

Section One

Leasing, Incentives, Licensing, and Other Programs

Areawide Leasing

Oil and gas lease sales are the initial step in a process that generates more than 85 percent of the state's general fund revenue. Since 1959 the state has held more than 100 competitive lease sales in which it has offered millions of acres throughout Alaska. Although the primary purpose of leasing state lands is to provide for oil and gas development and the subsequent economic benefits, the program in itself has been a significant revenue source. Through lease sale bonus bids alone, the state has received more than \$2 billion in revenue.

Since 1998, state oil and gas lease sales have been conducted on an areawide basis. This means that each sale includes all un-leased state oil and gas resources within the lease sale area. The five geographic regions subject to areawide leasing and typical sale month are listed below.

<u>Sale</u>	<u>Held In</u>
Alaska Peninsula Areawide	February
North Slope Foothills Areawide	February
Cook Inlet Areawide	May
Beaufort Sea Areawide	October
North Slope Areawide	October



Areawide leasing
ADNR, DO&G

Areas outside these regions are available for exploration through exploration licensing, discussed later in this section.

Best Interest Finding Process

Prior to an area being subject to an areawide lease sale, the commissioner must determine that it is in the state's best interest to hold such a sale in the area. The best interest finding is valid for up to 10 years; however, prior to each sale, the commissioner must solicit information from the public comment and determine if substantial new information has become available that justifies supplementing the best interest finding. If no new substantial information is received, a sale announcement — including the sale terms, bidding method, and tract map — will be issued at least 45 days prior to that sale. If a best interest finding or a supplement to a previous finding is required, it will be released at least 90 days prior to the sale.

The Division of Oil and Gas annually issues a new *Five-Year Oil and Gas Leasing Program* that sets out the sale schedule for the succeeding five years. Also included in this document are maps with results from the most recent areawide sales, a summary report of all previous state oil and gas lease sales, and an update on exploration licensing in the state. In addition, full information on each previous areawide lease sale is available on the division's Web site (<http://www.dog.dnr.state.ak.us/oil/>).

Leasing Methods

Several leasing methods, authorized under AS 38.05, have been used to encourage responsible oil and gas exploration and development and maximize state revenue, including combinations of fixed and variable bonus bids, royalty shares, and net profit shares. The fixed lease terms generally involve an obligation to remit royalty payments in the form of a 12 1/2 percent or 16 2/3 percent share of gross production paid in-kind or in-value. Occasionally, the state has imposed a fixed royalty rate of 20 percent. The state has also used sliding-scale royalty terms in its leases based on production or oil price or gross revenue.

The most common bid variable used by the state is the cash bonus. The state may require minimum bids of \$5 to \$10 per acre (and sometimes higher). The state may also use the royalty rate or the net profit share as the bidding variable, though this has happened only rarely (Sale 30, the joint Federal-State Beaufort Sea sale held in 1979, was one of these occasions).

Leasing



Lease Processing
ADNR, DO&G



North Kenai, Cook Inlet
ADNR, DO&G

ALASKA DEPARTMENT OF NATURAL RESOURCES DIVISION OF OIL & GAS		FIVE-YEAR OIL AND GAS LEASING PROGRAM PUBLIC NOTIFICATION SCHEDULE																																																January 2007													
Proposed Sale Area & Date		2007												2008												2009												2010												2011													
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D		
Alaska Peninsula Areawide 2007	Feb	S																																																													
North Slope Foothills Areawide 2007	Feb	S																																																													
Cook Inlet Areawide 2007	May	F	S																																																												
North Slope Areawide 2007	Oct	C	E			F	S																																																								
Beaufort Sea Areawide 2007	Oct	C	E			F	S																																																								
Alaska Peninsula Areawide 2008	Feb					C	E			F	S																																																				
North Slope Foothills Areawide 2008	Feb					C	E			F	S																																																				
Cook Inlet Areawide 2008	May							C	E			F		S																																																	
North Slope Areawide 2008	Oct	P		E						F												N		S																																							
Beaufort Sea Areawide 2008	Oct							C	E			F		S									S																																								
Alaska Peninsula Areawide 2009	Feb									C	E											F	S			S																																					
North Slope Foothills Areawide 2009	Feb									C	E											F	S			S																																					
Cook Inlet Areawide 2009	May							P		E												F		N		S																																					
North Slope Areawide 2009	Oct											C		E								F	S			S																																					
Beaufort Sea Areawide 2009	Oct							P		E												F		N		S																																					
Alaska Peninsula Areawide 2010	Feb																					C	E																																								
North Slope Foothills Areawide 2010	Feb																					C	E																																								
Cook Inlet Areawide 2010	May																					C	E																																								
North Slope Areawide 2010	Oct																					C	E																																								
Beaufort Sea Areawide 2010	Oct																					C	E																																								
Alaska Peninsula Areawide 2011	Feb																																																														
North Slope Foothills Areawide 2011	Feb																					P		E																																							
Cook Inlet Areawide 2011	May																																																														
North Slope Areawide 2011	Oct																																																														
Beaufort Sea Areawide 2011	Oct																																																														

C = Call for Comments; Request for New Information Made Available Since Last Finding.
E = End of Comment Period.
F = Final Finding.
N = Notice of Sale and Terms
S = Sale.
P = Preliminary Best Interest Finding / ACMP Consistency Analysis.
F_S = Supplement to Final Finding and/or Notice of Sale and Terms.
S = Sale.
Public Process 11/6/06

www.dog.dnr.state.ak.us

SUMMARY OF STATE COMPETITIVE LEASE SALES (cont)

Sale Date	Sale	Sale Area	Acres Offered	Acres Leased	Percent Leased	Average \$/Acre	Tracts Offered	Tracts Leased	Bonus Received	Bid Variable	Fixed Terms
1/22/1992	61	North Slope	991,087	260,550	26.29%	\$9.32	181	46	\$2,429,551	Bonus: \$5/acre Min	12.5% Royalty
6/2/1992	68	Beaufort Sea	153,445	0	0.00%	\$0.00	36	0	\$0	Bonus: \$10/acre Min	12.5% Royalty
12/8/1992	75	North Slope	217,205	124,832	57.47%	\$78.11	90	55	\$9,750,111	Bonus: \$10/acre Min	Royalty: State =12.5% & ASRC =16.67%
1/26/1993	76	Cook Inlet	393,025	141,504	36.00%	\$461.25	86	36	\$65,269,167	Bonus: \$5/acre Min	12.5% Royalty
1/26/1993	67 A-W	Cook Inlet	282,577	129,810	45.94%	\$18.75	69	33	\$2,433,864	Bonus: \$5/acre Min	12.5% Royalty
5/25/1993	77	North Slope	1,260,146	45,727	3.63%	\$25.47	228	8	\$1,164,555	Bonus: \$5/acre Min	12.5% Royalty
5/25/1993	70 A-W	North Slope	37,655	28,055	74.51%	\$48.41	11	8	\$1,358,027	Bonus: \$10/acre Min	12.5% Royalty
9/21/1993	57	North Slope	1,033,248	0	0.00%	\$0.00	196	0	\$0	Bonus: \$5/acre Min	12.5% Royalty
9/21/1993	75A	North Slope	14,343	14,343	100.00%	\$31.36	11	11	\$449,847	Bonus: \$10/acre Min	16.67% Royalty
10/30/1994	78	Cook Inlet	396,760	136,307	34.36%	\$12.14	90	34	\$1,654,137	Bonus: \$5/acre Min	12.5% Royalty
11/14/1995	67A-W2	Cook Inlet	152,768	13,804	9.04%	\$7.29	36	3	\$100,638	Bonus: \$5/acre Min	12.5% Royalty
11/14/1995	74W	Cook Inlet	66,703	17,015	25.51%	\$31.76	16	4	\$540,406	Bonus: \$5/acre Min	12.5% Royalty
11/14/1995	76W	Cook Inlet	251,614	14,220	5.65%	\$5.61	50	4	\$79,722	Bonus: \$5/acre Min	12.5% Royalty
11/14/1995	78W	Cook Inlet	260,453	36,478	14.01%	\$7.06	56	11	\$257,583	Bonus: \$5/acre Min	12.5% Royalty
12/5/1995	80	North Slope	951,302	151,567	15.93%	\$22.02	202	42	\$3,337,485	Bonus: \$10/acre Min	12.5% Royalty
10/1/1996	86A**	North Slope	15,484	5,901	38.11%	\$343.40	13	5	\$2,026,247	Bonus: \$100/acre Min	16.67%&16.67-33.33% Sliding Scale Rylyt
12/18/1996	85A	Cook Inlet	1,061,555	173,503	16.33%	\$17.92	234	44	\$3,109,603	Bonus: \$5/acre Min	12.5% Royalty
11/18/1997	86	Beaufort Sea	365,054	323,835	88.70%	\$86.42	181	162	\$27,985,125	Bonus: \$10/acre Min	16.67% Royalty
2/24/1998	85A-W	Cook Inlet	757,878	98,011	12.90%	\$8.46	157	24	\$828,807	Bonus: \$5/acre Min	12.5% Royalty
6/24/1998	87	North Slope	Areawide	518,689	N/A	\$99.86	N/A	137	\$51,794,173	Bonus: \$5/acre Min	12.5% Royalty
2/24/1999	NS 1999	North Slope	Areawide	174,923	N/A	\$14.85	N/A	40	\$2,596,838	Bonus: \$5/acre Min	12.5% Royalty
4/21/1999	CI 1999	Cook Inlet	Areawide	114,514	N/A	\$10.75	N/A	41	\$1,436,685	Bonus: \$5/acre Min	12.5% Royalty
8/16/2000	CI 2000	Cook Inlet	Areawide	100,480	N/A	\$9.15	N/A	27	\$919,750	Bonus: \$5/acre Min	12.5% Royalty
11/15/2000	BS 2000	Beaufort Sea	Areawide	25,840	N/A	\$13.13	N/A	11	\$338,922	Bonus: \$10/acre Min	12.5% & 16.67% Royalty
11/15/2000	NS 2000	North Slope	Areawide	652,355	N/A	\$15.41	N/A	145	\$10,052,665	Bonus: \$5/acre Min	12.5% & 16.67% Royalty
5/9/2001	CI 2001	Cook Inlet	Areawide	102,523	N/A	\$9.05	N/A	29	\$928,085	Bonus: \$5/acre Min	12.5% Royalty
5/9/2001	NSF 2001	NS Foothills	Areawide	858,811	N/A	\$11.41	N/A	170	\$9,799,277	Bonus: \$5/acre Min	12.5% Royalty
10/24/2001	BS 2001	Beaufort Sea	Areawide	36,331	N/A	\$94.90	N/A	24	\$3,447,734	Bonus: \$10/acre Min	12.5% & 16.67% Royalty
10/24/2001	NS 2001	North Slope	Areawide	434,938	N/A	\$15.89	N/A	146	\$6,911,572	Bonus: \$5/acre Min	12.5% & 16.67% Royalty
5/1/2002	CI 2002	Cook Inlet	Areawide	64,923	N/A	\$7.05	N/A	21	\$421,841	Bonus: \$5/acre Min	12.5% Royalty
5/1/2002	NSF 2002†	NS Foothills	Areawide	213,374	N/A	\$14.32	N/A	51	\$2,889,532	Bonus: \$5/acre Min	12.5% Royalty
10/24/2002	BS 2002	Beaufort Sea	Areawide	19,226	N/A	\$26.34	N/A	15	\$506,405	Bonus: \$10&\$100/ac Min	12.5%, 16.67% & 20% Royalty
10/24/2002	NS 2002	North Slope	Areawide	32,315	N/A	\$17.94	N/A	12	\$579,728	Bonus: \$10/acre Min	12.5%, 16.67%&16.67-33.33% Sliding Scale Rylyt
5/7/2003	CI 2003	Cook Inlet	Areawide	73,869	N/A	\$9.34	N/A	27	\$689,949	Bonus: \$5/acre Min	12.5% Royalty
5/7/2003	NSF 2003	NS Foothills	Areawide	5,760	N/A	\$6.35	N/A	1	\$36,576	Bonus: \$5/acre Min	12.5% Royalty
10/29/2003	BS 2003	Beaufort Sea	Areawide	36,995	N/A	\$36.71	N/A	20	\$1,358,187	Bonus: \$5 & \$10/ac Min	12.5 % & 16.67% Royalty
10/29/2003	NS 2003**	North Slope	Areawide	210,006	N/A	\$17.08	N/A	75	\$3,586,400	Bonus: \$10/acre Min	12.5 % & 16.67% Royalty
5/19/2004	CI 2004*	Cook Inlet	Areawide	227,475	N/A	\$7.33	N/A	72	\$1,667,967	Bonus: \$5/acre Min	12.5% Royalty
5/19/2004	NSF 2004	NS Foothills	Areawide	19,796	N/A	\$5.37	N/A	5	\$106,305	Bonus: \$5/acre Min	12.5% Royalty
10/27/2004	BS 2004	Beaufort Sea	Areawide	113,570	N/A	\$36.90	N/A	28	\$4,190,782	Bonus: \$10/acre Min	12.5 % & 16.67% Royalty
10/27/2004	NS 2004**	North Slope	Areawide	197,916	N/A	\$38.40	N/A	57	\$7,599,193	Bonus: \$10/acre Min	12.5 % & 16.67% Royalty
5/18/2005	CI 2005*	Cook Inlet	Areawide	174,661	N/A	\$5.98	N/A	55	\$1,044,661	Bonus: \$5/acre Min	12.5% Royalty
5/18/2005	NSF 2005	NS Foothills	Areawide	55,505	N/A	\$5.76	N/A	12	\$319,959	Bonus: \$5/acre Min	12.5% Royalty
10/26/2005	AK PEN 2005	Alaska Peninsula	Areawide	190,494	N/A	\$6.03	N/A	37	\$1,149,253	Bonus: \$5/acre Min	12.5% Royalty
3/1/2006	BS 2006	Beaufort Sea	Areawide	204,260	N/A	\$63.27	N/A	62	\$7,685,032	Bonus: \$10/acre Min	12.5 % & 16.67% Royalty
3/1/2006	NS 2006	North Slope	Areawide	564,600	N/A	\$27.88	N/A	145	\$15,741,677	Bonus: \$10/acre Min	12.5 % & 16.67% Royalty
5/24/2006	CI 2006***	Cook Inlet	Areawide	364,160	N/A	\$13.19	N/A	71	\$4,802,650	Bonus: \$10/acre Min	12.5% Royalty
5/24/2006	NSF 2006***	NS Foothills	Areawide	246,400	N/A	\$7.50	N/A	45	\$1,849,229	Bonus: \$5/acre Min	12.5% Royalty
10/25/2006	BS 2006A***	Beaufort Sea	Areawide	33,280	N/A	\$20.57	N/A	13	\$684,723	Bonus: \$10/acre Min	12.5 % & 16.67% Royalty
10/25/2006	NS 2006A***	North Slope	Areawide	177,280	N/A	\$14.27	N/A	44	\$2,530,534	Bonus: \$10/acre Min	12.5 % & 16.67% Royalty
TOTAL: 111 Sales				18,827,405		\$111.67		6,625	\$2,102,398,466		

* Economic Incentive Credits were offered for these sales.

** Sale 86A: State received \$259,435; ASRC received \$1,766,812

† NSF 2002 Bonus does not include 20% of Bonus bid (\$1.25 million) retained by the state for relinquished tracts.

** NS 2003: State received \$3,546,578; ASRC received \$39,822.

** NS 2004: State received \$7,496,152; ASRC received \$103,040

*** Acres Leased, Average \$/Acre, and Bonus Received are preliminary figures.

Exploration Licensing

Exploration Licensing

Exploration licenses are designed to stimulate exploration in Alaska's frontier basins and complement the state's areawide leasing program. All acreage subject to the state's competitive areawide leasing program remains off limits to exploration licensing.

Several large sedimentary basins, however, exist within Interior Alaska, some of which are virtually unexplored. The highly variable structural geology of these basins offers the potential for structural traps in overthrust belts and strike slip systems. Various types of clastic and carbonate stratigraphic traps may also be present. Exploration licensing allows companies to explore these frontier basins with minimal costs added by the state.



Susitna basin
aeromagnetic survey
K. Dirks

Licensing Process

An area selected for exploration licensing must be between 10,000 and 500,000 acres. The licensing process is initiated in one of two ways:

- Each year during the month of April, applicants may submit to the commissioner a proposal to conduct exploratory activity within an area they have specified; or
- The commissioner can, at any time, issue a notice requesting proposals to explore an area designated by the commissioner. Once a request for proposals has been issued, applicants will have 20 days to notify the commissioner of their intent to submit a proposal, and 60 days to submit the proposal.

Submitted proposals must: (1) describe the area proposed to be subject to the license; (2) state the specific minimum work commitment expressed in dollars; (3) describe the amount and form of security to be posted based on the projected cost of the planned exploration work; (4) propose the term of the license (unless already established by the commissioner); and (5) verify that a prospective licensee meets minimum qualifications.

Within 30 days of receiving any proposal, the commissioner will either reject it in a written decision or give public notice of the intent to evaluate the proposal's acceptability. This notice will solicit public comments on the proposal(s) and request competing proposals. The commissioner may also modify any proposal and request a new one based on those modifications.

After considering all submitted proposals and public comment on those proposals, the commissioner will issue a written finding determining whether granting the exploration license is in the state's best interests. The finding must describe the limitations, conditions, stipulations, or changes from the initiating proposal or competing proposals that are required to make the issuance of the license conform to the best interests of the state. If only one proposal was submitted, the finding must also identify the prospective licensee.

If the finding concludes that an exploration license should be awarded and there has only been a single applicant, that applicant will have 30 days after issuance of the finding to execute the license. If competing proposals are submitted and the commissioner determines that an exploration license should be awarded, the successful licensee will be determined by a sealed bid process, with the license awarded to the applicant who has committed the most dollars to an exploration program.

The recipient of a license must post a bond in the amount of the work commitment and pay a \$1 per acre license fee. There are no additional charges during the term of the license, which can be up to 10 years. During its term, and following satisfaction of the required work commitment, any portion of the licensed area may be converted to oil and gas leases. The term of the leases can extend beyond the original term of the license. If converted, annual lease rentals are set at \$3 per acre.



Mat-Su coring program
C. Ruff

Exploration Licensing

Relinquishment of Lands

If by the fourth anniversary of the exploration license the licensee has completed less than 25 percent of the total work commitment, the license will be terminated, with the remainder of the security forfeited to the state. If the licensee has completed less than 50 percent of the total work, 25 percent of the licensed area will be relinquished, with an additional 10 percent relinquished each successive year until half of the original acreage has been relinquished.

Current Exploration Licenses and Pending Applications

The state has issued four exploration licenses covering 1.66 million acres and has received applications for three other areas.

Licenses Issued:

Copper River

Licensee: Forest Oil Corporation
Size: 318,756.35 Acres
Exploration Commitment: \$1,420,000
Term: 5 years
Effective Date: October 1, 2000
Status: Lease conversion pending

Nenana Basin

Licensee: Andex Resources
Size: 483,942 Acres
Exploration Commitment: \$2,525,000
Term: 7 years
Effective Date: October 1, 2002
Status: Active; work commitment has been met.

Susitna Basin I

Licensee: Forest Oil Corporation
Size: 386,204 Acres
Exploration Commitment: \$2,520,000
Term: 7 years
Effective Date: November 1, 2003
Status: Active

Susitna Basin II

Licensee: Forest Oil Corporation
Size: 471,474 Acres
Exploration Commitment: \$3,000,000
Term: 7 years
Effective Date: November 1, 2003
Status: Active

License Not Executed by Licensee:

Bristol Bay (Proposed)

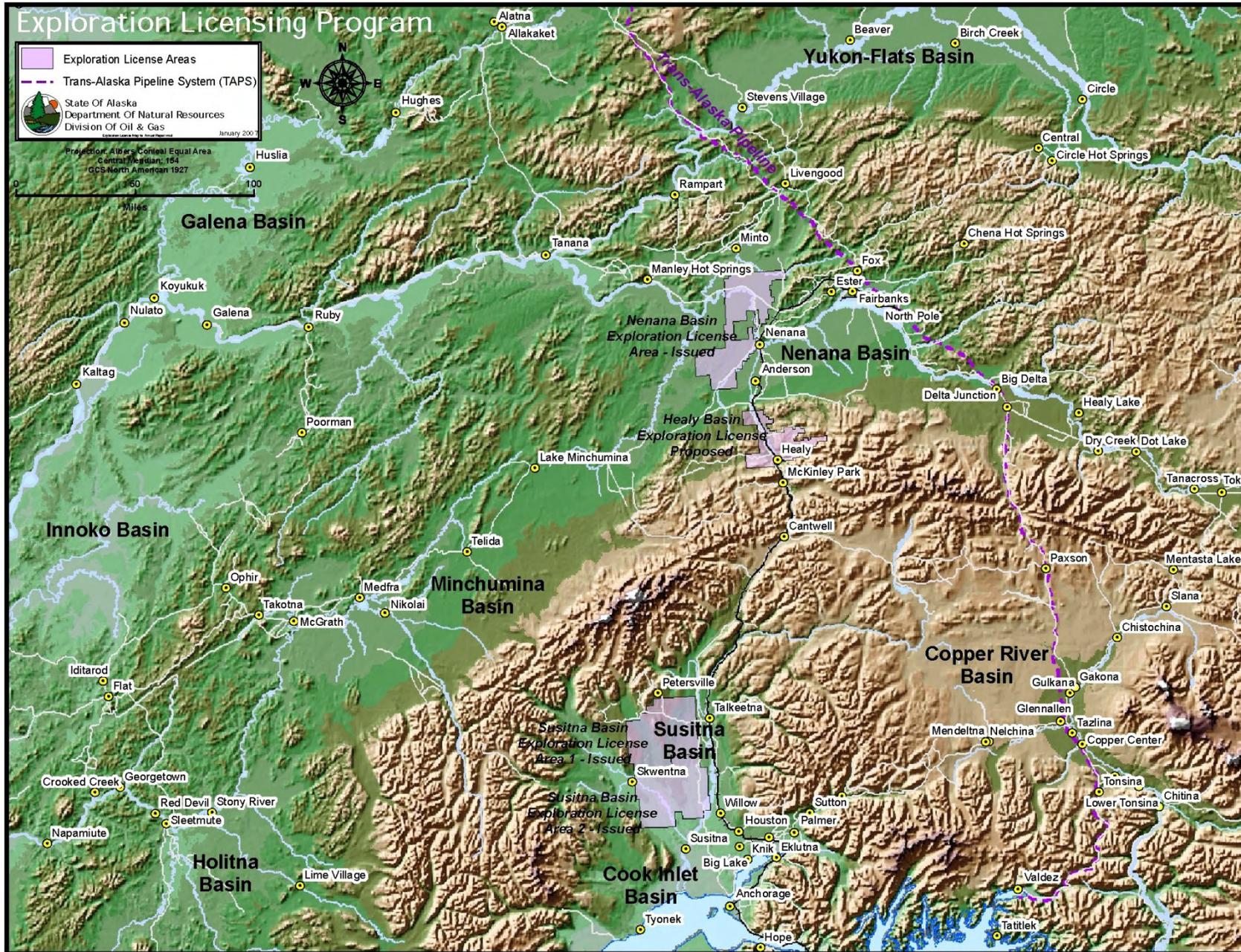
Licensee: Bristol Shores LLC
Size: 329,113 Acres
Exploration Commitment: \$3,200,000
Term: 7 years
Status: License Issued but not executed by Licensee; file closed

License Application and Best Interest Finding Pending:

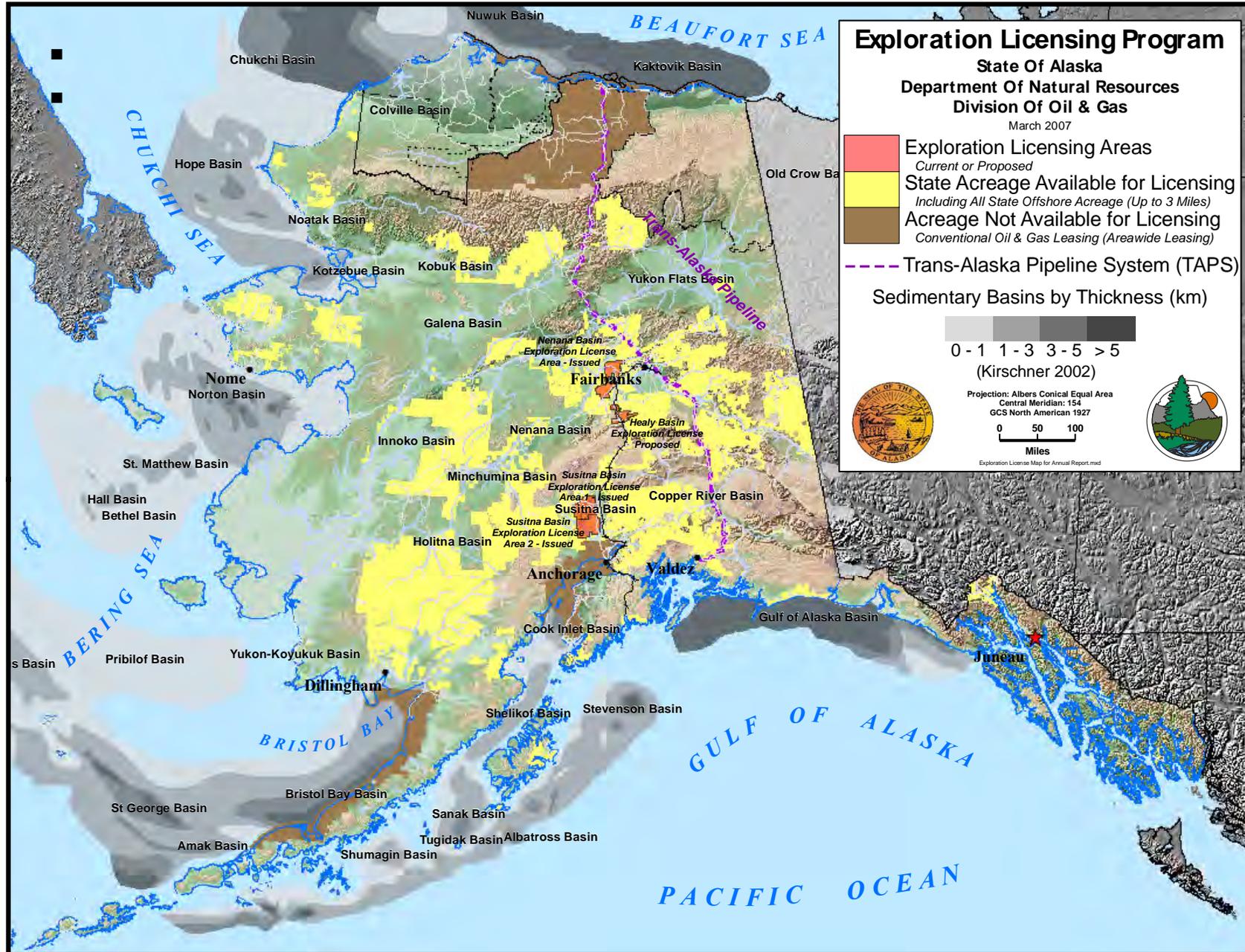
Healy Basin (Proposed)

Licensee: Usibelli Coal Mine, Inc.

Exploration Licensing



Exploration Licensing



Incentives and Credits

Exploration Incentive Credit (EIC) and Tax Credit Programs

AS 38.05.180(i): Exploration Incentive Credit

This EIC may be included as a term of an oil and gas lease. AS 38.05.18(i) provides for a system in which a lessee drilling an exploratory well on state-owned land may earn credits depending on the footage drilled and the region in which the well is located. If demonstrated by the lessee as necessary, confidentiality may be extended. The statute also provides for an EIC for geophysical work on state land if that work is performed during the two seasons immediately preceding an announced lease sale and is on land included within the sale area. The geophysical information obtained is made public after the sale. A credit may not exceed 50 percent of the costs of the drilling or geophysical work. Credits may be applied against state royalty and rental payments or taxes, or they may be assigned. Since the state began offering this program, lessees have earned \$54.7 million in credits for exploratory drilling.

AS 41.09.010: Exploration Incentive Credit

This EIC, adopted in 1994, allows the commissioner to grant an EIC for exploratory drilling, the drilling of a stratigraphic test well, and for geophysical work on land in the state, regardless of whether the minerals are state-owned. This program is designed to encourage oil and gas exploration within remote parts of the state and to provide a means for the state to obtain exploration data from federal, private, and Native corporation lands. As with the Title 38 program, the credits may be applied against oil and gas royalties, rentals, lease sale bonus bids and taxes, or they may be assigned. Drilling data will be kept confidential for two years, with no extension. Copies of geophysical data may be shown to interested parties by the state, but may not be transferred to third parties. Credits may be as high as 50 percent of eligible costs if performed on state land, and as high as 25 percent when performed on federal or private land. A credit may not exceed \$5 million per eligible project, and the total of all credits issued under this program may not exceed \$30 million. Drilling credits are based upon the footage (measured depth) drilled. All activity qualifying for this EIC must be completed by July 1, 2007.

AS 43.55.025: Oil and Gas Exploration Tax Credit

This program, adopted in 2003, allows for a production tax credit of 20 percent of the cost of an exploratory well if the bottom hole location is three or more miles from the bottom hole location of a pre-existing well that was spud more than 150 days, but less than 35 years, prior to the spud date of the eligible exploration well. The program also allows for an additional production tax credit of 20 percent of the cost of an exploratory well if the bottom hole location is 25 miles or more from the boundary of any unit under a plan of development as of July 1, 2003. The program also offers seismic exploration tax credits of 40 percent of eligible costs for those portions of activities outside of a unit that is under a plan of development or plan of exploration. Seismic data qualifying for this credit will be held confidential for 10 years and 30 days. This tax credit is transferable. This program only applies to exploration expenditures incurred prior to July 1, 2007, for the North Slope, or July 1, 2010, for elsewhere. Expenses qualifying for credits under this tax program cannot be claimed as qualified capital expenditures under AS 43.55.011 (Petroleum Profits Tax, discussed below).



Imnaitchiak Cherts
P. Decker

AS 43.20.043: Gas Exploration and Development Tax Credit

This program, adopted in 2003, is applicable only to operators and working interest owners engaged in exploration for and development of gas resources and reserves south of 68 degrees north latitude (excludes North Slope and Beaufort Sea). The program allows for a 10 percent tax credit equivalent of qualified capital investments made after June 30, 2003, and 10 percent of the annual cost of activity in the state during each tax year. The total allowable yearly tax credit may not exceed 50 percent of the taxpayer's total tax liability. Unused tax credits may be carried forward for up to five years. Credit is

transferable only as part of a conveyance, assignment, or transfer of the taxpayer's business. Credit under this program may be used in conjunction with any other credit authorized by AS 43.20, but not for tax credit or royalty modification provided under any other title. This program expires January 1, 2013.

Incentives and Credits

AS 43.55.011: Petroleum Profits Tax

In 2006, the Legislature replaced the oil and gas production tax with a tax based on oil and gas profits. The new regime also includes an additional 20 percent tax credit for certain oil-and gas-related expenses. The expenses that qualify for credits under this tax program are exclusive of the other EIC programs, so an expense cannot qualify for multiple credits. Explorers interested in pursuing these tax credits are encouraged to contact the Alaska Department of Revenue for more information on the program. In addition, the Commercial Section of the Division of Oil and Gas is available to provide information on the application of the program to oil and gas projects.

Royalty Reduction

Since 1995, AS 38.05.180(j) has allowed the commissioner of Natural Resources to adjust the royalty reserved to the state in order to encourage otherwise uneconomic production of oil and gas. If a delineated field or pool has not previously produced, the royalty can be lowered to 5 percent. In an existing producing field or pool, the royalty may be reduced to as low as 3 percent, in order to prolong its economic life as costs per barrel or barrel equivalent increase. In order to establish production of shut-in oil or gas, the royalty may also be reduced to as low as 3 percent. These royalty reduction provisions expire on July 1, 2015.

Discovery Royalty

Alaska law permits the granting of reduced royalty for wells in the Cook Inlet sedimentary basin that have discovered oil or gas in a previously undiscovered oil or gas pool, providing that the wells are capable of producing in paying quantities. The discovery royalty is established at 5 percent for 10 years following the discovery of a pool. The discovery royalty applies to all oil or gas from that pool that is attributable to the lease.

Cook Inlet Royalty Reduction

In 1998, the governor signed legislation granting a 5 percent temporary royalty rate on the first 25 million barrels of oil and the first 35 billion cubic feet of gas produced in the first 10 years of production from six specified fields in the Cook Inlet sedimentary basin. The six fields eligible for royalty reduction were discovered before January 1, 1988 and had been undeveloped or shut in. The fields identified in the law were Falls Creek, Nicolai Creek, North Fork, Point Starichkof, Redoubt Shoal, and West Foreland. Production from these fields had to begin before January 1, 2004, to be eligible for the royalty reduction.



Tree Row
S. Schmitz



Polar Resolution
PTI



Cook Inlet platform
D. Colley

Other Programs

Permitting in Alaska

Lessees and licensees must obtain approval of a detailed plan of operations from the Director, Division of Oil and Gas, before conducting exploration, development, or production activities. A plan of operations must identify the sites for planned activities and the specific measures, design criteria, construction methods, and operational and maintenance standards to be employed. It must also address any potential geophysical hazards that may exist at the site, and must identify how the project complies with the "Mitigation Measures" identified as project requirements in the Final Best Interest Finding for the areawide lease sale or exploration license. Additional measures may be required, based on the enforceable policies of an affected coastal district or the statewide standards of the Alaska Coastal Management Program.

The division's approval process usually includes a 30-day public review and comment period, but can vary depending on the complexity of the project and the environmental sensitivity of the proposed project area. Additional local, state and federal permits may also be required, depending on project location and details.

Gas Storage

Gas storage is a new area of interest in the Cook Inlet basin. Gas storage is used when the rate and timing of production of natural gas does not match the local demand. When production exceeds demand, the gas can be injected back into the ground to be later extracted when demand exceeds production. Depleted gas reservoirs with good seals are ideal candidates for use as gas storage locations. The Division of Oil and Gas has issued two gas storage leases in Cook Inlet at Pretty Creek and Kenai gas fields.



Kenai Storage Well
B. Havelock