

# Chapter Eight: Bidding Method and Lease Terms

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Under AS 38.05.180(f) and 11 AAC 83.100, the leasing of oil and gas resources must be by competitive bidding. The Alaska statutes provide a number of bidding methods to the department (AS 38.05.180(f)(3)).

- (1) a cash bonus bid with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease;
- (2) a cash bonus bid with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease and a fixed share of the net profit derived from the lease of not less than 30 percent reserved to the state;
- (3) a fixed cash bonus with a royalty share reserved to the state as the bid variable but no less than 12.5 percent in amount or value of the production removed or sold from the lease;
- (4) a fixed cash bonus with the share of the net profit derived from the lease reserved to the state as the bid variable;
- (5) a fixed cash bonus with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease with the share of the net profit derived from the lease reserved to the state as the bid variable;
- (6) a cash bonus bid with a fixed royalty share reserved to the state based on a sliding scale according to the volume of production or other factor but in no event less than 12.5 percent in amount or value of the production removed or sold from the lease;
- (7) a fixed cash bonus with a royalty share reserved to the state based on a sliding scale according to the volume of production or other factor as the bid variable but not less than 12.5 percent in amount or value of the production removed or sold from the lease.

In selecting the bidding method for each North Slope Areawide Oil and Gas Lease Sale, ADNR considered and balanced the following state interests: protecting the state's ownership interest in hydrocarbon resources; promoting competition among individuals seeking to explore and develop the area; encouraging orderly and efficient exploration and development; and the need to generate revenues for the state.

The bidding method and lease terms for North Slope Areawide 2008 are:

- **Bidding Method:** Cash bonus bidding with a minimum bid of \$10 per acre on all tracts.
- **Royalty Rate:** All tracts north of NS royalty line—a fixed royalty rate of sixteen and two-thirds percent (16.66667%). All tracts south of NS royalty line—a fixed royalty rate of twelve and one-half percent (12.5%) (See Figure 8.1).
- **Length of Lease:** All tracts north of NS royalty line—five (5) years. All tracts south of NS royalty line—seven (7) years.
- **Rental:** Annual rental on all tracts is \$1.00 per acre for the first year, \$1.50 per acre for the second year, \$2.00 per acre for the third year, \$2.50 per acre for the fourth year, and \$3.00 per acre for the fifth and following years.

The bidding method and lease terms may change in subsequent sales over the 10-year life of this finding.

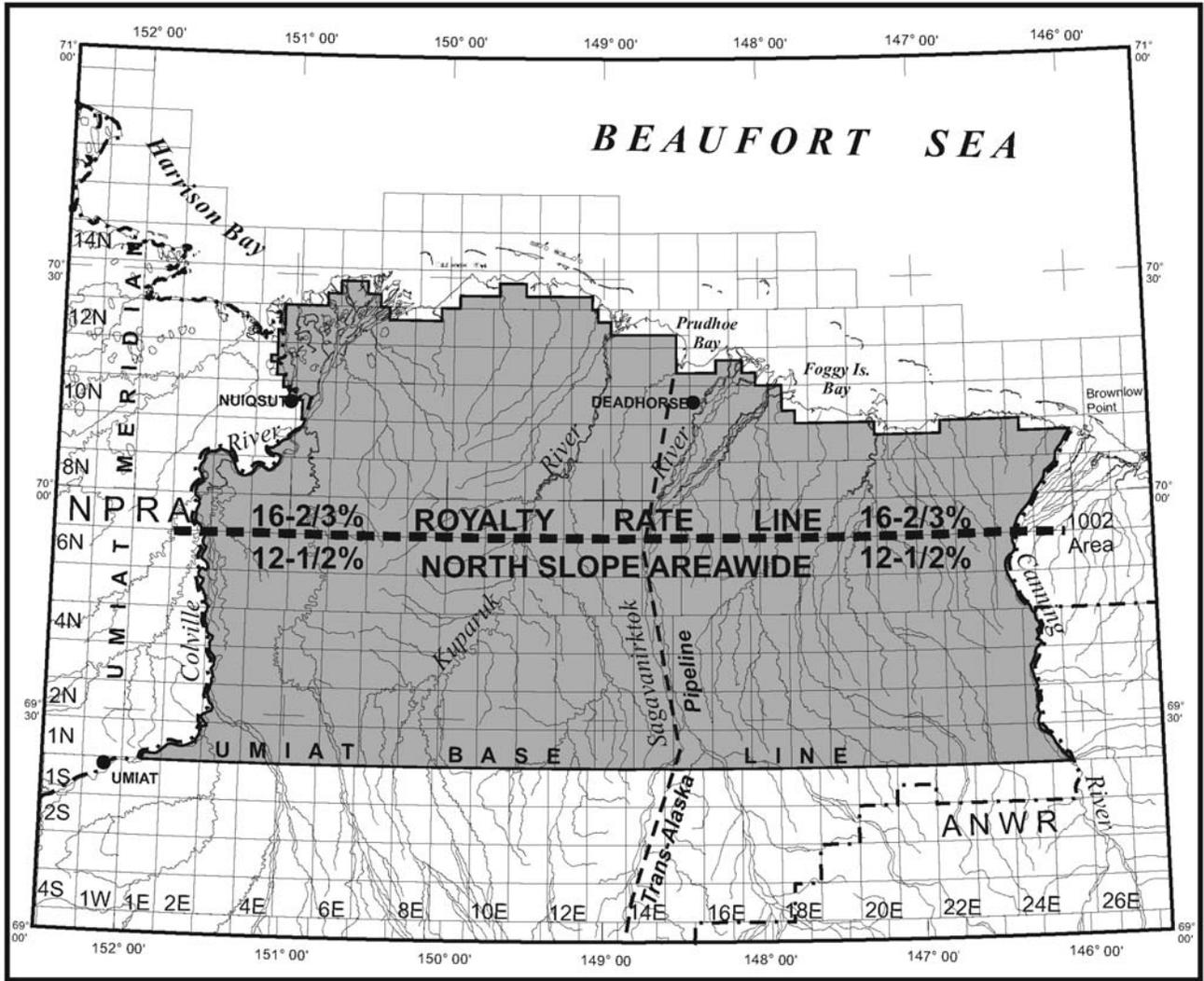


Figure 8.1 North Slope Royalty Line