019	2020	2021	2022
North Slope Foothills	Fall	2018	2019	2020	2021	2022
Cook Inlet	Spring	2018	2019	2020	2021	2022
Alaska Peninsula	Spring	2018	2019	2020	2021	2022

Location of Tracts to Be Offered

Figure 1 depicts the location of the five areawide sale areas. The Alaska 5-year oil and gas leasing program provides annual competitive bidding opportunities for state lands found to be prospective for oil and gas. More detailed maps of the lease areas and tracts are available on the Division's website at <http://dog.dnr.alaska.gov/Services/LeaseSale>.

Figure 1. Annual areawide sales are proposed for 2018-2022.



AS 38.05.180(e) – Annual Report

AS 38.05.180(e) requires that 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 during 2017, 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 to be used for lease sales in 2018, 2019 and 2020 have not yet been determined.

Table 2. Schedule of oil and gas lease sales held during the preceding year (CY2017) and bidding methods.

Areawide	Sale Date ^d	Method ^e	Procedure ^f	Min. Bid (per acre)	Royalty Rate (%)	Primary Lease Term (yrs)	Annual Rental (per acre)
Beaufort Sea	Dec. 6, 2017						
State/ASRC Tracts		Case Bonus	Sealed Bid	\$25.00	16.66667 Fixed	10	\$10.00/\$250.00 ^b
BSA 2017W Tracts		Case Bonus	Sealed Bid	\$25.00	16.66667 Fixed	8	\$10.00 ^c
North Slope	Dec. 6, 2017						
ASRC/State Tracts		Case Bonus	Sealed Bid	\$25.00	16.66667 Fixed	10	\$10.00/\$250.00 ^b
North Sub-Region Tracts		Cash Bonus	Sealed Bid	\$25.00	16.66667 Fixed	8	\$10.00 ^c
South Sub-Region Tracts		Cash Bonus	Sealed Bid	\$25.00	12.5 Fixed	8	\$10.00 ^c
North Slope Foothills	Dec. 6, 2017	Cash Bonus	Sealed Bid	\$10.00	12.5 Fixed	10	\$1.00-\$3.00 ^a
Cook Inlet	June 21, 2017	Cash Bonus	Sealed Bid	\$25.00	12.5 Fixed	10	\$10.00/\$250.00 ^b
Alaska Peninsula	June 21, 2017	Cash Bonus	Sealed Bid	\$5.00	12.5 Fixed	10	\$1.00-\$3.00 ^a

^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 – 6: \$10.00 per acre; Years 8 - 10: \$250.00 per acre. Annual rental will be as listed, except that beginning in the year after the year in which sustained production commences on the lease or the state otherwise determines in its sole discretion, upon request, that the lessee has exercised reasonable diligence in exploring and developing the lease the annual rental will be \$10.00 per acre or fraction of an acre. In evaluating a request to decrease rental based on the exercise of reasonable diligence, the state will consider the funds expended by the lessee to explore and develop the lease and the types of work completed by or on behalf of the lessee on this lease.

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

^d Date of sealed bid opening.

^e Per AS 38.05.180(f)(3)(A).

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

Analysis of Bidding Results, 2017

Complete bidding results can be found on the DOG website by following the link provided below:

<http://dog.dnr.alaska.gov/Services/LeaseSale>.

Northern Alaska Areawide Lease Sales

The December 2017 Northern Alaska lease sales included the Beaufort Sea Areawide, North Slope Areawide, and North Slope Foothills Areawide. Ranked by average bid value, the North Slope Areawide was the largest sale since 1998, netting an average of \$110 per acre. Ranked by dollar amount, the North Slope Areawide was the third largest sale since areawide sales were adopted in 1998.

A total of 124 bids were submitted on 103 tracts in the North Slope Areawide lease sale. Winning bonus bids totaled \$19,939,832.00. While the 2017 North Slope sale saw less tracts and acreage receiving bids than 2016, there was an increase in the degree of competition on certain groups of tracts. Repsol E&P USA, Inc. (Repsol) competed with Armstrong Energy, LLC's (Armstrong) 11 bids submitted on tracts on the western side of the North Slope Areawide lease sale area south of the Kuparuk River Unit. Repsol was the high bidder in all 11 of the tracts. Armstrong was also outbid in competition with ConocoPhillips Alaska, Inc. on one other tract; all other lower bids on competitive tracts were submitted by individuals.

A total of 19 bids were submitted on 16 tracts in the Beaufort Sea Areawide lease sale. Winning bonus bids totaled \$1,247,717.33. Winning bids were largely submitted by individuals, with Armstrong being the only company bidding. Andrew J. Bachner and Keith C. Forsgren were successful in winning nine

tracts. Daniel K. Donkel and Samuel H. Cade were successful in winning five tracts, beating out Armstrong on two tracts.

There were no bids received for the North Slope Foothills Areawide lease sale in December 2017. The North Slope Foothills Areawide has only received bids in two sales since 2010; two bids in 2014 and eight bids in 2012. There is only one active oil and gas lease in the North Slope Foothills Areawide.

Factors such as the presence of existing infrastructure, the geologic potential of the area, the recent release of seismic information, and announcements of oil and gas discoveries may have influenced bidders.

Southern Alaska Areawide Lease Sales

The June 2017 Southern Alaska lease sales included the Cook Inlet Areawide and Alaska Peninsula Areawide.

A total of six bids were received from Hilcorp Alaska, LLC (Hilcorp) in the Cook Inlet Areawide lease sale for a total of \$836,501.81 in bonus bids. Hilcorp has been a consistent participant in Cook Inlet Areawide lease sales since their arrival in late 2011. Overall sale rankings place the 2017 Cook Inlet Areawide lease sale near the bottom of the historical trend but better than the 2016 lease sale where no bids were submitted for the first time since 1999.

There were no bids received for the Alaska Peninsula Areawide lease sale in June 2017. The Alaska Peninsula Areawide has only received bids in three lease sales since it was adopted in 2005; with 37 bids received in 2005, one bid received in 2007, and three bids received in 2014. There are no active oil and gas leases 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 significant contributing factors in the reduction of bidder activity. The first federal offshore lease sale in Alaska since 2008 was held in federal Cook Inlet waters in 2017.

Conclusion

Please be advised that this document constitutes the 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 information on bidder qualifications are maintained online at <http://dog.dnr.alaska.gov/>.

If you have any questions or require additional information, please contact the Division of Oil and Gas at 907-269-8800. Thank you for your continued interest in the oil and gas leasing program.

Sincerely,



Chantal Walsh
Director, Division of Oil and Gas