

Accelerating and Promoting Alaska Peninsula Lease Sale and Exploration License **FY2005 Request: \$340,000**
Reference No: 38871

AP/AL: Appropriation **Project Type:** Planning
Category: Development
Location: Bristol Bay Borough **Contact:** Mark Myers
House District: Bristol Bay/Aleutians (HD 37) **Contact Phone:** (907)269-8800
Estimated Project Dates: 07/01/2004 - 06/30/2005

Brief Summary and Statement of Need:

This project will allow the division to (1) accelerate critical path processes in order to meet 2004-2005 Alaska Peninsula Exploration License and Lease Sale, (2) promote the proposed oil and gas lease sale on the Alaska Peninsula, tentatively scheduled for October 2005, at industry gatherings, (3) conduct community informational meetings and public hearings, and technical meetings with Bristol Bay Native Corporation (honoring intent of our Memorandum of Understanding), and (4) obtain gravity data in order to model the basin configuration.

| Funding: | FY2005 | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | Total |
|-----------------|------------------|---------------|---------------|---------------|---------------|---------------|------------------|
| ASLC Div | \$340,000 | | | | | | \$340,000 |
| Total: | \$340,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$340,000 |

| | | | | |
|-----------------------------------------------|------------------------------------------------------|---------------------------------------|---------------------------------------------|-----------------------------------|
| <input type="checkbox"/> State Match Required | <input checked="" type="checkbox"/> One-Time Project | <input type="checkbox"/> Phased - new | <input type="checkbox"/> Phased - underway | <input type="checkbox"/> On-Going |
| 0% = Minimum State Match % Required | | <input type="checkbox"/> Amendment | <input type="checkbox"/> Mental Health Bill | |

Operating & Maintenance Costs:

| | <u>Amount</u> | <u>Staff</u> |
|----------------------|---------------|--------------|
| Project Development: | 0 | 0 |
| Ongoing Operating: | 0 | 0 |
| One-Time Startup: | 0 | 0 |
| Totals: | 0 | 0 |

Additional Information / Prior Funding History:

This is a new project request.

Project Description/Justification:

This project is needed in order to ensure that the state is prepared to go forward with an Alaska Peninsula areawide lease sale by fall of 2005, should the department determine that this sale is in the state's best interests. The department is obligated by the Alaska Constitution to encourage the development of the state's resources by making them available for maximum use consistent with the public interest. An oil and gas lease sale will generate revenue for the state through (1) bonus bids at the time of the sale, (2) annual lease rentals, (3) royalties, should production occur, and (4) taxes. It is difficult at this time to estimate how much revenue the state will receive from a Bristol Bay lease sale. It depends on industry's evaluation of the area's oil and gas potential and industry's participation in the lease sale. As a comparison, the first areawide lease sale held in the North Slope Foothills in 2001 resulted in over 800,000 acres being leased for a total bonus of nearly \$10 million. If each of these Foothills leases were held for its primary term of 10 years, the state would realize nearly \$20 million more in revenue from rentals.

Local hire will be encouraged by the state, as it has been in oil and gas lease sales in other regions. In-state drilling companies would most likely be utilized, as they have been on the North Slope and in Cook Inlet, and local residents could be hired for various tasks throughout the exploration, development and production phases.

The state has not held a lease sale in the Bristol Bay area for 20 years. Unlike the other regions of the state in which many sales have been held over the years, and for which best interest findings have been completed, the division has very little information about the Bristol Bay area. The division must virtually start from scratch in its finding process, gathering baseline information. In addition, various maps and graphics need to be compiled and edited to be used in the

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finding and for informational meetings that will be held in local communities. A lease sale in this region will be controversial, so it will be important to educate the populace on the steps leading up to a sale and the permitting process afterward.

This project will provide partial funding for a cartographer and full funding for a student intern to assist in obtaining and editing data from NOAA, USGS, other federal agencies, state agencies, Native corporations and local governments, and in the creation of various maps and graphics. There will be no need for the division to fund new permanent positions using its operating budget.

In order to better determine the petroleum potential of the area and complete the pre-sale evaluation that is required by AS 38.05.035 (which is the bases for establishing the terms of the lease sale), the division must conduct geologic field work and purchase gravity data that industry collected onshore, covering both state and Native corporation lands. There is very little seismic data available, and most of it is in the northern portion of the proposed sale area. Gravity data will supplement the seismic data in order to model the basin configuration, which will provide a better understanding of its thickness and complexity.

This proposed lease sale includes offshore state acreage. Before this acreage can be included in a sale, the US Minerals Management Service (MMS) and the state must agree on the state's 3-mile limit boundary. This project will allow the division to contract a surveyor who will work with MMS to determine this boundary.

Estimation of project costs is based on the established price of the gravity data, previous travel to the same industry meetings that are proposed for this project; previous costs of in-state travel to communities for the purpose of conducting informational meetings; and knowledge of contracted personnel costs.

The division first considered utilizing exploration licensing to open up the Bristol Bay region to oil and gas activity. However, the process in preparing for this form of disposal is the same as for a lease sale. It was decided that, while licensing was a good route to go with the shallower portion of the Bristol Bay basin that is located north of and in the northernmost portion of the peninsula, the state would realize more activity and revenue if the deeper portion of the basin, lower on the peninsula, were opened to competitive leasing. Both programs require the same public process and finding.

Why is this Project Needed Now:

The governor has proposed an oil and gas lease sale on the Alaska Peninsula by 2005. Much promotional work and data gathering need to take place in a very short time. Not funding this project will hamper the division's efforts to promote this lease sale and to foster industry interest, and will most likely result in the division not being able to complete the required presale evaluation in the timeframe proposed, resulting in a delay of a sale, should one be held.

Specific Spending Detail:

Line Item Expenditures:

| | | |
|-------------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Personal Services | \$60.0 | Partial funding for a cartographer (\$43.0) and full funding for a student intern (\$17.0). |
| Travel | \$75.0 | Division personnel to travel to Bristol Bay communities to conduct public meetings; travel to industry gatherings in Houston and Calgary to promote the lease sale. |
| | \$80.0 | Conduct geologic field work |
| Contractual | \$75.0 | Contract a surveyor to map and negotiate with MMS the 3-mile limit boundary Services between state and federal jurisdictions. |
| | \$15.0 | Contract with IndigoPool.com to advertise the lease sale through their website to over 20,000 industry subscribers. |
| Supplies | \$30.0 | Digital gravity data |
| Equipment | \$5.0 | Disk drives to provide additional space to store new geologic and geophysical data. |

Project Support:

Oil and gas industry, oil and gas support industry, local communities, Native organizations

Project Opposition:

State of Alaska Capital Project Summary

FY05 Governor's Capital Budget

1/4/11 2:06:25 PM

Department of Natural Resources

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Environmental groups