3-7-88

Oil & Gas

HEARING

(Joint with Senate Res.)

JOINT SENATE RESOURCES COMMITTEE AND OIL AND GAS
March 7, 1988
1:39 p.m.

MEMBERS PRESENT

Senator Jack Coghill, Chairman
Senator Bettye Fahrenkamp, Chairman
Senator Paul Fischer
Senator Jim Duncan
Senator Fred Zharoff
Senator Arliss Sturgulewski
Senator Dick Eliason
Senator Ken Fanning

COMMITTEE CALENDAR

Overview of Oil and Gas matters

WITNESS REGISTER

Bill Van Dyke
Petroleum Manager
Dept. of Natural Resources
P.O. Box 107034
Anchorage, Alaska 99510
(907) 762-2547

Cliff Burglin
Land Consultant & Independent
Oil Leaser
Fairbanks, Alaska

ACTION NARRATIVE
TAPE 1, SIDE 1
Number 001

Senator Coghill called the Senate Resources meeting to order at 1:39 p.m. Senator Coghill announced the schedule for the meeting.

Number 045

Mr. Bill Van Dyke, Petroleum Manager for the Division of Oil and Gas within the Department of Natural Resources, was first to come before the committee members. He continued to explain some information which was in the committee member's packets. He also passed, to the members, a general summary of the unitization process. Mr. Van Dyke noted the bulk of the handouts were unitization regulations. He also noted there were regulations from the Gas Conservation Commission on well spacing also included.

Mr. Van Dyke referred to exempt lease sales and noted there is one planed for September, 1988, in addition to one

scheduled for June, 1988. He said they have requested comments to see how much interest there is. If there is good interest for the North Slope sale, it will be held in September.

Number 106

Senator Coghill asked which areas would be up for lease. Mr. Van Dyke told Senator Coghill the areas are all onshore. The sale proposed for September is south of Prudhoe Bay in Kuparuk.

Mr. Van Dyke referred to the handout on unitization and said Department of Natural Resources has never been the ones instigating unitization, it has been lessees that have decided they want to unitize. Mr. Van Dyke said the lessees present geological and geophysical information to support why the areas should be unitized.

Number 151

Senator Fahrenkamp asked if there is a disagreement between the geologists and the people of the state, what method of appeal is there. Mr. Van Dyke said if the commissioner approved a unit boundary which someone disagreed with, they could appeal the commissioner's position and ask her to reconsider. If they still felt strong about it, they could go to court and have a judge make a ruling. He also said they could go to the Conservation Commission. Mr. Van Dyke noted there are regulations in 11 AAC 88 regarding appeals. Senator Coghill noted he would like a copy of these regulations.

Number 188

Mr. Van Dyke said a participating area is a subset of the unit area and is formed over one particular oil and gas pool. He said at Prudhoe Bay there are a number of different oil and gas pools within the Prudhoe Bay unit boundary. Mr. Van Dyke said a participating area is a means of allocating ownership within the oil and gas pools.

Number 215

Senator Coghill asked if the applicants seismic and geologic data is relied on to make the unitization decisions. Mr. Van Dyke said the data is used it is very seldom that there is only one set of information. There is information from several companies and the Department of Natural Resources. All information is considered, he stated.

Number 235

Mr. Van Dyke referred to information the legislators had and said it shows well spacings and a map field limit. He continued to present visual information, maps, and illustrations to the committee members while explaining them.

Number 312

Mr. Van Dyke referred to the well logs and said this information is submitted to the Conservation Commission for every well drilled in the state and then becomes public information after two years. Senator Coghill referred to the information submitted and asked if it is kept confidential and if Department of Natural Resources uses it to determine their position as far as unitization is concerned. Mr. Van Dyke said they get copies of the seismic information if it is gathered on state land it is used in the determination. Senator Coghill asked if Department of Natural Resources goes out and does seismic work. Mr. Van Dyke said the information they receive is either from the oil companies or from a seismic companies. He said the seismic companies gather the information and then they sell it to anyone who wants to buy it. The state is enticled to a copy and pays the copying charges.

Number 370

The next person to testify before the committee was Mr. Cliff Burglin, Land Consultant and Independent Oil Leaser. He said he believes the state is painting itself into a corner and there are two ways it will loose a tremendous amount of revenue. Alaska has approximately a billion acres of potential oil and gas exploration lands onshore and offshore. He noted Russia is the largest oil producer in the world and Canada is also one of the largest.

Mr. Burglin said the state has to fight for it's share of the market. He said major oil companies can go to Canada, Russia or federal lands. He continued, by explaining different maps. He said you can have a lot of federal oil put into a state pipeline in which you get much less revenue. Senator Coghill referred to the Prudhoe field as being big, that there are federal leases offshore to the north. He also noted there are onshore state leases that, because of the differences in the return due to royalties, oil companies would then extract it out of the federal leases and take away the royalty revenue stream into the state treasury. Mr. Burglin said this is correct.

Number 428

Mr. Burglin referred to oil companies trying to make money and asked why would they pay the state 93% net profits when they could pay the federal government 16 and 2/3% royalty.

They will drill the oil from the federal land which can then drain the oil from Alaskan acreage.

Number 454

Mr. Burglin referred to there always being a glut of oil and said when people won't face the economic facts, the state will and is getting to be in very dire trouble.

Mr. Burglin said the state has maybe 300 million acres onshore and offshore they could develop and noted there is not a shortage of places to drill, develop and explore for oil. He said the companies are there to make money for their stock holders and will go where they can make the best field. He said there are some concerns that need to be dealt with right now. Mr. Burglin referred to the Seal Island field and said there are at least six different potential producing zones. The chance of finding commercial oil fields is very good but not necessarily on state land. He continued to explain a state petroleum map to the members.

Mr. Burglin referred to Guidered Bay and Milne Point and said the state needs to make the leasing terms all the same. It needs to be 12.5% plus severance tax. He said there is a very serious problem brewing.

Number 516

Senator Fischer asked Mr. Burglin if Milne Point is considered a marginal field. Mr. Burglin said yes. Senator Fischer asked if it is considered marginal because the state is getting too much of a percentage. Mr. Burglin said yes.

Number 524

Senator Coghill asked Mr. Burglin if he is suggesting the state make a reform in their leasing policy to have all leases equal and on the same return base.

Mr. Burglin indicated this should be done. He said the major oil companies have the ability to move around and will drain oil where they make the most dollars.

Number 526

Senator Fischer referred to Amerada Hess and said they offered the state royalty. He asked Mr. Burglin if the state reduced the amount of royalty, how would the competitor feel. Senator Fischer asked Mr. Burglin how he would justify it.

Mr. Burglin said they wouldn't care because they could drain oil from the federal tracks and leave Alaska with nothing.

Mr. Burglin stated the State of Alaska has to fight to keep its share of the market. He said Mexico, Iran, Iraq, Saudi Arabia, Nigeria, Algeria, Venezuela and Canada could get Alaska's two million barrels just like that.

Number 566

Senator Fahrenkamp referred to the time when there was high royalty parts of the contract sales. She said she didn't believe this was done by legislation but rather by the agreements of the sale.

Mr. Van Dyke said the statutes were amended to allow a number of different options but the commissioner, by region, picks a bidding method.

Number 575

Mr. Burglin said people are hung up on the big bonus bids. He referred to Prudhoe Bay and said the high bonus bids were $1,471,000. He said the state has gotten billions in royalties and severance taxes from Prudhoe Bay. He noted the money doesn't come from the bonus bids but rather from production. He stated that Alaska is going to have to fight for production.

Number 587

Senator Coghill asked Mr. Burglin if he is saying that there should be a formula to add acreage to unitization and get as much land as possible, as soon as possible, under exploration. Mr. Burglin said yes and continued to show examples of areas, on a map, which should be opened.

Senator Eliason asked if the lands are not put up for bid what will happen to the oil under them. Mr. Burglin said it will get drained from other adjacent lands.

Mr. Burglin referred to Sale 54 and said seventy-five days before the sale he wrote a letter to the commissioner and requested some acreage to be put up for bid. He said about thirty days before the sale he got an answer saying the state couldn't honor the request. Mr. Burglin said by not doing this, the state lost about $5 million in bonus bids.

Number 624

Mr. Burglin noted in Texas 15,000 wells are drilled in their worst economic times. He noted Alaska has to be aggressive in it's leasing policies.

Senator Eliason asked how the oil was being siphoned off of Alaska's land. Mr. Burglin said it isn't being done yet. Senator Eliason asked why should the state produce more wells when the price of oil may drop to $10. Mr. Burglin said because Alaska needs to keep it's share of the world market.

TAPE 1, SIDE 2
Number 003

Senator Fahrenkamp asked if we need to encourage oil exploration and get leases bid out so Alaska can keep producing at the present level as we approach production declining. Mr. Burglin said yes.

Number 031

Senator Sturgulewski said Mr. Burglin is asking two things and that is to take existing leases and put them back to 12.5%. He is also requesting lands that are not presently leased onshore be added to lease sales coming up. Mr. Burglin suggested this be done as quickly as possible.

Senator Sturgulewski asked what would happen if the state did what he is suggesting. Mr. Burglin said there may be a lot more competition for state acreage. This would allow independents to come in who can operate cheaper. Senator Sturgulewski said he is talking about a substantial number of leases which exist. She asked what the affect would be. Mr. Burglin said there would be development in some areas that you would not see. He said and he continued to show the committee members examples by showing them different areas on the map.

Number 083

Senator Eliason referred to Mr. Burglin saying the bonus on bids is not the main point of lessors but is a small part. He said he fails to see how there will be more production if the line is running at capacity now and there is no oil from the federal leases going into the pipeline. He asked how will the production be increased.

Mr. Burglin said if the state's production tappers off, oil from the federal leases can go into the pipeline. Senator Eliason said none of the federal oil has gone into the line and asked how has the state lost so much money. Mr. Burglin said we haven't yet but there are a lot of things that need correcting.

Number 114

Senator Fischer asked if there are fields in production, at the present time, that are yielding the state greater than

12.5%. Mr. Burglin said he didn't believe so. Senator Fischer said if the state does reduce all leases to 12.5% we could loose revenue.

Number 138

Senator Coghill referred to conditions put on all the lessees with all the variances and said we're competing. What we want to do is standardize drilling/exploration which would create a lot more activity. Mr. Burglin said he believes it would create more activity but if it wasn't done you wouldn't loose what you've presently got.

Senator Coghill asked Mr. Burglin if he is saying that now is the time to correct this because the federal and native leases are in competition with the state. The federal and native leases will be bid out next to our fields and would be drain Alaska's field. Mr. Burglin said it could easily be done.

Mr. Burglin said the feds are in the process of hurting themselves because they have a high minimum bonus bid. He said he believes they are putting up 40 million acres and their minimum bonus bid is $150 per acre or, rounded off, $1 million per track.

Number 194

Mr. Burglin referred to levels of stature in the oil business. He said the highest level is Exxon, Shell and BP. Next there is Chevron, Mobile than the Unions, Philips which are not in the ball park of the top three. Mr. Burglin said the state should want these companies involved. They're important to the state as producers.

Number 216

Senator Fahrenkamp referred back to about eight years ago to a question as to why the state couldn't interest independents. She said the answer is because it is so expensive the independents won't come. She said Mr. Burglin is bringing in the aspect that part of the leasing policy has as much to do with it as the expense. Mr. Burglin said it does and also the environmental issues. He said the the insinuation is that every developer is going to destroy the land. He gave examples of places that have been mined and noted there isn't any environmental damage.

Number 257

Senator Fahrenkamp said a push is on in Congress for the drilling muds, etc., to be classified as hazardous waste. She said drilling lead is hazardous waste and asked Mr. Burglin how this would effect the chances of getting into

development with independents. Mr. Burglin said it would make it more costly.

Senator Fanning said if we were to change the leasing structure to ensure and allow that independents and others were able to cross the board and lease more acreages of land, the tendency wouldn't be for the royalty and severance tax percentages to decrease from 12.5% to 8%, it could probably be done in a way where they would increase as long as the entry fee was decreased. He said there is such a high entry fee it prohibits anyone else from getting involved in the current competitive leases.

Mr. Burglin said the state doesn't need $20 or $15 dollar oil, it needs $3 dollar oil. That way the state will always sell oil. He referred to when Prudhoe Bay was discovered and the price was $3 per barrel at the wellhead and the majors determined Prudhoe was economic at that price.

Number 307

Senator Fanning said, from a state standpoint, the legislature would like to see why there is an advantage to decreasing fees, to open up more country and to increase the percentages in the event that there is a climb.

Mr. Burglin said you have to get costs as low as you possibly can where oil is back a $3 per barrel again, you can still be competitive. He said you can land a barrel of Saudi Arabian oil in New York harbor for about $1.25 per barrel and state oil has got to compete with this.

Number 324

Senator Fanning asked how much money would the state make if there were noncompetitive leasing in other fields. He asked if money would be made from leasing and would we discover new discoveries that weren't discovered because of our procedure. He asked would we make more money. Mr. Burglin answered yes to all the questions. Senator Fanning asked why we would make more money.

Number 328

Mr. Burglin said because there would be more drilling, more activity, more people working. He referred to activity in the Copper River Basin. He said the more you have the more it generates and the less costly the power and fuel is, the better the economy is going to be. Mr. Burglin said it decreases costs to miners, agriculture, fishing, etc.

Number 340

Senator Eliason said he has been told that a lot of activities have been curtailed on the North Slope because the price of oil dropped below a certain level. He asked why would someone go and drill a well at the high costs and with no return.

Mr. Burglin said there is a point where it is uneconomical. He noted he didn't know what the point was but with some of the major producers on the North Slope it is about $7.50 per barrel.

Number 382

Senator Fanning asked what the average royalty was in private land stakes. Mr. Burglin said it is between 12.5% and 20%. He said you would always be competitive at 12.5% and noted the severance tax which could be moved up or down.

Number 392

Senator Fanning said if there was an annual lease payment for tracks on a per acre basis, what figure would make it so independents and others could compete. Mr. Burglin said $1.00 per acre would get a lot of people involved. Senator Fanning said at $1.00 an acre how many million acres are we talking about and what type of annual revenue would there be on the lease payments. Mr. Burglin said between $20 million and $50 million.

Number 416

Mr. Burglin stated he hopes the oil and gas land in the state wasn't set aside for the major oil companies to explore and produce.

Senator Eliason referred to fluctuating the severance tax to fit the criteria after wells go into production and asked how would it be decided when to do this. Mr. Burglin said there needs to be people in the state government who study these things.

Number 450

Mr. Burglin noted all his leases are state leases. Senator Eliason asked Mr. Burglin if he was producing any oil at the present time. Mr. Burglin said no.

Number 456

Mr. Burglin referred to a bulletin put out the the Alaska Oil and Gas Conservation Commission dated 2/19/88. He said it shows all the undefined fields. He also noted he had asked the Governor how he knows where the reserves are if

the fields are mostly undefined. Mr. Burglin referred to the Kuparuk River field and said it is undefined.

Number 487

Senator Sturgulewski asked Mr. Burglin what he proposes needs to be done with unitization. Mr. Burglin said the fields need to be defined. He said more wells have to be drilled. Senator Sturgulewski asked by whom. Mr. Burglin said by the operators.

Mr. Burglin said when they present good data and ask the state for something, it is very difficult to deal with someone that says, "no you can't do it." He said the state doesn't even have to say why, they use the excuse that some of their data is confidential.

Number 522

Senator Coghill asked Mr. Burglin if he thinks there should be a step policy on unitization so the geological data that is brought to the table, and if the unitization does or doesn't move forward, it should be based on that data. Mr. Burglin said this is right.

Number 529

Senator Fanning said if the companies could see the state's data what policy would take place in the way things are developed. Mr. Burglin said the companies would show their data and give testimony and the state just says no your picture is inaccurate and, therefore, the companies cannot become part of the unit or create a new unit. The state says they disagree with the companies information and the companies ask why. The state responds by saying it is proprietary and confidential.

Number 569

Senator Coghill asked Mr. Burglin if he is suggesting to the committee is that only the seismic information that is brought to the table for unitization of a field should be considered at the meeting, by expert witnesses, which would include the state. The state would have to make their presentation also.

Senator Coghill asked if this would be before the Oil and Gas Conservation Commission. Mr. Burglin said yes.

Number 600

Mr. Burglin noted there are exploration units and producing units. Mr. Burglin referred to the Kemmy Springs unit and said it is an exploration unit of 110 thousand acres. He

noted if his company applies for a unit that is 40 thousand acres and wanted to drill a well and spend $5 or $10 million, why does the state say no - we're not going to let you do that.

Senator Coghill said units allow lease holders to share costs. He referred to companies wanting to unitize to get into a better position to drill a well and asked what was the state's rational to saying no.

Senator Fischer said he thought when companies have leased land they could drill as many wells as they want.

TAPE 2, SIDE 1
Number 001

Mr. Burglin referred to the Department of Natural Resources and said they have geologists and petroleum engineers that should be generating data for the legislature. Senator Coghill asked if it would be an advantage for the state to identify fields by keeping track of oil and by having unitization.

Mr. Burglin said if the fields are defined by drilling, but according to the state's data they have not defined most of the fields including Prudhoe Bay.

Number 093

Mr. Bill Van Dyke came before the committee members once again. Senator Coghill asked if the ultimate goal to solve this type of dilemma is to give the commission the power on unitization?

Mr. Van Dyke said there has never been an order or demand that someone cannot drill on their own lease. He said whether it is a situation where there is a lease holder outside a unit boundary that feels they should be in the unit, they are entitled to go drill that lease and prove that they are entitled to be in that unit. Mr. Van Dyke said if it is inside a unit boundary but not within a participating area, they are entitled to drill that track and prove that there is oil in that pool and then include it in a participating area.

Senator Fahrenkamp asked if this was the only way they can drill a hole. Mr. Van Dyke said they can present geophysical or information which supports that they should be there. He said if it is sound information they'll be included in the participating area.

Number 162

Senator Fanning said he thought the situation was where Chevron and Mr. Burglin has specifically applied to drill on a lease that they held and was denied. He asked Mr. Van Dyke if a lease holder wanted to drill the department wouldn't deny them.

Mr. Van Dyke said if a lease holder wants to drill they can. They may ask to unitize and that request may be denied but they can still go and drill on their own lease.

Senator Fahrenkamp asked if they both couldn't drill and share expenses. Mr. Van Dyke said they could drill and share the expenses. Senator Fahrenkamp asked what was denied. Mr. Van Dyke said the request to unitize was denied as the department didn't feel there was a prospect there.

Number 188

Mr. Van Dyke said if the companies believed there is a prospect, he assumed they would have drilled it anyway as they still own the leases. The state just denied the request to unitize. He noted unitization also extends leases. He said a company gets to the 9th year and 364th day of the lease and decides to submit a unit application so they can get a five or ten year extension on their leases. Mr. Van Dyke said the state doesn't believe this is good policy.

Number 197

Senator Fanning said to Mr. Burglin they were denied unitization but still could have drilled. Senator Fanning asked why they didn't. Mr. Burglin said the rest of the leases around the well would have expired.

Mr. Burglin noted these leases were 20% and 30% net profit leases which would've meant the state would have made 40% or 45% of production.

Senator Fanning referred to the wells which would have been drilled, unitization would've been denied, and asked if is there is an opportunity, upon discovery, to reapply for unitization and would an extension on surrounding leases be granted.

Number 242

Mr. Van Dyke said all the options are open at that point. Senator Fanning asked if there are any guarantees or assurances. Mr. Van Dyke said if someone discovers a oil and gas pool, the area should be unitized.

Senator Fanning said if there is a guarantee of a discovery would the state reconsider its inappropriate actions of not to unitize. He also asked if the state would, after a discovery and based on new information, unitize. Mr. Van Dyke said he isn't aware of any unit applications, meeting those conditions, that has ever been denied.

Number 266

Senator Fanning said in the event the department denies unitization and in the event any company wants to precede with drilling and asked if there is currently a mechanism that would mandate an automatic extension of the unitization leases or leases under potential unitization until completion of the well. Mr. Van Dyke said there are no provisions in the statutory regulations which allows lease extensions under the assumption that it is going to be a productive well. He said only the lease where the well is being drilled can be extended but surrounding leases would expire.

Senator Fanning asked Mr. Van Dyke if he would oppose mandating a regulation. Mr. Van Dyke said it would be hard to administer if one persons extenuating circumstances is going to be someone else's tough luck.

Number 301

There was a short discussion between committee members regarding this matter.

Number 323

Mr. Burglin said these leases were ten year work commitment leases and between the time the companies got them and the time when they were beginning to expire the price of oil had dropped substantially.

Number 330

Senator Coghill asked what happened to those leases. Mr. Burglin said they went back to the state have been put up for competitive bid. Mr. Burglin said instead of letting them get developed for 20% royalty and 30% net profits, they took them away and put them up for bid for 12.5%. Senator Coghill asked if those leases are available for exploration. Mr. Burglin indicated they are. Senator Coghill asked if they could apply for unitization now. Mr. Burglin said possibly.

Number 346

Senator Fanning said if there is production in those specific areas, the bid used to be a 30% net profit and 20%

royalty and they are bid out now at 12.5%, he asked Mr. Van Dyke how this makes sense to the state.

Mr. Van Dyke said if there is oil and gas under those leases, it didn't make sense. He said it does make sense to apply rules equally regardless of who the lessee is and regardless of whether it is a state lease involved or federal lands.

Number 402

Senator Coghill adjourned the Senate Resources meeting at 3:35 p.m.

Dennis Kalkanap

1. What is the purpose of establishing a P.A. (participating area) (-1) AAC 83.351)?

2. How does determination of a P.A. effect state revenues?

3. Why is it necessary to compromise P.A.'s?

4. Who determines whether or not a P.A. compromise (revenue sharing/compromise) is in the best interest of all parties involved?

5. What [illegible]

Alaska State Legislature

Senate Resources Committee

Sen. John B. (Jack) Coghill, Chairman
Sen. Paul Fischer, Vice-Chairman
Sen. Lloyd Jones
Sen. Arliss Sturgulewski
Sen. Jim Duncan
Sen. Fred Zharoff
Sen. Dick Eliason

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M E M O R A N D U M

To: Senate Resource Committee Members

From: Senator Coghill

Subj: Todays Meeting on Oil & Gas Management

Date: March 7, 1988

The focus of this committee meeting is on the unitization aspect of state petroleum resources management. We will have a short briefing by the Division of Oil and Gas and we'll follow that up with a presentation by Mr. Cliff Burglin.

Attached to this memorandum is a March 17, 1983 list of qualifications of Division of Oil and Gas personnel. This is for your information since Bill Van Dyke and Catherine (Cass) Ariey will be making the divisions presentation today.

This should be an interesting meeting.

March 17, 1983

QUALIFICATIONS -- DMEM PROFESSIONAL AND TECHNICAL STAFF

Following are the qualifications and credentials of professional and managerial staff at the Division of Minerals and Energy Management (DMEM), Department of Natural Resources. For purposes of this compilation, qualifications of those individuals at and above the section chief level as well as those with professional or technical responsibilities have been listed. These individuals represent all top management positions within the division.

OIL & GAS

Kay Brown, Director: Holds a bachelors degree in journalism from Baylor University. Served as energy policy analyst for the Alaska Legislative Research Agency; served as special assistant to the Commissioner of Natural Resources for oil and gas policy development and implementation. Was promoted to Deputy Director of DMEM for Oil and Gas in July, 1980 because of previous key role in assuring that the 1979 Joint Federal/State Beaufort Sea Sale was held on schedule and in a legally defensible manner, and because of outstanding managerial abilities. Was promoted to Director of DMEM in January, 1982 for continuing excellence as a manager. Brown has successfully implemented the state's five-year oil and gas leasing program; she is the first director to solicit broad public involvement in the leasing program.

Jim Eason, Deputy Director for Oil and Gas: Petroleum Geologist with a masters degree in geology. Prior industry experience with Amoco Production Company and the Atlantic Richfield Company. Prior government experience included performing oil and gas evaluations for the U.S. Geological Survey. Promoted to Deputy Director because of technical expertise and outstanding administrative capability.

Bill Van Dyke, Petroleum Manager and Chief of the Lease Administration Section: Petroleum Engineer. Prior industry experience with Gulf Oil Company. Served as a petroleum reservoir engineer with DMEM until promotion to Petroleum Manager because of technical expertise and knowledge. Responsible for oversight of exploration and development plans and operations on all state leases, as well as negotiation of unitization agreements. Prepares reserve estimates and production forecasts. Expertise in petroleum reservoir management and engineering.

Donna Wood, Royalty Manager and Chief of the Royalty Section: Has extensive experience in performing complex audits, including the management of full-scale audits of multi-national oil companies for compliance with state corporate income tax, severance tax and royalty payment requirements while with the Alaska Department of Revenue, Division of Petroleum Revenue. Private industry experience includes management, tax and audit responsibilities with Arthur Young Company, one of the "big eight" CPA firms in the country.

Pamela Rogers, Leasing Manager and Chief of the Lease Sales Section: Has extensive experience in the field of journalism; specialized in covering land use and economic issues. Began employment with the Department of Natural Resources in 1977 as a Research Analyst. Was transferred to DMEM in 1979 by the Deputy Commissioner because of outstanding organizational abilities needed by DMEM in carrying out responsibilities related to the 1979 Joint Federal/State Beaufort Sea Sale. Was promoted to Leasing Manager for DMEM in 1980 because of continued excellence as an organizer and manager. Manages the state's five-year oil and gas leasing program.

Catherine Ariey, Petroleum Geologist: Works in the division's Lease Sales Section. Responsible for prospect evaluation and geologic evaluation of unitization proposals. Prior industry experience with Atlantic Richfield Company; prior government experience with the U.S. Geological Survey. Has oil and gas operational experience ranging from geologic analysis to well site evaluation.

Ed Phillips, Petroleum Economist: Works in DMEM's Lease Sales Section. Performs prospect analyses for all oil and gas lease sales. Holds masters degree in economics. As a senior economist with private business prior to his employment with DMEM in 1977, he served as a consultant developing socio-economic impact studies for oil companies operating in the Gulf of Alaska .

Ted Bond, Petroleum Engineer: Supervises the Plans of Operation Unit in the Lease Administration Section, which approves oil and gas development plans on all state leases. Is a graduate petroleum engineer whose industry experience includes employment with Getty Oil Company, Tenneco Oil Company, and Dresser Magcobar. Previous government experience included work for the Texas Railroad Commission, which is the agency that regulates oil and gas development in Texas.

Catherine Fortney, Petroleum Engineer: Supervises the Unitization Unit in the Lease Administration Section. Is a graduate chemical engineer, and registered professional engineer in California and Alaska. Prior industry experience with Atlantic Richfield Company in Alaska, Phillips Petroleum, and the Bechtel Corporation. Her experience in private industry includes facility design, operation and improvement as well as design of oil and gas handling, processing and transportation systems.

Sam Murray, Petroleum Economist: Holds a masters degree in economics, which he received at age 21. Works for the Lease Administration Section evaluating the economic implications of unitization proposals. Previous experience includes three years with the U.S. Army Corps of Engineers preparing economic feasibility analyses of energy facilities and evaluating alternative energy sources.

STATE OF ALASKA
OIL AND GAS LEASE UNITIZATION PROCESS

Unitization of State of Alaska Oil and Gas leases is governed by Title 11, Chapter 83, Article 3 of the Alaska Administrative Code (AAC). The following is a brief summary of the steps necessary to form an Alaskan Oil and Gas Unit:

1. The lessees of the leases overlying a reservoir or a potential hydrocarbon accumulation as those terms are defined in 11 AAC 83.395 must determine an prospective area to be unitized. For units which intend to commence production immediately, an appropriate participating area must also be determined in accordance with 11 AAC 83.351. We strongly recommend that the prospective lessees to be included within the unit area (the "working interest owners") meet with Division of Oil and Gas staff to review the technical data supporting the proposed unit prior to any submittal of an application for unitization.

2. The working interest owners must select a unit operator, which must be qualified to act as unit operator under 11 AAC 83.331.

3. The unit operator, acting on behalf of all of the working interest owners, must submit an application for unitization. The application must include the following items:

   A. A Unit Agreement based on the State of Alaska Standard Unit Agreement Form (DNR Form 10-1128), executed by all of the working interest owners, including all exhibits required under 11 AAC 83.341, 11 AAC 83.343, 11 AAC 83.346, 11 AAC 83.351, and 11 AAC 83.371, as applicable.

   B. A Unit Operating Agreement executed by all working interest owners, which is submitted for information only, and does not require the commissioner's approval for adoption or amendment. Most Unit Operating Agreements for State of Alaska oil and gas units are executed on the Rocky Mountain Unit Operating Agreement Form 2 (Divided Interest)[1], but this is not required.

   C. Evidence of reasonable effort made to obtain joinder of any proper party who has refused to execute the Unit Agreement and commit its interests within the unit area to the unit[2]. A proper party is defined in 11 AAC 83.328.

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1. Model Rocky Mountain Unit Operating Agreement forms are available from the Rocky Mountain Mineral Law Foundation, University of Colorado, Fleming Law Bldg., Boulder, Colorado 80309.

2. The State requires that at least 70% of the acreage within the proposed unit area commit to the Unit Agreement to ensure "reasonably effective control of operations" as required by 11 AAC 83.316(c). Unit applications with less than 70% of the acreage committed will not be accepted by the division as complete.

D. If any modifications or changes to the State of Alaska's Standard Unit Agreement Form are proposed, an explanation of why such changes should be accepted by the State.

E. All pertinent geological, geophysical, engineering, and well data, and interpretations of those data, directly supporting the application.

3. All signatures on the application must meet the provisions of 11 AAC 83.379; that is they must have the signator's name and title typed or printed underneath, and must be notarized or attested by two separate individuals. All persons signing on behalf of a corporation must be qualified to sign for that corporation, and their signatures must be on file with the division as evidenced by the qualification files for that corporation.

4. An application fee of $1000.00 for a new unitization application must accompany the above application for unitization [11 AAC 05.010 (10) (D)]. The check should be made out to the State of Alaska, Department of Revenue.

5. One copy of items A through D above should be forwarded to the Commissioner of the Department of Natural Resources, P. O. Box "M", Juneau, AK 99811; the original application plus three additional copies of items A through D, two copies of item E, and the application fee should be forwarded to the Unit Manager, Department of Natural Resources, Division of Oil and Gas, P. O. Box 7034, Anchorage, AK 99510. Upon written request by the submittor, any technical data submitted will be kept confidential in accordance with the terms of Alaska Statute 38.05.035(9)(C).

6. Within 10 days of the determination by the Division of Oil and Gas that the application as submitted is appropriate and complete, the division will publish notice of receipt of the application in both State-wide and local newspapers. In addition, notice of receipt of the application will be forwarded to certain parties as set out in 11 AAC 83.311. Public comments will be accepted by the division concerning the proposed unit for 30 days after the first publication of the public notice.

7. The division will issue a written decision approving or denying the application based on the criteria in 11 AAC 83.303 within 60 days of the close of the public comment period. In general, the division will not make a conditional or partial approval of a unitization application; this is why we strongly recommend meeting with the division staff prior to submitting a unitization application.

Prior to making an application for unitization of State of Alaska lands, it is recommended that applicants familiarize themselves with the contents of the unitization regulations (11 AAC 83.301 - 11 AAC 83.395) and the terms and provisions of the State's Standard Unit Agreement Form (form DNR 10-1128). If you have any questions relating to the process of unitization, please contact the Unit Manager, Division of Oil and Gas, (907) 762-4241.

2739A

ALASKA ADMINISTRATIVE CODE
TITLE 11, CHAPTER 83, ARTICLE 3

UNITIZATION REGULATIONS

Last Amended 3/30/84, Register 89

Section

UNITIZATION REGULATIONS

Alaska Administrative Code
Title 11, Chapter 83, Article 3

Last Amended 3/30/84, Register 89

11 AAC 83.301. PURPOSE. (a) 11 AAC 83.301 - 11 AAC 83.395 establish standards and procedures governing the submission of applications to the commissioner and criteria for approval of unit agreements for state oil and gas leases, and standards to be followed by a state lessee in conducting lease operations under an oil and gas unit agreement approved by the commissioner.

(b) 11 AAC 83.301 - 11 AAC 83.395 apply to an existing oil and gas lease or approved unit agreement where not inconsistent with the lease or unit agreement or regulations in effect on the effective date of the lease or unit agreement. (Effective 6/28/81, Register 78; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.303. CRITERIA. (a) The commissioner will approve a proposed unit agreement for state oil and gas leases if he makes a written decision that the decision is necessary or advisable to protect the public interest considering the provisions of AS 38.05.180(p) and this section. The commissioner will approve a proposed unit agreement upon a written finding that it will

(1) promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area;

(2) promote the prevention of economic and physical waste; and

(3) provide for the protection of all parties of interest, including the state,

(b) In evaluating the above criteria, the commissioner will consider:

(1) the environmental costs and benefits of unitized exploration or development;

(2) the geological and engineering characteristics of the potential hydrocarbon accumulation or reservoir proposed for unitization;

(3) prior exploration activities in the proposed unit area;

(4) the applicant's plans for exploration or development of the unit area;

(5) the economic costs and benefits to the state; and

(6) any other relevant factors, including measure to mitigate impacts identified above, the commissioner determines necessary or advisable to protect the public interest.

(c) The commissioner will consider the criteria in (a) and (b) of this section when evaluating each requested authorization or approval under 11 AAC 83.301 - 11 AAC 83.395, including

(1) approval of a unit agreement;

(2) an extension or amendment of a unit agreement;

(3) a plan or amendment of a plan of exploration, development, or operations;

(4) a participating area; or

(5) a proposed or revised production or cost allocation formula. (Effective 9/5/74, Register 51; amended 7/22/79, Register 78; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.306. APPLICATION FOR UNIT APPROVAL. Any person owning an interest in a lease which is proposed to be committed to a unit which would include a state oil and gas lease may propose a unit agreement by applying to the commissioner for approval of the agreement. The following items constitute a complete application for approval:

(1) the unit agreement, including exhibits required under 11 AAC 83.341 or 11 AAC 83.343, executed by the proper parties;

(2) the unit operating agreement executed by the working interest owners, which is submitted for information only and does not require the commissioner's approval for adoption or amendment;

(3) evidence of reasonable effort made to obtain joinder of any proper party who has refused to join the unit agreement;

(4) all pertinent geological, geophysical, engineering, and well data, and interpretations of those data, directly supporting the application; and

(5) an explanation of proposed modifications, if any, of the standard state unit agreement form. (Effective 6/28/81, Register 78; amended 8/15/82, Register 83; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.311. PUBLIC NOTICE. Within 10 days after receipt of a complete application for approval of a unit agreement under 11 AAC 83.356, or extension of the unit term under 11 AAC 83.336(a)(2), the commissioner will publish notice of the application in a newspaper of general statewide circulation and in a newspaper serving the locality in which the unit or proposed unit is located. In addition, the commissioner will, in his discretion, publish notice by radio, television, or other electronic media. If the unit or proposed unit is within the boundary of an organized borough, municipality, regional corporation, or village corporation organized under Section 8(a) of the Alaska Native Claims Settlement Act, the notice will be mailed to the chief executive officer of the borough or municipality, or designated representative of the corporate entity. The notice will also be mailed to the postmaster of each permanent settlement of more than 25 persons located within six miles of the proposed unit area. In the case of a proposed unit expansion, a copy of the notice will be mailed to the unit operator. The notice will include

(1) the name and address of the applicant, and the location of the unit or proposed unit;

(2) a statement explaining the nature of the approval sought;

(3) a statement indicating where copies of the nonconfidential portions of the application may be obtained; and

(4) a statement that any person may file written comments on the application with the commissioner within 30 days after publication of the notice. (Effective 6/28/81, Register 78; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.316. UNIT APPROVAL. (a) Within 60 days after the close of the public comment period required by 11 AAC 83.311, the commissioner will issue a written decision approving or disapproving the unit agreement, in which he states the basis for his decision after considering the provisions of 11 AAC 83.303.

(b) If the commissioner determines that the provisions of 11 AAC 83.303 are not met, the commissioner will, in his discretion, propose modifications which, if accepted by the parties to the proposed unit agreement, would qualify the agreement for approval.

(c) No unit will be approved unless parties to the unit agreement hold sufficient interest in the unit area to give reasonably effective control of operations and at least one lease or portion of a lease in the unit area is a state lease. (Effective 9/5/74, Register 51; amended 7/22/79, Register 71; amended 6/28/81, Register 78; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.321. COPIES OF APPLICATION REQUIRED. In submitting an application under 11 AAC 83.301 - 11 AAC 83.395, the applicant must provide five copies of the nonconfidential portions of the pertinent agreement, plan, modification, or other instrument or document for which approval is sought and two copies of any confidential material submitted. Ten copies of unit plans of operations are required for activities within the coastal zone. (Effective 9/5/74, Register 51; amended 7/22/79, Register 71; amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145

11 AAC 83.326. STANDARD UNIT AGREEMENT. (a) Except as provided in 11 AAC 83.393, and as otherwise provided in this section, a unit agreement must be executed on, or in a manner consistent with, a standard state unit agreement form.

(b) The commissioner will allow a modification of the standard state unit agreement form, upon request by the unit applicant, when the commissioner determines that the modification is reasonably required to meet the needs and requirements of the particular unit considering the facts and conditions found to exist with respect to that unit, and the proposed modification meets the provisions of 11 AAC 83.303. The commissioner will require a modification of the standard state unit agreement form if required to meet the provisions of 11 AAC 83.303. Any request by the unit applicant for modification of the standard state unit agreement form must be made in writing not later than the time an application is submitted for approval under 11 AAC 83.306 and must include an explanation of proposed modifications. (Effective 6/28/81, Register 78; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.328. PARTIES. (a) The record owners of any right, title or interest in the oil or gas reservoirs or potential hydrocarbon accumulations to be included in a unit are the proper parties to the unit agreement. All proper parties must be invited to join the unit agreement.

(b) Where authorized by lease, the commissioner will, in his discretion, require a state lessee or any assignee of interest in a state lease to subscribe to a unit agreement. (Effective 9/5/74, Register 51, amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.331. UNIT OPERATOR. (a) A unit operator must be qualified to hold a lease as provided in 11 AAC 82.200 - 11 AAC 82.205, and must be qualified to fulfill the duties and obligations prescribed in the unit agreement.

(b) The unit operator may be a working interest owner in the unit area or may be a party selected by the working interest owners.

(c) No designation or change of the unit operator becomes effective until approved by the commissioner. The commissioner will approve or disapprove a proposed change of the unit operator within 30 days after receipt of request, and will explain in writing his basis for

disapproval. (Effective 9/5/74, Register 51; amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.336. EFFECTIVE DATE AND TERM OF UNIT AGREEMENT. (a) A unit agreement becomes effective upon approval by the commissioner and automatically terminates five years from the effective date unless

(1) a unit well in the unit area has been certified as capable of producing hydrocarbons in paying quantities, in which case the unit agreement will remain in effect for so long as hydrocarbons are produced in paying quantities from the unit area, or for so long as hydrocarbons can be produced in paying quantities and unit operations are being conducted in accordance with an approved unit plan of exploration or development, or, should production cease, for so long after that as diligent operations are in progress to restore production and then so long after that as unitized substances are produced in paying quantities; or

(2) exploration activities have been conducted in accordance with an approved unit plan of exploration, and the commissioner, after issuing written notice under 11 AAC 83.311, issues a written decision extending the unit term in which he states the basis for his decision, considering the provisions of 11 AAC 83.303; no single extension will exceed five years.

(b) If a suspension of unit operations or production on all or part of the unit area has been ordered or approved under federal, state, or local law, or, if the commissioner determines that the unit operator has been prevented, despite good-faith efforts, from complying with any express or implied promise, term, condition, or covenant of the unit agreement, or from conducting exploration, development, production, transportation, or marketing operations or or from the unitized area by reason of force majeure, the unit operator's obligation to comply with the provision will be held in abeyance, but not voided, and the commissioner will extend the term of the unit agreement for a period of time equal to the time lost under the unit term due to the suspension or prevention by force majeure. If unit operations or production are suspended or prevented under this subsection and the continuance of those operations or production without suspension or prevention would have had the effect of extending the unit agreement, the unit agreement does not terminate during the period in which

operations or production are suspended or prevented plus a reasonable time after that, which will not be less than six months, for the unit operator to resume operations or production. Nothing in this subsection holds in abeyance the obligation to pay rentals, royalties, or other production or profit-based payments to the State of Alaska from operations or production in the unitized area which are not suspended or prevented, or from operations or production which are unrelated to any suspension or prevention. For the purposes of this subsection, any seasonal restriction on operations or production or other conditions specifically required or imposed as a term of sale of an original lease, or as a condition required for unit agreement approval, will not be considered a suspension of operations or production ordered under law, or prevention due to force majeure. However, upon application to the commissioner, seasonal restrictions on operations or production imposed subsequent to approval of a unit agreement will be considered a suspension of operations or production ordered under law.

(c) A unit agreement may be terminated at any time with the approval of the commissioner.

(d) Upon termination of a unit, each lease or portion of a lease committed to the unit may be continued in effect only in accordance with the terms and conditions of the lease, statutes, and regulations, or as provided in the unit agreement. (Effective 6/28/81, Register 78; amended 8/15/82, Register 83; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.341. UNIT PLAN OF EXPLORATION. (a) Unless a unit plan of development is filed under 11 AAC 83.343, a unit plan of exploration must be filed for approval by the commissioner as an exhibit to the unit agreement under 11 AAC 83.306. The plan must describe the applicant's proposed exploration activities, including the bottom-hole locations and depths of proposed wells, and the estimated date drilling will commence. All exploration operations must be conducted under an approved plan of exploration. The commissioner will approve a unit plan of exploration if it complies with the provisions of 11 AAC 83.303. If the proposed unit plan of exploration is disapproved, the commissioner will, in his discretion, proposed modifications which, if accepted by the unit operator, would qualify the plan for approval.

(b) The unit plan of exploration must be updated and submitted to the commissioner for approval at least 60 days before the expiration date of the previously approved plan, as set out in that plan. The update must describe the extent to which requirements of the previously approved plan were achieved; if actual operations deviated from or did not comply with the previously approved plan, an explanation of the deviation or noncompliance must be included in the update. Within 10 days after receipt of an updated plan of exploration, the commissioner will inform the unit operator as to whether a proposed unit plan of exploration is complete. After the commissioner has determined that a unit plan of exploration is complete, as submitted or modified by the unit operator following the commissioner's suggestions, the commissioner will have an additional 30 days in which to approve or disapprove the plan; if no action is taken by the commissioner, the unit plan of exploration is approved.

(c) The commissioner will approve an update of the unit plan of exploration if it complies with the provisions of 11 AAC 83.303. If the proposed update of a unit plan of exploration is disapproved, the commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval.

(d) The unit operator shall submit an annual report to the commissioner describing the operations conducted under the unit plan of exploration during the preceding year.

(e) The unit operator may, with the approval of the commissioner, amend an approved plan of exploration. (Effective 6/28/81, Register 78, amended 3/18/83; Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.343. UNIT PLAN OF DEVELOPMENT. (a) A unit plan of development must be filed for approval as an exhibit to the unit agreement if a participating area is proposed for the unit area under 11 AAC 83.351, or when a reservoir has become sufficiently delineated so that a prudent operator would initiate development activities in that reservoir. All development operations must be conducted under an approved plan of development. A unit plan of development must contain sufficient information for the commissioner to determine whether the plan is consistent with the provisions of 11 AAC 83.303. The plan must include a description of the proposed development activities based on data reasonably available at the time the plan is submitted for approval as well as plans for

the exploration or delineation of any land in the unit not included in the participating area. The plan must include, to the extent available information exists

(1) long-range proposed development activities for the unit, including plans to delineate all underlying oil or gas reservoirs, bring the reservoirs into production, and maintain and enhance production once established;

(2) plans for the exploration or delineation of any land in the unit not included in a participating area;

(3) details of the proposed operations for at least one year following submission of the plan; and

(4) the surface location of proposed facilities, drill pads, roads, docks, causeways, material sites, base camps, waste disposal sites, water supplies, airstrips, and any other operation or facility necessary for unit operations.

(b) The commissioner will approve the unit plan of development if it complies with the provisions of 11 AAC 83.303. If the proposed unit plan of development is disapproved, the commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval.

(c) The unit plan of development must be updated and submitted to the commissioner for approval at least 90 days before the expiration date of the previously approved plan, as set out in that plan. The update must describe the extent to which the requirements of the previously approved plan were achieved; if actual operations deviated from or did not comply with the previously approved plan, an explanation of the deviation or noncompliance must be included in the update. The commissioner will approve the updated unit plan of development if it complies with the provisions of 11 AAC 83.303. If the proposed update of a unit plan of development is disapproved, the commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval. Within 10 days after receipt of an updated plan of development, the commissioner will inform the unit operator as to whether the proposed unit plan of development is complete. After the commissioner has determined that an updated unit plan of development is complete as submitted, or as modified by the unit operator following the commissioner's suggestions, the commissioner will have an additional 60 days in which to approve or disapprove the plan; if no action is taken by the commissioner, the update of the unit plan of development is approved.

(d) The unit operator shall submit an annual report to the commissioner describing the operations conducted under the unit plan of development during the preceding year.

(e) The unit operator may, with the approval of the commissioner, amend an approved plan of development. (Effective 6/28/81, Register 78, amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.346. UNIT PLAN OF OPERATIONS. (a) Except as provided in (b) of this section, a unit plan of operations for all or part of the unit area must be approved by the commissioner before any operations may be undertaken on the unit area if

(1) the state owns all or part of the surface estate of the unit area;

(2) the unit includes a lease that reserves a net profit share to the state; or

(3) the state owns all or part of the mineral estate, but the entire surface estate of the unit area is owned by a party other than the state, and a surface owner requests that a unit plan of operations be required by the commissioner for the portion of the unit area owned by that surface owner.

(b) A unit plan of operations will not be required by the commissioner for activities that would not require a land use permit under this title.

(c) Before undertaking operations on the unit area, the unit operator shall provide for full payment of all damages sustained by the owner of the surface estate as well as by the surface owner's lessees and permittees, by reason of entering the land. If the surface estate is owned by a party other than the state, the unit operator shall also notify the surface owner of his opportunity to request that the commissioner require a plan of operations before allowing operations to be undertaken on the unit area owned by the requesting surface owner.

(d) An application for approval of a plan of operations must contain sufficient information, based on data reasonably available at the time the plan is submitted for approval, for the commissioner to determine the surface use requirements and impacts directly associated with the proposed operations. An application must include statements and maps or drawings setting out the following:

(1) the sequence and schedule of the operations to be conducted in the unit area, including the date operations are proposed to begin and their proposed duration;

(2) projected use requirements directly associated with the proposed operations, including but not limited to the location and design of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment necessary to conduct the proposed operations;

(3) plans for rehabilitation of the affected unit area after completion of operations or phases of those operations; and

(4) a description of operating procedures designed to prevent or minimize adverse effects on other natural resources and other uses of the unit area and adjacent areas, including fish and wildlife habitats, historic and archeological sites, and public use areas.

(e) In approving a unit plan of operations or an amendment of a plan, the commissioner will require amendments he determines necessary to protect the state's interest. The commissioner will not require any amendment that would be inconsistent with the terms of sale under which the lease was obtained, or with the terms of the lease itself, or which would deprive the lessee of reasonable use of the leasehold interest.

(f) The unit operator may, with the approval of the commissioner, amend an approved plan of operations.

(g) Upon completion of operations, the unit operator shall inspect the area of operations and submit a report indicating the completion date of operations and stating any known noncompliance of which the unit operator knows, or should reasonably know, with requirements imposed as a condition of approval of the plan. (Effective 6/28/81, Register 78; amended 8/15/82, Register 83; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.130
AS 38.05.145
AS 38.05.180

11 AAC 83.351. PARTICIPATING AREA. (a) At least 90 days before sustained unit production from a reservoir, the unit operator shall submit to the commissioner for approval a description, based on subdivisions of the public land or its aliquot parts, of the proposed participating area. The participating area may include

only the land reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities. Under 11 AAC 83.371(a), the unit operator shall also submit to the commissioner for approval a proposed division of interest or formula setting out the percentage of production and costs to be allocated to each lease and portion of lease within the participating area. Upon approval by the commissioner, the area of productivity constitutes a participating area.

(b) A separate participating area must be established as provided in (a) of this section for each reservoir delineated, except that with the consent of the commissioner and all working interest owners, any two or more reservoirs or participating areas within the unit may be combined into one participating area. Separate participating areas may be established to distinguish between an oil rim and a gas cap within the same reservoir.

(c) A participating area must be expanded to include acreage reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to the production of hydrocarbons in paying quantities, and must be contracted to exclude acreage reasonably proven through use of geological, geophysical, or engineering data to be incapable of producing hydrocarbons in paying quantities, subject to approval by the commissioner. A revised division of interest or formula allocating production and costs must be submitted under 11 AAC 83.371 at the time of expansion or contraction of a participating area. (Effective 6/28/81, Register 78; amended 3/18/83, Register 85; amended 3/30/84, Register 89.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.356. UNIT AREA; CONTRACTION AND EXPANSION. (a) A unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations.

(b) Ten years after sustained unit production begins, the unit area must be contracted to include only those lands then included in an approved participating area and lands that facilitate production including the immediately adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling

operations. The commissioner will, in his discretion, after considering the provisions of 11 AAC 83.303, delay contraction of the unit area if the circumstances of a particular unit warrant. If any portion of a lease is included in the participating area, the entire lease will remain committed to the unit.

(c) Any expansion or contraction of the unit area must be based on legal subdivisions of land as defined in 11 AAC 88.185.

(d) No land will be excluded from a participating area due to the depletion of hydrocarbons.

(e) Not sooner than 10 years from the effective date of the unit agreement, the commissioner will, in his discretion, contract the unit area to include only that land covered by an approved unit plan of exploration or development, or that area underlain by one or more potential hydrocarbon accumulations and lands that facilitate production as set out in (b) of this section. Before any contraction of the unit area under this subsection, the commissioner will give the unit operator, the working interest owners, and the royalty owners of the leases or portions of leases being excluded reasonable notice and an opportunity to be heard. (Effective 6/28/81, Register 78; amended 3/18/83, Register 85.)

Authority: AS 31.05.110
AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.361. CERTIFICATION OF WELL TEST RESULTS. For the purposes of 11 AAC 83.301 - 11 AAC 83.395, a well will be considered capable of producing hydrocarbons on paying quantities, as defined in 11 AAC 83.395, when so certified by the commissioner following application by the lessee or unit operator. The commissioner will require the submission of data necessary to make the certification, including all results of the flow test or tests, supporting geological data, and cost data reasonably necessary to show that the production capability of the well satisfies the economic requirements of the paying quantities definition. (Effective 6/28/81, Register 78; amended 8/15/82, Register 82; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.366. UNIT OPERATING AGREEMENT. Any revision of the unit operating agreement must be submitted to the commissioner before it takes effect. The unit agreement controls the respective rights and obligations of the unit operator, the working interest owners, the State of Alaska, and royalty owners other than the State of Alaska in case of conflict between the unit agreement and the unit operating agreement. Where conflicts exist solely between working interest owners, the unit operating agreement shall control. (Effective 6/28/81, Register 78; amended 8/15/82, Register 83.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.371. ALLOCATION OF PRODUCTION AND COSTS. (a) The proposed or revised division of interest or formula allocating hydrocarbon production and unit operating costs among the leases in the unit area may not take effect until approved by the commissioner in writing. WHen requested by the commissioner, the lessees or unit operator shall promptly file with the commissioner all data that relate to the proposed or revised division of interest or allocation formula for all leases in the participating area. Before any disapproval of the proposed or revised division of interest or allocation formula, the commissioner will give the working interest and royalty owners reasonable notice and an opportunity to be heard. After the hearing, the commissioner will approve the proposed or revised division of interest or allocation formula as submitted unless he finds in writing that the formula does not equitably allocate production and costs among the leases.

(b) If there is a separate division of interest or allocation formula among any of the parties holding an interest in the unit that is different from the division of interest or allocation formula approved by the commissioner, the parties to the separate division of interest or allocation formula not approved by the commissioner shall submit a copy of that formula to the commissioner and a statement explaining the reasons for the difference. (Effective 6/28/81, Register 78; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.373. SEVERANCE. (a) Except as otherwise provided in this section and 11 AAC 83.356, where only a portion of a lease is committed to a unit agreement

approved or prescribed by the commissioner, the commitment constitutes a severance of the lease as to the unitized and nonunitized portions of the lease. The portion of the lease not committed to the unit will be treated as a separate and distinct lease having the same effective date and term as the original lease and may be maintained thereafter only in accordance with the terms of the original lease, statutes, and regulations. Any portion of the lease not committed to the unit agreement will not be affected by the unitization or pooling of any other portion of the lease by operations in the unit, or by suspension approved or ordered for the unit under 11 AAC 83.336(b).

(b) The commissioner will, in his discretion, grant up to a two-year extension of the lease term for that portion of a lease not committed to the unit agreement under this section.

(c) A lease having a well certified as capable of production in paying quantities before commitment to the unit agreement will not be severed. (Effective 9/5/74, Register 51; amended 7/22/79, Register 71; amended 6/28/81, Register 78; amended 8/15/82, Register 83.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.374. DEFAULT. (a) Failure to comply with any of the terms of an approved unit agreement, including any plans of exploration, development, or operations which are a part of the unit agreement, is a default under the unit agreement.

(b) The commissioner will give notice to the unit operator and defaulting party (if other than the unit operator) of the default. The notice will state the nature of the default and include a demand to cure the default by a specific date, which in the case of failure to pay rentals or royalties will be a date determined by the commissioner and in the case of any other default will be a date not less than 90 days after the date of the commissioner's notice of default.

(c) If a default occurs with respect to a unit in which there is no well capable of producing oil or gas in paying quantities and the default is not cured by the date indicated in the demand, the commissioner will, in his discretion, and after giving the unit operator and defaulting party (if other than the unit operator) reasonable notice and an opportunity to be heard, terminate the unit agreement by mailing notice of the

termination to the unit operator and defaulting party. Termination is effective upon mailing the notice.

(d) If a default occurs with respect to a unit in which there is a well capable of producing oil or gas in paying quantities and the default is not cured by the date indicated in the demand, the commissioner will, in his discretion, seek to terminate the unit agreement by judicial proceedings. (Effective 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.379. SIGNATURES. Each signature on the unit agreement must be notarized or attested by at least two witnesses. Corporate of other signatures made in a representative capacity must be accompanied by evidence of the authority of the signatory to act on behalf of the principal or by a reference to such evidence previously filed. The printed or typed name and address of each signatory to the unit agreement must be set out below the signature. (Effective 9/5/74, Register 51; amended 7/22/79, Register 71; amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.380. COUNTERPARTS. The parties may execute any number of counterparts of a unit agreement or may execute a ratification, joinder, or consent in a separate instrument. These documents have the same effect as if all parties signed the same instrument. (Effective 9/5/74, Register 51; amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.383. NOTATION OF APPROVAL. If approved by the commissioner, the counterparts of each instrument submitted for approval will be returned to the applicant with the commissioner's approval noted on the approved counterparts. (Effective 9/5/74, Register 51; amended 7/22/79, Register 71; amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.385. MODIFICATION OF UNIT AGREEMENT. Any modification of an approved unit agreement is subject to the commissioner's approval. (Effective 9/5/74, Register 51; amended 7/22/79, Register 71; amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.390. UNIT BONDS. In place of separate bonds required for each lease committed to a unit agreement, the unit operator shall furnish and maintain a statewide oil and gas lease bond under 11 AAC 83.160. (Effective 9/5/74, Register 51; amended 7/22/79, Register 71; amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.160

11 AAC 83.393. APPROVAL OF FEDERAL AND PRIVATE PARTY UNITS. (a) If the State of Alaska selects or otherwise acquires any federal land which, at the effective date of selection or acquisition, is subject to a federal oil and gas lease which is committed to a unit agreement that has been approved in accordance with federal laws and regulations, the unit agreement will be considered to have been approved by the commissioner for all the purposes of AS 38.05 and 11 AAC 83.301 - 11 AAC 83.395.

(b) The commissioner will, in his discretion, enter into agreements with the federal government to provide for the unitization of state and federal oil and gas leases overlying a common reservoir. If the agreement permits or requires the commissioner to take any action or enter into any unit agreement which is contrary to or inconsistent with 11 AAC 83.301 - 11 AAC 83.395, the commissioner will, in his discretion, do so after making a written finding that his action or the unit agreement is necessary or advisable to protect the public interest, and will, in all cases, comply with the requirements of 11 AAC 83.303 and 11 AAC 83.311.

(c) Any person owning an interest in a state oil and gas lease who has been asked to join a unit in which all state leases proposed to be committed to the unit constitute not more than 10 percent of the surface acreage of the unit or not more than five percent of the initial participation in the unit may request approval of the commissioner to join the unit as a working interest owner and may also request that the commissioner join the unit as a royalty owner. The commissioner will, in his

discretion, approve and join the unit agreement as a royalty owner if, after giving public notice in accordance with 11 AAC 83.311, he makes a written finding that the proposed unit is necessary or advisable to protect the public interest considering the criteria in 11 AAC 83.303. A unit agreement entered into under this section need not comply with the requirements of this chapter. (Effective 9/5/74, Register 51; amended 7/22/79, Register 71; amended 6/28/81, Register 78.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.395. DEFINITIONS. Unless the context clearly requires a different meaning, in 11 AAC 83.301 - 11 AAC 83.395 and in the applicable unit agreements

(1) "conservation of the natural resources of all or parts of an oil or gas pool, field, or like area" means maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources;

(2) "commissioner" means the commissioner of the state Department of Natural Resources or his designee;

(3) "force majeure" means war, riots, acts of God, unusually severe weather, or any other cause beyond the unit operator's reasonable ability to foresee or control and includes operational failure to existing transportation facilities and delays caused by judicial decisions or lack of them;

(4) "paying quantities" means quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss: quantities are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities;

(5) "potential hydrocarbon accumulation" means any structural or stratigraphic entrapping mechanism which has been reasonably defined and delineated through geophysical, geological, or other means and which contains one or more intervals, zones, strata, or formations having the necessary physical characteristics to accumulate and prevent the escape of oil and gas;

(6) "reservoir" means an oil or gas accumulation which has been discovered by drilling and evaluated by testing and which is separate from any other accumulation of oil and gas;

(7) "unit" means a group of leases covering all or part of one or more potential hydrocarbon accumulations, or all or part of one or more adjacent or vertically separate oil or gas reservoirs, which are subject to a unit agreement;

(8) "unit agreement" means the agreement executed by the State of Alaska, working interest owners, and royalty owners creating the unit; and

(9) "sustained unit production" means continuing production of oil or gas from a reservoir in the unit area into a pipeline or other means of transportation to market, but does not include testing, evaluation, or pilot production. (Effective 6/28/81, Register 78; amended 3/18/83, Register 85.)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

- END OF TITLE 11, CHAPTER 83, ARTICLE 3 -

of this section, or approve alternate means for determining the location of a bore hole. (Eff. 4/13/80, Register 74; am 4/2/86, Register 97)

Authority: AS 31.05.030

20 AAC 25.055. DRILLING UNITS AND WELL SPACING. (a). In proven oil and gas fields, the establishment of drilling units and a spacing pattern may be governed by special pool rules adopted in accordance with 20 AAC 25.520. In the absence of an order by the commission establishing drilling units or prescribing a spacing pattern for a pool, the following apply:

(1) a governmental quarter section constitutes the drilling unit for oil exploration; the surface location for a well exploring for oil must be at least 500 feet from the drilling unit boundary;

(2) a governmental section constitutes the drilling unit for gas exploration; the surface location for a well exploring for gas must be at least 1500 feet from the drilling unit boundary;

(3) where oil has been discovered, not more than one well may be drilled to that pool on any governmental quarter section, nor may any oil pool be opened to the well bore closer than 500 feet to any quarter section line, nor closer than 1,000 feet to any well drilling to or capable of producing from the same pool; and

(4) where gas has been discovered, not more than one well may be drilled to that pool on any governmental section, nor may any gas pool be opened to the well bore closer than 1,500 feet to any section line, nor closer than 3,000 feet to any well drilling to or capable of producing from the same pool.

(b) An application for exception to the provisions of this section must set out the names of all owners and of all operators of governmental quarter sections directly and diagonally offsetting the quarter section where the oil well is located, or the names of all owners and of all operators of governmental sections directly or diagonally offsetting the section where the gas well is located. A plat must be attached, drawn to a scale of one inch equaling 2,640 feet or larger, showing the location of the well for which the exception is sought, all other completed and drilling wells on the property, and all adjoining properties and wells. The application must be verified by a person acquainted with the facts, stating that all facts are true and that the plat correctly portrays pertinent and required data. The applicant for exception must send notice of the application by registered mail to all owners and to all operators noted above, and furnish the commission with a copy of the notice, date of

mailing, and the addresses to which the notices were sent. The application for exception will be handled in accordance with 20 AAC 25.540.

(c) A well may not be re-entered for the purpose of producing oil on a property that is smaller than the governmental quarter section upon which the well is located or for the purpose of producing gas on a property that is smaller than the governmental section upon which the well is located.

(d) If two or more separately owned properties are embraced within a governmental quarter section to be drilled, or a well re-entered for oil, or a governmental section to be drilled, or a well re-entered for gas, persons owning the oil or gas rights may voluntarily pool their separate interests to form a drilling unit. A copy of the pooling agreement must be submitted to the commission. If one or more persons owning oil and gas rights fail to voluntarily pool their interests, the commission, upon petition or its own motion, and after public hearing, will, in its discretion, issue an order pooling the owner's interests for the development of their land as a drilling unit. (Eff. 4/13/80, Register 74; am 4/2/86, Register 97)

Authority: AS 31.05.030
AS 31.05.100

20 AAC 25.061. WELL SITE SURVEYS. (a) Near surface strata to a depth of 2000 feet in the well site area for all exploratory and stratigraphic test wells must be evaluated seismically by common depth point refraction or reflection profile analysis to identify anomalous velocity variations indicative of potential shallow gas sources. Analysis results must be included with the application for the Permit to Drill (Form 10-401).

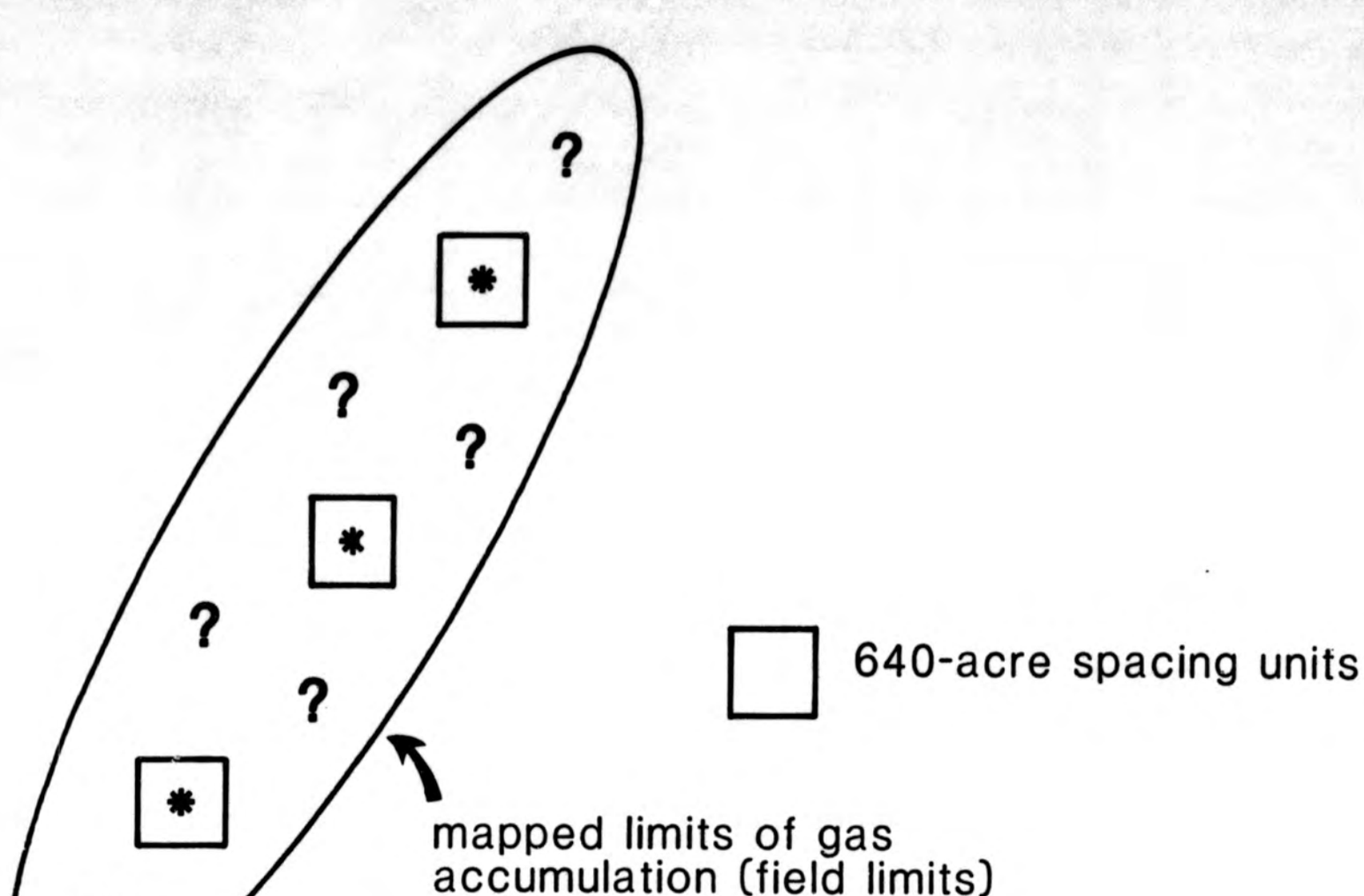
(b) The well site area must be evaluated by sidescan sonar and other pertinent surveys to determine whether potential seabed hazards to drilling operations are present for each type of well listed in 20 AAC 25.005 to be drilled offshore from a mobile bottom-founded, jack-up or floating unit. Survey results must be included with the application for Permit to Drill (Form 10-401).

(c) Upon request by the operator, the commission, in its discretion, will waive the requirements of this section. (Eff. 4/13/80, Register 74; am 4/2/86, Register 97)

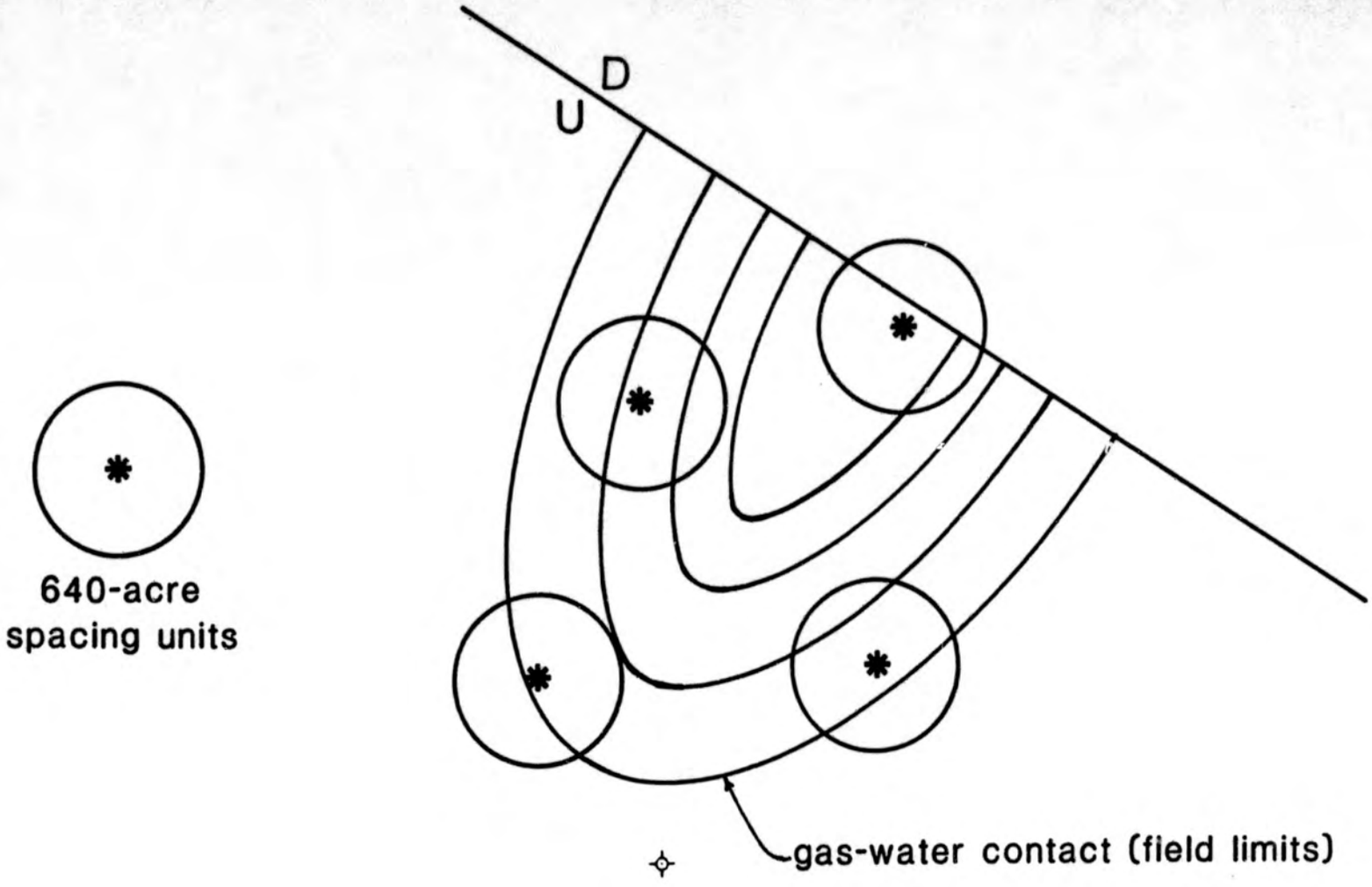
Authority: AS 31.05.030

20 AAC 25.065. HYDROGEN SULFIDE. (a) When hydrogen sulfide gas is encountered, the operator shall notify the commission within 24 hours.

Hypothetical Field Drilled on 640-acre Spacing Units

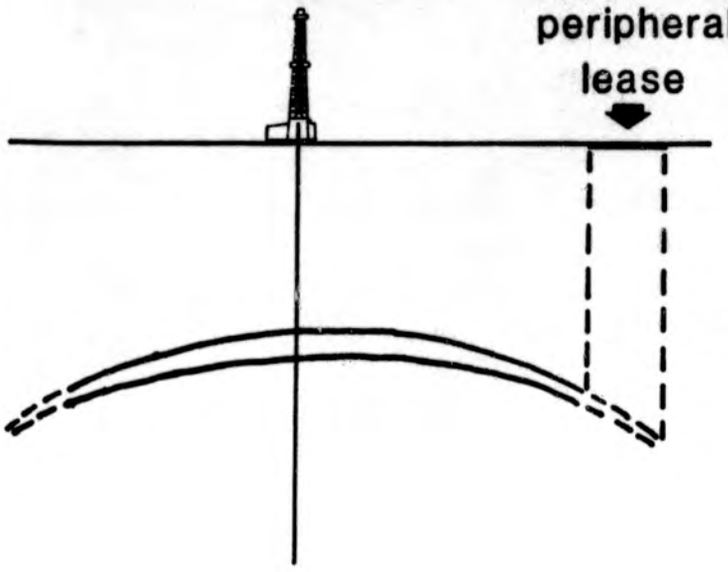


Hypothetical Field Drilled on 640-acre Spacing Units

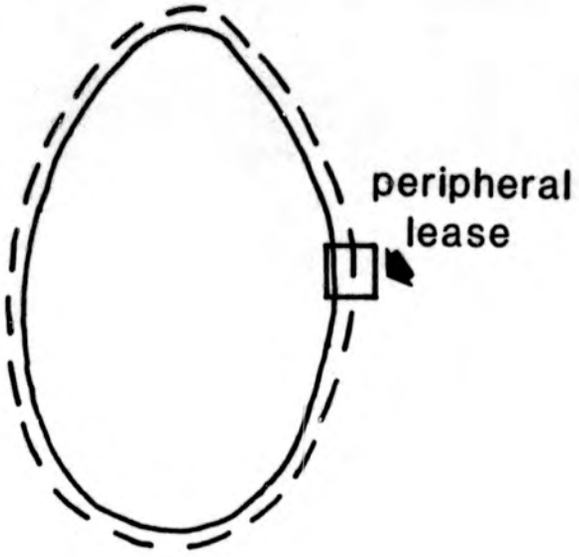


Determining Field Limits

Cross Section



Map View

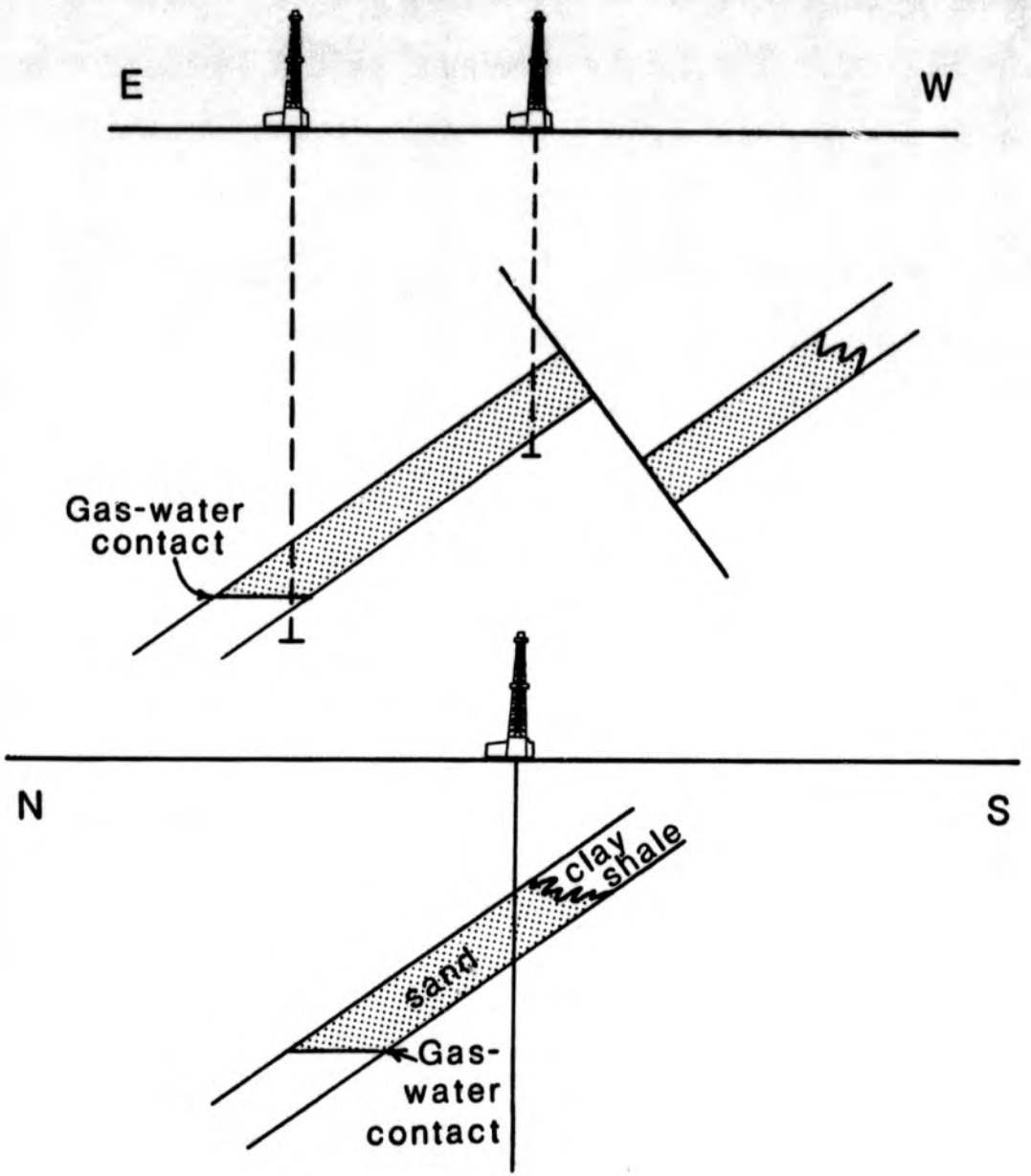


Useful Information

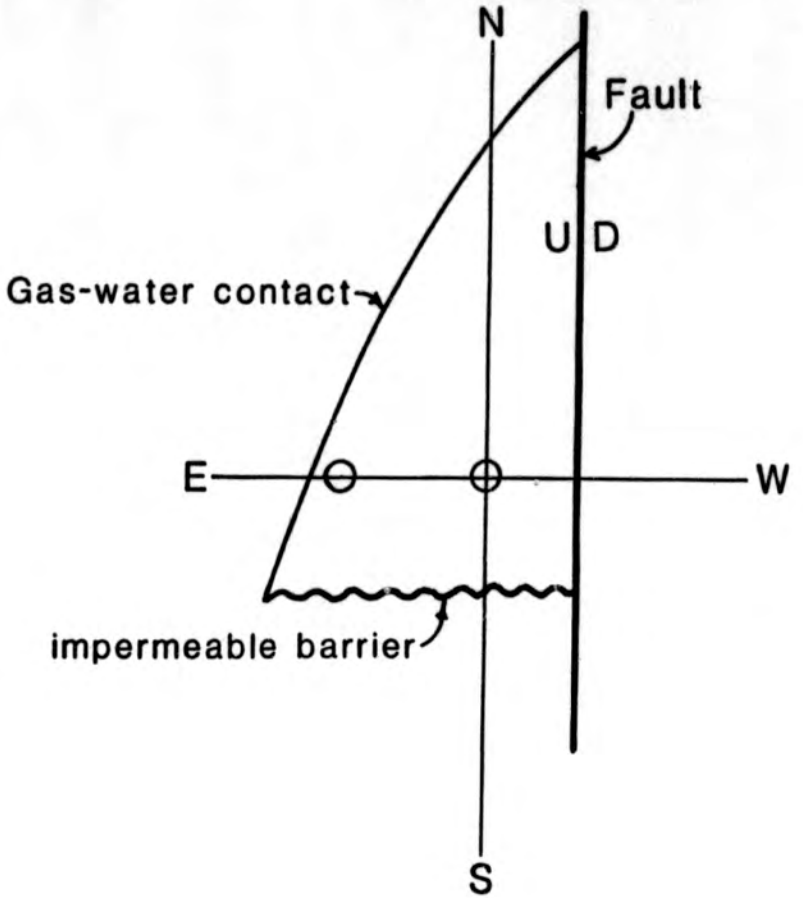
1) Seismic data
2) Reservoir type
   (homogeneous?)
3) Other fields in basin
4) Well data
   oil-water,
   gas-water contacts
   other log information
5) Production data
   pressure draw-down etc.

Combination Structural-Stratigraphic Trap
Hypothetical Asymmetrical Gas Field

Cross Sections:

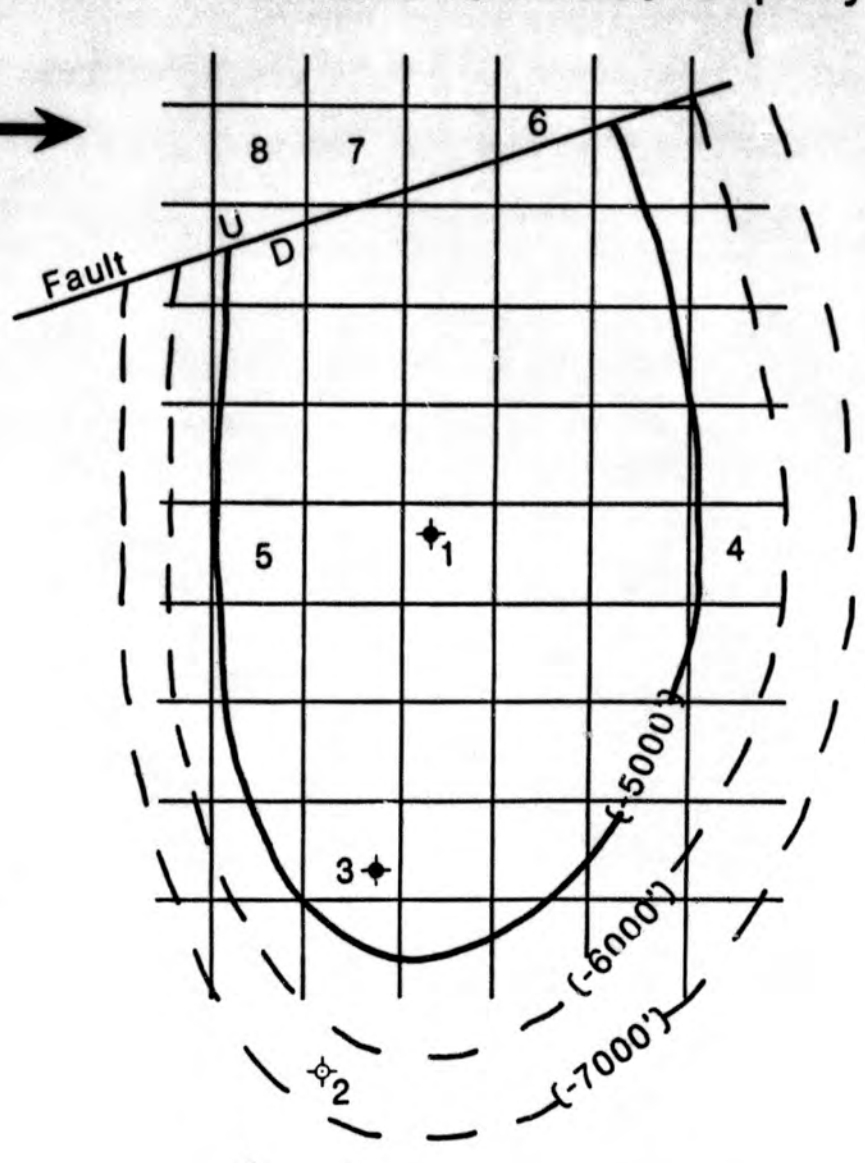


Map View:

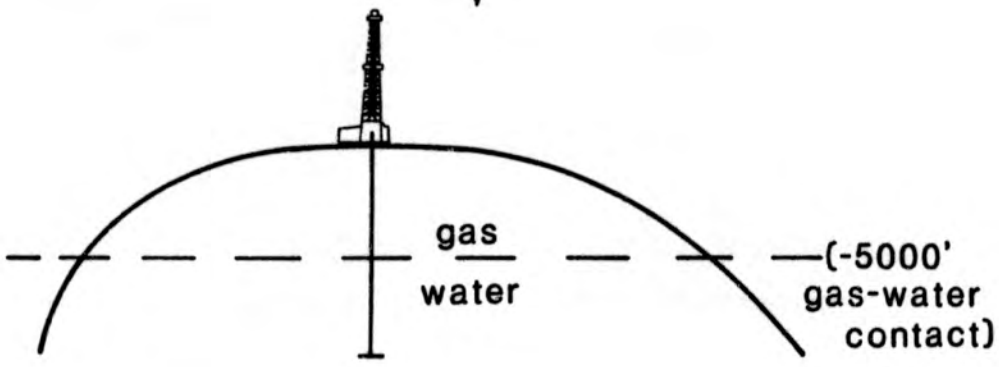


Hypothetical Gas Field
showing possible well locations and field (lease) equity

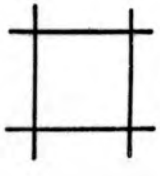
Map View →



Cross Section →



1. Discovery well
2. Dry hole
3. Confirmation well
4. Lease with minor amount of hydrocarbons
5. Lease with substantial hydrocarbons
6. Hydrocarbons limited by fault
7. Minor hydrocarbons due to fault
8. No hydrocarbons



shows leases based on 4 640-acre sections each

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

STEVE COWPER, GOVERNOR

P.O. BOX 7034
ANCHORAGE, ALASKA 99510-7034

(907)762-2550

MAR 23 1988

March 18, 1988

The Honorable Jack Coghill
The Honorable Bettye Fahrenkamp
Alaska State Legislature
P. O. Box V
Juneau, Alaska 99811

Dear Senators Coghill and Fahrenkamp:

Thank you for the opportunity to present testimony at the March 7, 1988 Joint Senate Resources/Senate Special Oil and Gas Committee hearings on unitization policy and procedures.

Because my final testimony was cut short due to the required 3:30 adjournment time, I would like to provide the committees with my answers and views to the points raised by Mr. Cliff Burglin in his testimony. I have addressed the points in the order that Mr. Burglin discussed them.

1. Are state oil and gas leases competitive relative to other private lands and government leases?

   The Division clearly recognizes that the state must compete in a worldwide market when it offers oil and gas leases for sale. We take into account the size and location of the lease, the primary term of the lease, required minimum bonus bid, the royalty terms, estimated hydrocarbon potential, and possible exploration incentives. Unitization and permitting policy, though not a direct lease-sale consideration, also are important because they both affect the costs of exploration and development on the leases. Oil prices began to slide in 1982, and crashed in 1986. Since 1984 the division has conducted 10 lease sales. All 10 sales were bonus bid with a fixed royalty rate. A net profit share was not included in any of the leases, nor was an explicit work commitment required. The minimum bonus bid varied from $1.00 to $5.00 per acre, and the primary term of the leases was for 10 years. The royalty rate varied from 12.5 to 16.67 percent in those sales. A total of 5.4 million acres were offered for lease in those 10 sales. In our most recent sale (Sale 54), 80 percent of the acreage offered was leased. The royalty rate was 12.5 percent, and the minimum bid was $5.00 per acre. For the 72 tracts bid on (89 tracts were offered), 164 bids were received. Sale 54 also included an exploration incentive provision. At Sale 50 held last June,

100 percent of the tracts offered were leased. Federal OCS acreage offered in recent years carried a minimum bonus bid ranging between $25 and $150 per acre. I believe that state leases are very competitive relative to other leases available worldwide. The division will continue to monitor worldwide events to assure that our leasing program remains competitive.

2. Are state oil and gas resources being drained by wells on federal or private lands?

   On the North Slope, there currently is no production from federal or fee lands. In addition, I am not aware of any development activities underway or soon-to-be underway on North Slope federal or fee lands. There are a number of safeguards in our oil and gas leases (and, in fact, in state and federal law) to prevent the type of situation that Mr. Burglin postulated. The state has access to the geological, geophysical and well data from federal OCS lands that are adjacent to our three-mile territorial waters. These adjacent OCS lands are commonly referred to as the 8(g) zone [taken from section 8(g) of the Federal OCS Lands Act]. The state would be aware well in advance of any potential drainage situation. Our own oil and gas leases contain provisions to require offset wells, compensatory royalty payments and required development of a state leasehold in threat of drainage. Contrary to Mr. Burglin's claim, drainage of oil and gas from state lands to federal or private lands is not, and will not be, a problem.

3. Should the state correct a "mistake" it made in setting the lease terms of the Seal Island/North Star Island area of the Beaufort Sea?

   The state leased the Seal Island/North Star area in 1979. Amerada Hess and Texas Eastern each acquired two state leases overlying that prospect. All four leases have a fixed 20 percent royalty rate. The net profit share was the bid variable for those specific leases, and the rates bid were 91.2 percent and 93.2 percent (Amerada Hess), and 85.26 percent and 85.26 percent (Texas Eastern). A total of 25 bids were received for the four leases. For these tracts, the cash bonus bid was fixed at $875.00 per acre. On other state acreage in that sale the high bonus bid (where the bonus was the bid variable) was $15,170 per acre. Since that sale, the lessees have built two artificial gravel islands and drilled a total of six exploratory wells to evaluate the prospect. A relatively large new oil and gas field was discovered as a result of those wells. However, due to the water depth (about 40 feet), remote offshore location (about seven miles from shore and 18 miles from pump station number 1), and current oil prices, the field does not appear economic to develop at this time.

   I am convinced that current and anticipated oil prices, not lease terms, are the primary factor in the decision to not develop the leases at this time. But as history has shown, oil prices and future expectations can change almost overnight.

4. Could the state be earning millions more dollars and creating thousands more jobs by immediately offering all its acreage for lease?

While we do have a few very promising areas left, the majority of the remaining unleased state acreage has only moderate to low oil and gas potential. Initially, only modest additional revenue will be generated from the bonus and rental monies as these low potential lands are leased, and very little, if any, money will be received if these lands are leased noncompetitively. As Mr. Burglin stated, in relative terms the vast majority of oil and gas revenues come from royalty and tax payments associated with production activities, and not at the time of a lease sale. That is why the division is attempting to lease the most prospective acreage over the next five years; hopefully, royalty and production tax payments will follow. As I stated at the hearing, of the 3.8 million state acres currently under lease, only 0.5 million acres are classified as producing. There are 3.3 million acres of state land under lease and ready to be drilled; I do not believe that the current lull in drilling activity is due to the unavailability of state leases. Again, current and forecasted oil prices are the culprit.

5. Should the state convert all its existing leases to 12 1/2 percent royalty rates and offer all future leases at 12 1/2 percent royalty?

Our experience to date with other than 12 1/2 percent royalty leases has not been disappointing. The Endicott field includes one lease which is allocated 26 percent of the total field oil and gas production where the royalty rate is 20 percent and the net profit share rate on the lease is 79 percent. About 80 percent of the Milne Point field is comprised of 20 percent royalty rate leases. The Kuparuk field has two net profit share leases included in the producing area and, as stated earlier, the North Star/Seal Island area leases are at 20 percent royalty and include a net profit share. I believe that oil prices (both current and projected) are the driving force behind development decisions. While royalty rate is a consideration at the time of proposed development, I do not believe it is the only or primary deciding factor.

6. Why aren't more "independents" operating in Alaska?

Quite a few independents have purchased oil and gas leases at state lease sales. Our low minimum bid requirements and generous 10 year lease terms provide ample opportunity for independents to become active in Alaska <u>if</u> they want to. However, the cost of exploration and development in the state, for the most part, prevents most of those parties from actively participating in the drilling of wells. By definition, independents have limited monies available for exploration on an annual basis. It would not be a wise business decision for an independent to gamble all its annual exploration budget on drilling one well in Alaska when it could drill 10 wells elsewhere for the same total cost. Fundamental laws of risk analysis dictate that you spread your risk to maximize your profits (or, conversely, to minimize your losses). Until costs of exploration in Alaska come down, there will be few independents actively drilling wells in our state, though independents still seem interested in acquiring leases here.

7. Are Alaska's oil and gas fields currently "undefined"?

Mr. Burglin stated that the administration was remiss in not knowing what the oil and gas reserves were in each recognized field and in not knowing the field limits for each accumulation. The document Mr. Burglin used as an example was a monthly bulletin printed by the Alaska Oil and Gas Conservation Commission (AOGCC). Unfortunately, Mr. Burglin misinterpreted the term "undefined" as used by the AOGCC. The AOGCC uses the term undefined to classify oil and gas produced from pools (reservoirs) where specific ~~specific~~ field rules have yet to be established. The absence of field rules for a given pool in no way implies that reserve estimates or accumulation limits are not known. It is unfortunate that Mr. Burglin chose to use this specific example out of context. If you have any further questions on this issue, I suggest that you contact the AOGCC directly for a full explanation of how it estimates reserves and employs field rules.

8. Why doesn't the state reveal its proprietary oil and gas data to Mr. Burglin prior to issuing certain unitization decisions?

Two points need to be addressed concerning this issue. First, by law (AS 38.05.035(a)(c)), the state is prohibited from releasing proprietary information to third parties without the written consent of the "owner" of the proprietary data. Since almost all of the state's proprietary data are supplied by third parties, we cannot release the data to Mr. Burglin without prior approval. The second point concerns the state's unitization decision process. Even if Mr. Burglin was given access to the state's data, I doubt that the state's final decision would be different. Our decision is based upon all the available information in the record regardless of whether or not Mr. Burglin agrees with the interpretation of all that data. As was discussed on March 7, the parties seldom disagree with the basic geological, geophysical and well data; however, interpretation of the data does, on occasion, bring about disagreements. And as also was stated at the March 7 hearing, all lessees, including Mr. Burglin, have the option to drill on their leases to prove the existence of hydrocarbons if there are insufficient data to prove or disprove conclusively whether the acreage is productive. A unit does not have to be approved prior to drilling a well on a lease.

9. If unitization is beneficial, why doesn't the state approve any and all applications for units?

Commitment of a lease to a unit agreement extends that lease for the life of the unit. Commitment of a lease to a unit agreement also satisfies any work commitment stipulation that is made part of that lease. In addition, a unit area is intended to cover a defined potential hydrocarbon accumulation or a known reservoir. Unless the affected lessees have a sound geological and geophysical basis for an exploratory unit or well data to confirm the need for a development unit (i.e., a seismically or geologically defined subsurface "prospect"), the approval of a unit application to explore the area is not warranted. The lessees must also

commit to an exploration plan or development plan at the time the unit is formed. Units will not be approved for areas where no prospect is defined for which an adequate work plan is not a part of the proposal. Again, the lessee(s) can always drill a well to prove its point. Unitization should not be used to arbitrarily extend the primary term of unproven leases.

10. Should the state institute a noncompetitive leasing system?

With the 1987 amendment to 38.05.035(e)(7), the division now can reoffer acreage on a more regular basis. In addition, the division has 12 "regular" lease sales already scheduled over the next five years. In recent years both the State of Alaska and the federal government have experienced a number of fraud and consumer "rip-offs" through lower 48 boiler-room, high-pressure telephone sales schemes involving resale of predominantly noncompetitive leases to unsuspecting individuals. Unfortunately, these few illegal schemes have seriously jeopardized the future of all noncompetitive leasing. In 1987 the Alaska State Legislature abolished noncompetitive leasing of state lands in 1978. The United States Congress completely overhauled the federal noncompetitive leasing program in to require that all lands first be offered competitively for lease. Federal acreage that is offered competitively, but that receives no bids, can then be offered noncompetitively over the next two-year period. Minimum bonus bid is $2.00 per acre, and the first year annual rental is $1.50 per acre.

I believe that a dependable lease sale schedule, combined with regular competitive reofferings of expired or previously unpurchased leases, best accomplishes the goal of making acreage available for exploration and, at the same time, protects the state's interests. I do not believe that a state noncompetitive leasing program is needed, nor would it provide all the benefits described by Mr. Burglin in his testimony.

11. Is there a consensus that unitization policy or leasing policy needs change?

Prior to considering changes to the statutes, I recommend that the committee hear from such parties as the Alaska Oil and Gas Conservation Commission, other independents active in leasing in the state, in-state and out-of-state oil and gas consultants, and representatives from the major oil and gas companies active in Alaska. Because of the varied nature and objectives of the parties active in oil and gas leasing in Alaska, it is seldom that all parties will totally agree with each policy or statute currently in place. However, if there is a consensus that change is needed, then ways to bring about that change should be investigated.

12. Are changes necessary in the state oil and gas permitting process?

Over the last five years, considerable improvements have been made in the oil and gas permit processing and decision-making procedures for both individual agency permits and coastal zone management act consistency

determinations. The outcome of recent major project reviews such as Lisburne, Endicott, and Steelhead illustrate this fact. The state and the respective local governments have been out front in these permitting actions. Complications involving required federal permits or disputes with fee owners of the surface estate have slowed down some applications after state permits for the proposed projects were already approved. However, I do not believe that the state permitting process is hindering or prohibiting exploration or development in Alaska.

As you requested, enclosed is a copy of the departmental regulations (11 AAC 88) governing appeal of Director or Commissioner decisions.

Again, thank you for the opportunity to present testimony to the committees on March 7. I would be happy to discuss the points outlined in this letter with the committees or with individual committee members as your interests and time constraints dictate. Please contact me if you need further clarification on any of these issues or want to discuss the issues in further detail.

Sincerely,

William Van Dyke
Petroleum Manager

Enclosure

cc: Senate Resource Committee Members:
Senator Paul Fischer
Senator Arliss Sturgulewski
Senator Jim Duncan
Senator Fred Zharoff
Senator Dick Eliason
Senator Ken Fanning
Senate Special Oil and Gas Committee Members:
Senator Jack Coghill
Senator Paul Fischer
Judith M. Brady, Commissioner, DNP
Cliff Burglin, Land Consultant
Chat Chatterton, Chairman, AOGCC
Cass Ariey, Petroleum Geologist, Division of Oil and Gas
Mike Kotowski, Petroleum Engineer, Division of Oil and Gas

1362E

CHAPTER 88.
PRACTICE AND PROCEDURE

Section
100. Applicability
105. Applications
110. Withdrawal of applications
115. Additional information
120. Deficient filings
125. Time for filing
130. Timely filing
135. Means of filing
140. Notices
145. Refunds
150. Mailing list
151. Notice required by AS 38.05.945(c)
155. Reconsideration
160. Judicial appeals
165. Applications for reconsideration and appeal
170. Briefs
175. Oral argument
180. Notice of decision
185. Definitions

Editor's Note: The mineral-leasing regulations in 11 AAC 82, 11 AAC 83, 11 AAC 84, 11 AAC 86 and 11 AAC 88, effective September 5, 1974, and distributed in Alaska Administrative Register 51, constitute a comprehensive reorganization and revision of this material, and thus a history line at the end of each section does not reflect the history of the provision before September 5, 1974, and the section numbering may or may not be related to the numbering before that date.

11 AAC 88.100. APPLICABILITY. This chapter applies to 11 AAC 82 – 11 AAC 86 unless specifically provided otherwise by the sections dealing with the subject of the application, filing or payment. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.105. APPLICATIONS. All applications filed under 11 AAC 82 – 11 AAC 86 must comply with any requirements imposed by the regulations dealing with the subject of the applications, and must

(1) be typewritten or printed in ink;

(2) be signed by the applicant;

(3) be filed by mail or personal delivery at any filing office of the division;

(4) identify any affected lease, permit, or application by serial number or date of filing;

(5) describe the land affected by the application;

(6) state the address to which any notice concerning the application may be mailed; and

(7) be accompanied by the fee or fees prescribed by 11 AAC 05.010. (Eff. 9/5/74, Reg. 51; am 1/1/86, Reg. 96)

Authority: AS 38.05.020(b)(1)

11 AAC 88.110. WITHDRAWAL OF APPLICATIONS. At any time before a lease or permit is issued, the application may be withdrawn in whole or in part. If withdrawn in part, the application as modified must meet all the requirements of the applicable laws and regulations. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.115. ADDITIONAL INFORMATION. The director may require any additional information regarding an applicant's, claimant's, permittee's or lessee's compliance with the statutes and regulations except proprietary data not specifically authorized by other regulation or statute. Failure to comply results in rejection of the application and is a default under the terms of the permit or lease and the regulations applicable to it. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)
AS 38.05.035(a)(4)

11 AAC 88.120. DEFICIENT FILINGS. (a) Applications and documents filed with omissions or errors give the applicant no priority if

(1) the land description is insufficient to identify the land or the description does not comply with the compactness requirements;

(2) the total acreage exceeds the maximum established by law or regulation, except where the rule of approximation applies;

(3) the total acreage is less than the minimum established by law or regulation;

(4) the full filing fee and the first year's rental, where required, is not filed; and

(5) the application is not signed by or on behalf of each person having an interest in the application whether by written or oral agreement or contract.

(b) Applications with the defects listed in (a) of this section may be corrected without loss of filing fee if done within 15 days of receipt of notice of the defect, but the time of filing is the date of the receipt of the correct information.

(c) The director may allow the correction of any other omission or error in an application or document other than those listed in (a) of this section without affecting the original filing time if he determines that the omission or error is immaterial or due to excusable inadvertance. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.125. TIME FOR FILING. (a) Filing hours for payments and applications are from 10:00 a.m. to the end of posted office hours on business days, which are Mondays through Fridays, holidays excepted.

(b) Filing hours for all documents to be filed for record in the recording district in which the claim or site is located are from 8:30 a.m. to the end of posted office hours from Monday through Friday, holidays excepted.

(c) All documents, including payments and applications, received during filing hours on business days are stamped with the exact date and time of filing.

(d) Payments and applications received at any other time are filed at 10:00 a.m. on the next business day.

(e) Documents to be filed under (b) of this section received at any other time are considered to be filed at 8:30 a.m. on the next business day.

(f) Applications and documents showing the same time stamp are considered to have been filed simultaneously. (Eff. 9/5/74, Reg. 51: am 12/31/82, Reg. 84)

Authority: AS 38.05.020

11 AAC 88.130. TIMELY FILING. (a) Payments are timely if an affected lease or permit is identified by an Alaska Division of Lands' serial number, and is either (1) delivered at any of the division offices designated by the director as "filing offices" during filing hours within the time allowed by any notice, decision, regulation or law, or (2) mailed on or before the due date provided by any notice, decision, regulation or law and the mailing date can be verified by postmark or other post office record or notation.

(b) If the serial number is not identified, as required in (a) of this section, the time of filing is the time of receipt of correct information unless the director determines that the lack of such information is immaterial or due to excusable inadvertance.

(c) All other documents are timely filed if received during filing hours within the time allowed by any notice, decision, regulation, or law at any office designated by the director and posted in the office as a filing office.

(d) When the last day of the time for filing or payment falls on a day the designated filing office is officially closed, the time for filing is extended to the next day the office is open to the public. (Eff. 9/5/74, Reg. 51; am 12/31/82, Reg. 84)

Authority: AS 38.05.020(b)(1)

11 AAC 88.135. MEANS OF FILING. Filings and payments may be made by mail or personal delivery, unless provided otherwise by the section dealing with the subject of the filing or payment. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.140. NOTICES. (a) Any notice which the director gives to any person must be in writing and must be delivered in person or mailed by registered or certified mail, return receipt requested, to the person at his current address of record with the division.

(b) Any person may file his current mailing address with the division in writing and may change his address of record by written notice filed with the division at any time. "Current mailing address" is the most recent or permanent legal address of an applicant, permittee, lessee or claimant. It is the responsibility of any person doing business with the division to notify the division of his most recent or permanent legal address.

(c) A notice is considered to be given and received on the date delivered to the current address of record.

(d) Whenever any notice is required to be given to a lessee, permittee or claimant, copies of the notice shall also be given, in the manner provided by (a) of this section, to any assignee whose assignment has been filed for approval. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.145. REFUNDS. (a) If an application on which rental has been submitted is rejected or withdrawn in whole or in part, the first year's rental will be refunded in whole or in pro rata part on an acreage basis.

(b) Notwithstanding any other provision of 11 AAC 82 – 11 AAC 88, no refund will be made for less than $2.00. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.150. MAILING LIST. The division shall maintain a mailing list for the purpose of sending general notices, orders and other information which the director determines to be of public interest regarding mineral activities of the division to persons who file a written request to be put on a list. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.151. NOTICE REQUIRED BY AS 38.05.945(c). (a) A village corporation will be given notice under AS 38.05.945(c)(3) if it owns or has selected land within six miles of the state land proposed for disposal.

(b) A community will be given notice under AS 38.05.945(c)(4) if land within its boundaries is no more than six miles from the state land proposed for disposal. A community is an incorporated or unincorporated place with 25 or more inhabitants, according to the most recent census of the U.S. Census Bureau. An incorporated community's boundaries will be those reported to the department by the Local Boundary Commission. An unincorporated community's boundaries will be those delineated

by the U.S. Census Bureau in the most recent census. (Eff. 6/28/81, Reg. 78; am 12/31/82, Reg. 84)

Authority: AS 38.05.020
AS 38.05.945

11 AAC 88.155. RECONSIDERATION. (a) An order, decision or other action of the director or the division which may be made or taken without the advance approval, consent or concurrence of the commissioner is subject to reconsideration by the director. After reconsideration by the director, any person aggrieved by the decision of the director may appeal the decision to the commissioner.

(b) An order, decision or other action of the commissioner, or of the director with the

advance approval, consent, or concurrence of the commissioner, is subject to reconsideration only by the commissioner. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.160. JUDICIAL APPEALS. A decision or other action of the division, the director or the commissioner becomes final for purposes of an appeal to the superior court 30 days after delivery as provided in 11 AAC 88.140 or as provided by applicable provisions of the Administrative Procedure Act, including AS 44.62.540, 44.62.560 and 44.62.570, and the Rules of Appellate Procedure of the State of Alaska, including Rule 44. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.165. APPLICATIONS FOR RECONSIDERATION AND APPEAL. An application for reconsideration or an appeal must

(1) be filed within 30 days after receipt of notice of the action;

(2) be filed at the principal office of the director;

(3) comply with 11 AAC 88.105 except that there is no filing fee;

(4) specify the action to be reconsidered or appealed; and

(5) specify the grounds on which the reversal or modification of the action is urged. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.170. BRIEFS. Written briefs in support of an application for reconsideration or an appeal may be filed with the division within 20 days after the filing of the application. The intention to file a brief must be specified in the application for reconsideration or appeal. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.175. ORAL ARGUMENT. Oral argument may be allowed at the discretion of the officer who is to reconsider the action if written request for it is filed with the division within the time allowed for filing written briefs. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.180. NOTICE OF DECISION. Following reconsideration of any action or final decision on appeal, the applicant will be given notice of the decision reached, specifying whether the action is affirmed, reversed, or modified, and, if the last, the details of the action as modified. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.185. DEFINITIONS. As used in 11 AAC 82 – 11 AAC 88 and unless the context clearly requires a different meaning or unless otherwise defined in these chapters

(1) "adjacent" means touching or lying in close proximity, as opposed to "contiguous" which requires a common boundary;

(2) "cash" means cashier's or certified checks drawn on any solvent bank in the United States, postal or telegraphic money orders or legal tender of the United States of America, or any combination of these;

(3) "commissioner" means the Commissioner of the Department of Natural Resources;

(4) "cooperative agreement" means an agreement or plan of development and operation for the recovery of oil and gas from any pool, field, or like area or any part thereof in which separate ownership units are independently operated pursuant to the agreement without allocation of production;

(5) "director" means the Director of the Division of Lands;

(6) "division" means the Division of Lands, Department of Natural Resources;

(7) "filing office" means any place designated by the director as a filing office for applications, payments and filings under 11 AAC 82 – 11 AAC 88;

(8) "gas" means all natural gas and all hydrocarbons produced at a well not defined herein as oil;

(9) "gas well" means (A) a well which produces natural gas only; (B) that part of a well where the gas producing stratum has been successfully cased off from the oil, and the gas and oil being produced through separate casing or tubing; (C) any well classed as a gas well by the Alaska Oil and Gas Conservation Commission in the administration of the Alaska Oil and Gas Conservation Act;

(10) "leasehold location" or "mining leasehold location" means the interests in land subject to a location under AS 38.05.205 before a lease has been issued;

(11) "legal subdivision" means an aliquot part of a section of land according to the public land rectangular survey system, not smaller than one-quarter of one-quarter of one section of land, containing approximately 40 acres; where a section of land contains section lots, "legal subdivision" also means those section lots; "legal subdivision" also means a protracted legal subdivision according to any protracted public land rectangular survey prepared by the division or Bureau of Land Management of the Department of the Interior, and made available to prospective applicants for leases;

(12) "lessee or permittee of record" means the original lessee or permittee under any lease or permit or, if an assignment has been approved at any time, the latest assignee whose assignment has been approved;

(13) "locatable minerals" means those minerals which, on January 3, 1959, were subject to location under the United States mining laws (Title 30, USC);

(14) "Mineral Leasing Act" means the Act of Congress of February 25, 1920 (41 Stat. 437, 30 USC § 181, et seq.), as amended;

(15) "offshore" means tide and submerged lands, that is, those lands lying seaward from the line of mean high tide;

(16) "oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods;

(17) "oil well" means any well operated for the primary purpose of producing oil and which by the nature of its production cannot be classed as a gas well as defined in paragraph (6) of this section;

(18) "operating agreement" means an agreement giving the operator the right to carry on operations authorized by a lease or leases and to share in production obtained from the leased lands;

(19) "option" means an option to obtain an assignment of or an operating agreement covering a lease or portion of one;

(20) "order" means a determination made by the director or the commissioner in accordance with authority lawfully vested in him, issued in writing, filed in the permanent files of the division, posted in a conspicuous place in the offices of the division and made continuously available for inspection by the public;

(21) "participating area" means that part of an oil and gas lease unit area to which production is allocated in the manner described in a unit agreement;

(22) "person" includes a corporation and an association of persons;

(23) "pool" means an underground reservoir containing or appearing to contain a common accumulation of oil or gas or both; each zone of a general structure which is completely separated from any other zone in the structure is a pool;

(24) "primary term" means the initial term of an oil and gas lease and any extension of it;

(25) "smallest legal subdivision" means one-quarter of one-quarter of one section of land, containing 40 acres more or less, except where a section contains smaller section lots according to the public land rectangular survey or a protracted public land rectangular survey prepared by the division or by the Bureau of Land Management of the Department of the Interior, and made available to prospective applicants for leases, in which case "smallest legal subdivision" means those smaller section lots; as to unsurveyed land not covered by such

a protracted survey, it means a square containing 40 acres, more or less;

(26) "status record" means the basic record maintained by the division to show the status of every tract of land and of leases and applications for leases on them;

(27) "unit agreement" means an agreement or plan of development and operation for the recovery of oil and gas from a pool, field or like area, or any part of one, as a single consolidated unit without regard to separate ownerships, and for the allocation of costs and benefits on a basis as defined in the agreement or plan; "unit agreement" also includes "cooperative agreement" unless the context clearly requires the more restricted meaning;

(28) "unit area" means the area described in a unit agreement as constituting the land logically subject to development under the agreement;

(29) "unit operator" means the person, corporation or association designated under a unit agreement to conduct operations on unitized lands as specified in the agreement;

(30) "unitized land" means the part of a unit area committed to a unit agreement;

(31) "unitized substance" means deposits of oil, gas and associated substances produced with them recoverable by operations pursuant to a unit agreement;

(32) "working interest" means the interest held in lands by virtue of a lease, operating agreement, fee title or otherwise, under which the owner of the interest is vested with the right to explore for, develop and produce minerals; the right delegated to a unit operator by a unit agreement is not a working interest;

(33) "qualified to do business in Alaska" means holding the state certificates necessary to lawfully conduct business within the state;

(34) "leasehold," "mining lease," or "upland mining lease" means the interests in land subject to a mining lease issued in accordance with AS 38.05.205;

(35) "location" or "mining location" means a mining claim made under AS 38.05.195, a leasehold location made under AS 38.05.205, or a prospecting site location made under AS 38.05.245. (Eff .9/5/74, Reg. 51; am 3/27/82, Reg. 81; am 5/30/85, Reg. 94)

Authority: AS 38.05.020

DMEM Form No. 18-83 (UNIT AGREEMENT)
DNR Form No. 10-1128
(Revised June, 1983)

UNIT AGREEMENT
FOR THE EXPLORATION, DEVELOPMENT, AND OPERATION OF THE KEY UNIT

STATE OF ALASKA
THIRD JUDICIAL DISTRICT

TABLE OF CONTENTS

ATTACHMENTS

UNIT AGREEMENT
FOR THE EXPLORATION, DEVELOPMENT, AND OPERATION
OF THE KEY UNIT

STATE OF ALASKA
THIRD JUDICIAL DISTRICT

THIS AGREEMENT is entered into as of the _____ day of _____, 19__ by the parties who have signed this Agreement, and with the approval of the State of Alaska.

WHEREAS, the parties to this Agreement are the owners of Working, Royalty, or other oil and gas interests in the Unit Area subject to this Agreement; and

WHEREAS, Section 31.05.110(a) of the Alaska Statutes (Oil and Gas Conservation) provides that to prevent, or to assist in preventing waste, to insure a greater ultimate recovery of oil and gas, and to protect the correlative rights of owners of interests in the tracts of land affected, these owners may validly integrate their interests to provide for the unitized development and operation of such tracts of land as a unit; and

WHEREAS, the Commissioner of the Department of Natural Resources, State of Alaska, is authorized by Alaska Statute 38.05.180 and regulations adopted under that statute to consent to and approve oil and gas unit agreements containing oil and gas leases for which the State of Alaska is the lessor; and

WHEREAS, the parties to this Agreement have complied with the Alaska Statutes and regulations prescribing the standards and procedures governing the submission of applications and criteria for approval of oil and gas unit agreements containing oil and gas leases for which the State of Alaska is the lessor; and

WHEREAS, the Commissioner of the Department of Natural Resources has found that this Agreement is necessary or advisable to protect the public interest;

NOW THEREFORE, in consideration of the provisions contained in this Agreement, it is agreed as follows:

ARTICLE 1

DEFINITIONS

1.1 Commissioner means the Commissioner of the Department of Natural Resources, State of Alaska, or his duly authorized representative, who is authorized and has been delegated the authority to act for and on behalf of the Commissioner of the Department of Natural Resources.

1.2 Effective Date means the time and date this Agreement becomes effective as provided in Article 13.1.

1.3 Force Majeure means war, riots, acts of God, unusually severe weather, or any other cause beyond the Unit Operator's reasonable ability to foresee or control (including delays caused by operational failure of existing transportation facilities and judicial decisions or lack of them), whether similar to those enumerated or not.

1.4 Oil and Gas Rights means the rights to explore, develop, and operate on lands within the Unit Area for the production of Unitized Substances, or to share in the production, the proceeds, or the value of the Unitized Substances.

1.5 Outside Substances means substances purchased or otherwise obtained by the Working Interest Owners and injected into a Reservoir in the Unit Area.

1.6 Participating Area means a Tract or group of Tracts described and designated as a Participating Area under this Agreement for the purposes of developing, producing, or allocating one or more Unitized Substances from all or part of a Reservoir.

1.7 Participating Area Expense means all cost, expense, or indebtedness incurred by the Working Interest Owners or Unit Operator under this Agreement or the Unit Operating Agreement for or on account of production from or operations in a Participating Area, and allocated solely to the Tracts in that Participating Area and not to any other Tracts in the Unit.

1.8 Paying Quantities means quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss; quantities are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities. A well will be considered capable of producing Unitized Substances in Paying Quantities when so certified by the Commissioner following application by the Unit Operator.

1.9 Reservoir means an accumulation of Unitized Substances which has been discovered by drilling and evaluated by testing and which is separate from any other accumulation of Unitized Substances.

1.10 Royalty Interest means a right to or interest in any portion of, or the proceeds or value of the Unitized Substances other than a Working Interest.

1.11 Royalty Owner means the State of Alaska and any other party that owns a Royalty Interest.

1.12 State means the State of Alaska acting in this Agreement by and through the Commissioner of the Department of Natural Resources or his authorized representative.

1.13 Sustained Unit Production means continuing production of Unitized Substances from a Reservoir in the Unit Area into a pipeline or other means of transportation to market, but does not include testing, evaluation, or pilot production.

1.14 Tract means the land which is described in Exhibit A and given a Tract number.

1.15 Tract Participation means the percentage assigned to a Tract in a Participating Area for allocating Unitized Substances to that Tract.

1.16 Unit Area means the land identified by Tracts in Exhibit A and shown on Exhibit B to which this Agreement applies or to which it may be extended as provided in this Agreement.

1.17 Unit Expense means all cost, expense, or indebtedness incurred by the Working Interest Owners or the Unit Operator under this Agreement and the Unit Operating Agreement for or on account of Unit Operations, except for Participating Area Expense.

1.18 Unit Operating Agreement means the agreement entered into by the Working Interest Owners, having the same Effective Date as this Agreement, entitled "Unit Operating Agreement, KEY Unit, State of Alaska," as amended or supplemented from time to time.

1.19 Unit Operations means all operations conducted under this Agreement and the Unit Operating Agreement.

1.20 Unit Operator means the Working Interest Owner or other party designated by the Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations, acting as operator and not as a Working Interest Owner.

1.21 Unitized Substances means all oil, gas, and associated substances other than Outside Substances within or produced from the Unit Area.

1.22 Working Interest means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, under which the owner of that interest has the right to drill, develop, and produce, or cause to be drilled for, developed, or produced, oil and gas, and the owner of which interest is obligated to pay, either in cash or out of production or otherwise, a portion of the Unit Expense or the Participating Area Expense. A Royalty Interest created out of a Working Interest subsequent to the execution of this Agreement by the owner of that Working Interest shall continue to be subject to those Working Interest burdens and obligations that are stated in this Agreement and the Unit Operating Agreement.

1.23 Working Interest Owner means a party to this Agreement owning a Working Interest.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits which are attached to this Agreement are incorporated into this Agreement by reference:

2.1.1* Exhibit A is a schedule that identifies and describes each Tract in the Unit Area, and shows the Working Interest Ownership of Oil and Gas Rights in each Tract and a schedule of the Royalty and Net Profit Share rates applicable to each Tract in the Unit Area.

2.1.2 Exhibit B is a map depicting the boundaries of the Unit Area and the Tracts.

2.1.3** Exhibit C is a description of the Participating Areas formed under this Agreement, including general geologic descriptions and schedules showing Tract Numbers, Legal Descriptions, Alaska Lease Numbers (ADLs), and Tract Participations.

2.1.4** Exhibit D is a map depicting the boundary lines of the Participating Areas and the Tracts formed under this Agreement.

2.1.5** Exhibit E is a schedule that describes the allocation of Participating Area Expense to each Tract in the Participating Areas formed under this Agreement.

2.1.6 Exhibit F is a schedule that describes the allocation of the Unit Expense to each Tract in the Unit Area.

2.1.7*** Exhibit G is the plan of exploration or development for the Unit Area.

2.2 Reference to Exhibits. When reference is made to an exhibit, it is to the exhibit as originally attached or, if revised, to the latest approved revision.

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*Exhibit A will reflect the royalty rate from the leases; if a royalty rate is renegotiated at the time of unitization, Exhibit A will reflect this modification.

**If there is more than one Participating Area when the Unit is initially created, these areas should be described in Exhibits C-1, C-2, etc., D-1, D-2, etc., and E-1, E-2, etc.

***If no Participating Areas are established at the time this unit is approved, Exhibit G should be a plan of exploration. If a Participating Area is established at the time of unitization, Exhibit G should be a plan of development.

2.3 Exhibits Considered Correct. Exhibits A, B, C, D, E, F, and G have been established using the best information available and shall be considered to be correct until revised.

2.4 Correcting Errors. If subsequent to the date of this Agreement it appears that any Tract should be divided into more than one Tract because of diverse Royalty or Working Interest Ownership, or that any mechanical miscalculation or clerical error has been made, the Unit Operator, with the approval of the Working Interest Owners and the Commissioner, shall correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each revision of an exhibit made less than 30 days after the Effective Date shall be effective as of the Effective Date. Each revision made 30 days or more after the Effective Date shall be effective at 12:01 a.m. on the first day of the next calendar month following the filing of the revised exhibit with the Commissioner for his approval or on any other date as may be agreed upon by the Working Interest Owners and the Commissioner and set forth in the revised exhibit.

2.5 Filing Revised Exhibits. If an exhibit is revised, the Unit Operator shall execute an appropriate instrument with the revised exhibit attached and file the same for record in the filing office of the Department of Natural Resources, Anchorage, Alaska.

2.6 Exhibits for New Participating Areas. The Unit Operator shall prepare Exhibits C, D, and E for each new Participating Area created under Article 6 of this Agreement, and shall submit these exhibits to the Working Interest Owners and, after approval by them, to the Commissioner for approval. The Working Interest Owners also shall submit revisions to Exhibit F at the same time for approval by the Commissioner.

ARTICLE 3

CREATION AND EFFECT OF UNIT

3.1 Oil and Gas Rights Unitized. All Oil and Gas Rights in and to the lands described in Exhibit A are unitized so that Unit Operations may be conducted as if the Unit Area had been included in a single lease executed by the State of Alaska and any other party who has authority to execute oil and gas leases, as lessor, in favor of all Working Interest Owners, as lessees.

3.2 Amendment of Leases and Other Agreements. The provisions of the various leases, agreements, division and transfer orders, or other instruments pertaining to the respective Tracts or the production from those Tracts, are amended to the extent necessary to make them conform to the provisions of this Agreement, but otherwise shall remain in effect.

3.3 Continuation of Leases and Term Interests. Except for the purpose of determining payments to the State of Alaska and other Royalty Owners, production from any part of a Participating Area shall be considered as production from each Tract in the Participating Area and shall continue each lease in the Participating Area in effect just as if a well were producing

from each Tract, so long as that Tract remains committed to the Unit. Unit Operations, if conducted under and in compliance with an approved plan of exploration or development, shall continue each lease in the Unit Area in effect as if Unit Operations were conducted on each Tract, so long as that Tract remains committed to the Unit.

3.4 Rental Settlement. Rental due on leases committed to this Agreement shall be paid by the Working Interest Owners who are lessees of the leases. The lessee shall pay annual rental to the State in accordance with the following rental schedule:

(1) For the first year of the term of the lease, $1.00 per acre or fraction of an acre;

(2) For the second year of the term of the lease, $1.50 per acre or fraction of an acre;

(3) For the third year of the term of the lease, $2.00 per acre or fraction of an acre;

(4) For the fourth year of the term of the lease, $2.50 per acre or fraction of an acre;

(5) For the fifth year of the term of the lease, and all following years, $3.00 per acre or fraction of an acre. Rental may be waived or suspended by the Commissioner.

3.4.1 Annual rental paid in advance on a lease, any portion of which is committed to a Participating Area, is a credit on the royalty or net profit share due under the lease for that year.

3.4.2 The lessee shall pay the annual rental to the State of Alaska (or any depository designated by the State with at least 60 days notice to the lessee) in advance, on or before the annual anniversary date of the lease. The State is not required to give notice that rentals are due by billing the lessee. If the State's (or depository's) office is not open for business on the annual anniversary date of the lease, the time for payment is extended to include the next day on which that office is open for business. If the annual rental is not paid timely, this lease automatically terminates as to both parties at 11:59 p.m., Alaska Standard Time, on the date by which the rental payment was to have been made. Rental may be waived or suspended by the Commissioner.

3.5 Minimum Royalty. If any State oil and gas lease committed to this Agreement requires the payment of minimum royalty, that lease is amended to delete that minimum royalty obligation. Rental, at the rate specified in Alaska Statute 38.05.180(n), shall be paid in lieu of minimum royalty.

3.6 Injection Rights. Under the plan of development attached as Exhibit G, the Working Interest Owners may inject substances into the Unit Area for Unit Operations, may drill, use, and maintain injection wells in the Unit Area, and may use for injection purposes any nonproducing or abandoned wells or dry holes, and any producing wells completed in the Unit Area.

3.7 Surface and Subsurface Operating Rights. Except to the extent modified in this Agreement, the Working Interest Owners, and the Unit Operator in their behalf, shall have the same rights to use of the surface and subsurface and use of water and any other rights as are granted in the

leases. Except to the extent modified in this Agreement, any stipulations or operating conditions attached to a lease at the time of sale remain applicable to the lease. The State of Alaska retains all rights reserved it to explore, use, dispose of, or otherwise act upon or with respect to the surface and subsurface to the same extent as those rights are reserved in the oil and gas leases. The Working Interest Owners and the Unit Operator will, to the extent possible, minimize and consolidate surface facilities in order to minimize surface impacts.

3.8 Personal Property Excepted. All lease and well equipment, materials, and other facilities placed by any of the Working Interest Owners in the Unit Area are and shall remain personal property belonging to and removable by the Working Interest Owners. The rights and interests in that property as among the Working Interest Owners are set out in the Unit Operating Agreement.

3.9 Titles Unaffected by Unitization. Nothing in this Agreement shall be construed to result in the transfer of title to Oil and Gas Rights by any party to any other party or to the Unit Operator.

ARTICLE 4

UNIT OPERATOR

4.1 Unit Operator. The Working Interest Owners are concurrently entering into the KEY Unit Operating Agreement. The Working Interest Owners by the Unit Operating Agreement designate BURGLIN as the Unit Operator, which the Commissioner, by his signature to this Agreement, approves as the Unit Operator. By signature to this Agreement, BURGLIN affirms that it is qualified under Alaska law to be a Unit Operator and accepts the duties and obligations of the Unit Operator for the KEY Unit. A change of the Unit Operator may be made in accordance with the Unit Operating Agreement, but no change shall become effective until approved by the Commissioner, who shall not be required to grant approval unless he determines that the new Unit Operator is qualified under Alaska law to be a Unit Operator. Except as otherwise provided in this Agreement or in the Unit Operating Agreement, the Unit Operator shall have the exclusive right to conduct Unit Operations, which shall conform to the provisions of this Agreement and the Unit Operating Agreement. In the event of any change of Operator, the Unit Operator designated in this Agreement shall continue in its capacity as Unit Operator until a qualified successor has been selected by the Working Interest Owners and approved by the Commissioner, and the successor has assumed its duties as Unit Operator.

ARTICLE 5

PLANS OF EXPLORATION, DEVELOPMENT, AND OPERATIONS

5.1 Unit Plan of Exploration. If, upon the Effective Date of this Agreement, a Unit Plan of Development is not in effect as described in Article 5.2 of this Agreement, the Unit Operator, on behalf of the Working Interest Owners, with diligence and in accordance with good engineering practice, shall explore the Unit Area as described in the Unit Plan of Exploration attached to this Agreement as Exhibit G. The Unit Plan of Exploration shall conform to the provisions of 11 AAC 83.341, and may be amended or modified from time to time by the Unit Operator with the approval of the Commissioner.

5.2 Unit Plan of Development. If, upon the Effective Date of this Agreement, or at any time thereafter, a Reservoir in the Unit Area has been sufficiently delineated such that a prudent operator would initiate development activities in that Reservoir, the Unit Operator, on behalf of the Working Interest Owners, with diligence and in accordance with good engineering and production practice, shall explore, develop, and produce from the Unit Area in accordance with the Unit Plan of Development attached to this Agreement as Exhibit G. The Unit Plan of Development shall conform to the provisions of 11 AAC 83.343, and may be amended or modified from time to time by the Unit Operator with the approval of the Commissioner.

5.3 Unit Plan of Operations. A Unit Plan of Operations approved by the Commissioner is required before any operations may be undertaken on the Unit Area. The Unit Plan of Operations shall conform to the provisions of 11 AAC 83.346, and may be amended or modified from time to time by the Unit Operator with the approval of the Commissioner.

5.4 Rate of Exploration, Development, and Production. The Commissioner, after giving the Unit Operator written notice and an opportunity to be heard, may require the Unit Operator to modify the rate of exploration of, development of, or production from the Unit Area. Any modification required by the Commissioner shall not be contrary to any state or federal law or regulation or require the Unit Operator to violate a valid order or rule of the Alaska Oil and Gas Conservation Commission; shall not require any increase in the rate of exploration or development of, or production from the Unit Area that would be in excess of that permitted under prudent oil and gas engineering and production practices; shall not require the Unit Operator to alter or modify the rates of exploration or development of, or production from the Unit Area from those provided in the Unit Plan of Exploration or Development then in effect; or, in any case, shall not curtail rates of production to an unreasonable extent, considering Unit productive capacity, transportation facilities available, and conservation objectives. Nothing in this section is intended to preclude the enforcement by the Commissioner of any law or regulation which, by its terms, is required to be enforced by the Commissioner.

5.5 Drilling by Working Interest Owners. Any Working Interest Owner shall be entitled to drill wells on its lease under circumstances and limitations prescribed in the Unit Operating Agreement. Subject to the provisions of the Unit Operating Agreement, and with the approval of the Commissioner, a plan of testing, evaluation, and pilot production may be carried out by such Working Interest Owner or the Unit Operator to determine if such wells are capable of sustained production of Unitized Substances in sufficient quantities to justify the Working Interest Owners in developing and producing the Reservoir into which such well is completed; provided, however, that any such wells which are determined to be capable of production in Paying Quantities must thereafter be operated by the Unit Operator. Production of Unitized Substances resulting from testing, evaluation, or pilot plant operations saved, removed, or sold from the Unit Area shall be allocated to the lease from which such production occurred, and royalties paid on such production in accordance with Articles 7 and 8 of this Agreement.

ARTICLE 6

PARTICIPATING AREAS

6.1 Participating Areas Established. Participating Areas established under this Agreement are described in Exhibits C, D, and E.

6.1.1 At least 90 days before commencement of Sustained Unit Production from a Reservoir, the Unit Operator, on behalf of the Working Interest Owners, shall submit to the Commissioner for approval (1) proposed Exhibits C, D, and E describing a Participating Area for the Reservoir; (2) a proposed division of interest or formula allocating Tract Participation and Participating Area Expense as described in proposed Exhibits C and E; (3) if needed, a proposed modification of Exhibit F allocating Unit Expense to each Tract; (4) a proposed plan of development for the Unit Area (Exhibit G); and (5) a proposed plan of operations for the Unit Area. A Participating Area becomes effective on the day Sustained Unit Production commences.

6.1.2 A Participating Area may, but need not, encompass the entire Unit Area. A Participating Area shall include only the land reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to production of Unitized Substances in Paying Quantities. A separate Participating Area shall be established for each separate Reservoir delineated in or partially in the Unit Area. Any two or more Participating Areas may be combined into one with the consent of the Commissioner and all Working Interest Owners in the Participating Areas to be combined.

6.2 Expansion and Contraction of Participating Area. A Participating Area shall be expanded or contracted from time to time by the Unit Operator with the approval of the Working Interest Owners and the Commissioner, whenever expansion or contraction is warranted on the basis of further drilling or otherwise. A Participating Area shall be expanded to include acreage reasonably proven through use of geological, geophysical, and engineering data to be capable of producing or contributing to production of Unitized Substances in Paying Quantities, or contracted to exclude acreage

reasonably proven through use of geological, geophysical, and engineering data to be incapable of producing or contributing to production of Unitized Substances in Paying Quantities, subject to the approval of the Commissioner. A revised division of interest or formula allocating production and costs must be submitted for approval by the Commissioner at the time of application for expansion or contraction of a Participating Area. No land in a Participating Area shall be excluded from the Participating Area due to the depletion of Unitized Substances.

ARTICLE 7

ALLOCATION OF UNITIZED SUBSTANCES AND EXPENSES; PAYMENT OF ROYALTY

7.1 Allocation of Production and Costs. The division of interest or the formula which allocates the Tract participations of production, Unit Expense, and Participating Area Expense among the leases within the Unit Area shall not take effect until approved by the Commissioner in writing. Any proposed revision of an approved division of interest or allocation formula shall not take effect until approved by the Commissioner in writing. When requested by the Commissioner, the lessees or Unit Operator shall promptly file with the Commissioner all data that relates to the proposed or revised division of interest or the allocation formula.

7.2 Allocation of Unitized Substances Produced From Participating Areas. All Unitized Substances produced and saved or sold from the Unit Area shall be allocated to the Participating Area established for the Reservoir from which the Unitized Substances were produced. Unitized Substances allocated to a Participating Area shall be allocated to each Tract within the Participating Area in accordance with each Tract's Tract Participation and among each Working Interest Owner in accordance with each Working Interest Owner's ownership in the Oil and Gas Rights in the Tract. The amount of Unitized Substances allocated to each Tract, regardless of whether the amount is more or less than the actual production of Unitized Substances from the wells, if any, on a Tract, shall be considered for all purposes to have been produced from that Tract.

7.3 Provisions Common to All Reservoirs. For all Participating Areas, the Working Interest Owners and the Royalty Owners other than the State may allocate Unitized Substances, Participating Area Expense, and Unit Expense in amounts other than those set out in Exhibits C, E, and F, provided that any allocation which is different from the allocations required by Exhibits C, E, and F shall be submitted to the Commissioner for his information with a statement explaining the reasons for the different allocations.

7.4 Royalty Reports. Each month, the Unit Operator shall furnish to the Commissioner a schedule which shall specify, for the previous month, the total amount of Unitized Substances produced, the amount of Unitized Substances used for Unit Operations or unavoidably lost as provided in Article 8 of this Agreement, the amount of Unitized Substances allocated to each Tract as royalty delivered in kind to the Commissioner, and the amount of Unitized Substances allocated to each Tract as royalty production to be settled in value.

7.5 Royalty in Value. Each Working Interest Owner shall make settlement for its share of royalty on Unitized Substances taken in value by the State as follows:

7.5.1 Royalty paid in value shall be free and clear of all lease expense, Unit Expense, and Participating Area Expense (and any portion of those expenses that is incurred away from the Unit Area), including, but not limited to, expenses for separating, cleaning, dehydration, gathering, salt water disposal, and preparing the Unitized Substances for transportation off the Unit Area, and free from any lien for them. All royalty that may become payable in money to the State shall be paid on or before the last day of the calendar month following the month in which the Unitized Substances are produced. The amount of all royalty in value payments which are not paid when due under this Agreement or which are subsequently determined to be due as a result of a redetermination will bear interest from the date the obligation accrued until it is paid in full, at a variable annual rate equal to 1.25 percent plus the prime rate as announced from time to time by the Bank of America, San Francisco, California. Royalty payments shall be accompanied by copies of run tickets or other information relating to the valuation of royalty as the State may require, which may include, but is not limited to, evidence of sales and shipments of Unitized Substances produced from the Unit Area.

7.5.2 For purposes of computing royalties due under this Agreement, the value of Unitized Substances payable to the State as Royalty Owner shall not be less than the highest of:

(1) the field price received by the Working Interest Owner for the Unitized Substances;

(2) the volume-weighted average of the three highest field prices received by other producers in the same field or area for Unitized Substances of like kind, character, and quality at the time the Unitized Substances are sold or removed from the Unit Area or, in the case of gas, at the time that gas is delivered to an extraction plant if that plant is located on the Unit Area. If there are less than three prices reported by other producers, the volume-weighted average shall be calculated by using the lesser number of prices received by other producers in the field or area;

(3) the Working Interest Owner's posted price in the field or area for Unitized Substances; or

(4) the volume-weighted average of the three highest posted prices in the same field or area of the other producers in the same field or area for Unitized Substances of like kind, character, and quality at the time the Unitized Substances are sold or removed from the Unit Area, or, in the case of gas, at the time that gas is delivered to an extraction plant if that plant is located on the Unit Area. If there are less than three prices posted by other producers, the volume-weighted average shall be calculated using the lesser number of prices posted by other producers in the field or area.

7.5.3 If Unitized Substances are sold away from the Unit Area, the term "field price" in 7.5.2 of this Article shall be the cash value of all consideration received by the Working Interest Owner from the purchaser of the Unitized Substances, less the reasonable costs of transportation away from the Unit Area to the point of sale. The "reasonable costs of transportation" as used in this Article shall be those costs as defined in 11 AAC 83.228 -- 11 AAC 83.229 as those regulations exist on the Effective Date of this Agreement.

7.5.4 In the event the Working Interest Owner does not sell in an arm's-length transaction the Unitized Substances after removal from the Unit Area, the term "field price" in 7.5.2 and 7.5.3 of this Article shall mean the price on the Unit Area the Working Interest Owner would expect to receive for the Unitized Substances if the Working Interest Owner did sell the Unitized Substances in a arm's-length transaction. The Working Interest Owner shall determine this price in a consistent and logical manner using information available to the Working Interest Owner and report this price to the Commissioner.

7.5.5 The Commissioner may establish minimum values for purposes of computing royalties on Unitized Substances obtained from this Unit, with consideration being given to the price actually received by the Working Interest Owner, to the price or prices paid in the same field or area for production of like quality, to posted prices, to prices received by the Working Interest Owner and other producers from sales occurring away from the Unit Area, and to other relevant matters. In establishing minimum values, the Commissioner may use, but is not limited to, the Department of Revenue's methodology for determining "prevailing value" for purposes of the oil and gas property production tax, AS 43.55 et seq., or the methodology for determining "prevailing value" as defined in 11 AAC 83.227, in circumstances where terms of a contract set a single price for Unitized Substances without adjustments tied to market conditions for periods of longer than six years, or where the terms of a contract set prices which do not reasonably reflect market conditions for production from that field or area prevailing at the time the contract is executed or renegotiated, or where fraud or an intent to evade payment is demonstrated. Each minimum value determination shall be made only after the Working Interest Owner has been given reasonable notice and an opportunity to be heard. Under this provision, it is expressly agreed that the minimum value of royalty on Unitized Substances under this Agreement may not necessarily equal the price of such Unitized Substances.

7.5.6 The Commissioner may determine which of the methods contained in this Article shall be used to establish the minimum value of royalty for the purposes of royalties payable under this Agreement.

7.6 Payment of Royalty in Value. All payment to the State shall be made payable to the State in the manner directed by the Commissioner and, unless otherwise specified, must be tendered at

Department of Natural Resources
Pouch 7-034
Anchorage, Alaska 99510
Attention: Accounting

or to any depository designated by the Commissioner with at least 60 days notice to Unit Operator and the Working Interest Owners.

7.7 Failure to Pay Royalty. In the event of the failure of any Working Interest Owner to make proper settlement of any royalty due, the Commissioner shall have all rights and remedies available to him under law, the lease, and this Agreement, including any rights of cancellation and termination of the lease. If there is any conflict between a lease provision and the provisions of this Agreement, this Agreement shall govern.

7.8 Royalty In Kind. As close as practicable to 12 months before the commencement of Sustained Unit Production from a Participating Area, the Unit Operator shall give the Commissioner notice of the anticipated date for commencement of production. Within six months of receipt of that notice, the Commissioner shall give written notice to the Unit Operator of the State's election to take in kind all, none, a specified percentage, or a specified quantity of its royalty on any Unitized Substances produced from the Participating Area.

7.8.1 Anytime after the commencement of Sustained Unit Production from a Participating Area, the Commissioner, upon six months advance written notice to the Unit Operator, may elect to take in kind all, none, a specified percentage, or a specified quantity of the State's royalty on any Unitized Substance produced from the Participating Area. Upon six months advance written notice to the Unit Operator, the Commissioner may increase or decrease (including ceasing to take royalty in kind) the amount of royalty on any Unitized Substances the State takes in kind, except that this provision does not authorize the State to receive a royalty percentage on any Unitized Substances greater than the royalty percentage set out in Exhibit A of this Agreement.

7.8.2 In the written notices given under this Article, the Commissioner may elect to specify the Tracts from which royalty taken in kind by the State is to be allocated. If the Commissioner does not specify any Tracts in the notice, the royalty taken in kind shall be allocated to all Tracts in accordance with the Tract Participation.

7.8.3 The royalty taken in kind by the State shall be delivered to the Commissioner, or his designee, at the Unit Area boundary and in a pipeline or other facility capable of carrying the State's royalty share with the Unitized Substances of the Working Interest Owners, or at any other place mutually agreed upon by the Commissioner and the Unit Operator, and shall be delivered to the State or to any individual, firm, or corporation designated by the Commissioner.

7.8.4 The State's royalty Unitized Substances delivered in kind shall be delivered in good and merchantable condition and be of pipeline quality. Royalty delivered in kind shall be free and clear of all lease expenses, Unit Expense, and Participating Area Expense (including any portion of those expenses which is incurred away from the Unit Area), including but not limited to expenses for separating, cleaning, dehydration, gathering, salt water disposal, and preparing the Unitized Substances for transportation off the Unit Area.

7.8.5 Each Working Interest Owner shall furnish storage for royalty oil and natural gas liquids produced from the Unit Area to the same extent that Working Interest Owner provides storage for its own share of oil and natural gas liquids. The Working Interest Owner shall not be liable for the loss or destruction of stored royalty oil and natural gas liquids from causes beyond the Unit Operator's or the Working Interest Owner's reasonable control.

7.8.6 If a State royalty purchaser refuses or for any reason fails to take delivery of Unitized Substances, or in an emergency, and with as much notice to the Unit Operator as practical or reasonable under the circumstances, the Commissioner may elect without penalty to underlift for up to six months all or a portion of the State's royalty on Unitized Substances produced from the Unit or from any Tract and taken in kind. The State's right to underlift is limited to the portion of royalty Unitized Substances that the royalty purchaser refused or failed to take delivery of, or the portion necessary to meet the emergency condition. Underlifted Unitized Substances may be recovered by the State at a daily rate not to exceed 10 percent of its Royalty Interest share of daily production at the time of the underlift recovery. Recovery of underlifted Unitized Substances will be completed within two years of the date such underlift commences.

7.9 Royalty on Outside Substances. If any Outside Substance consisting of natural gases is injected into any Reservoir in the Unit Area, _____ percent of any like substance contained in the Unitized Substances subsequently produced from that Reservoir and allocated to the Participating Area for that Reservoir and sold, or used for other than Unit Operations, shall be considered to be a part of the Outside Substance injected until the total volume considered to be those Outside Substances equals the total volume of the Outside Substances injected. If liquefied petroleum gas or other liquid hydrocarbons which are Outside Substances are injected into the Reservoir,
____ percent of all those Unitized Substances produced and sold after one year from the time the injection of those Outside Substances was commenced shall be considered to be a part of the Outside Substances until the total value of the production considered to be those Outside Substances equals the total cost of the Outside Substances so injected. ____ percent of the Unitized Substances considered to be Outside Substances will be in addition to that which is being recovered for natural gases as provided in this Article if both liquefied petroleum gas or other liquid hydrocarbons and natural gases are injected. No payment shall be due or payable to the Royalty Owners on substances produced from any Reservoir in the Unit Area that are considered to be Outside Substances.

7.10 Records. The Unit Operator and the Working Interest Owners shall keep and have in their possession books and records showing the development and production (including records of development and production expenses) and disposition (including records of sales prices, volumes, and purchasers) of all Unitized Substances produced from the Unit Area. The Unit Operator and the Working Interest Owners shall permit the Commissioner to examine those books and records at all reasonable times. These books and records of development, production, and disposition shall employ methods and techniques that shall ensure the most accurate figures reasonably available without requiring separate tankage or meters for each well. The Working Interest Owners shall use generally accepted and internally consistent accounting procedures.

ARTICLE 8

USE OR LOSS OF UNITIZED SUBSTANCES

8.1 Use of Unitized Substances. Working Interest Owners may use or consume Unitized Substances for Unit Operations, including but not limited to the injection of Unitized Substances into any Reservoir underlying the Unit Area, provided the injection is made under an approved Plan of Development.

8.2 Royalty Payments. No royalty, overriding royalty, production, or other profit-based payments shall be payable on account of Unitized Substances used, unavoidably lost, stored, or consumed in Unit Operations. Royalty, overriding royalty, production, or other profit-based payments on Unitized Substances reinjected into the Unit Area will not be payable until those Unitized Substances are finally produced and transported off the Unit Area or used for other than Unit Operations. If Unitized Substances are consumed in the operation of any facility which is not exclusively devoted to Unit Operations, royalty, overriding royalty, production, or profit-based payments shall not be payable on the Unitized Substances consumed by that facility which are allocatable to Unit Operations.

ARTICLE 9

EXPANSION AND CONTRACTION OF UNIT AREA

9.1 Expansion of Unit Area. The Unit Area may be expanded from time to time to include any additional lands determined to overlie any Reservoir all or part of which is within the Unit Area, or any additional lands regarded as reasonably necessary to facilitate production of hydrocarbons or for any other purpose of this Agreement. Any expansion shall not be effective until approved by the Commissioner. The lands to be included shall be based on subdivisions of the public land surveys as may be approved by the Commissioner. Expansion shall be effected in the following manner:

9.1.1 Unit Operator, acting under the terms of the Unit Operating Agreement or on demand of the Commissioner, shall prepare a notice of the proposed expansion describing the contemplated additions to the Unit Area, the reasons for expansion, and the proposed Effective Date.

9.1.2 The notice shall be delivered to the Commissioner and a copy mailed to each Working Interest Owner and Royalty Interest Owner at its last known address, and to any other party believed by the Unit Operator to own any Oil and Gas Rights in any lands proposed to be added. The notice shall state a definite period, which shall not end earlier than 30 days after the mailing of the last notice to be mailed, during which time any interested party may file with the Unit Operator written objections to the proposed expansion.

9.1.3 Upon expiration of the period stated in the notice, the Unit Operator shall file with the Commissioner evidence of mailing of the notice of expansion, copies of all objections which have been submitted to the Unit Operator, and applications for joinder executed by those owning Oil and Gas Rights in any land sought to be added as have been submitted to the Unit Operator.

9.1.4 After consideration of all pertinent information, the Commissioner shall approve or disapprove the expansion as to each lease or lands submitted for commitment. Unless the Commissioner's decision states to the contrary, that decision shall become effective as of the time specified in the notice. The Commissioner will notify Working Interest and Royalty Owners and all other parties who have requested notification upon approval or disapproval of a proposed expansion.

9.1.5. If permitted by a lease issued by the State, the Commissioner may compel joinder to this Agreement by any lessee, or any assignee of an interest in a State lease. The parties to this Agreement agree to accept that joinder upon reasonable terms and conditions. Before compelling joinder under this Article, the Commissioner will give all affected parties reasonable notice and an opportunity to be heard.

9.2. Contraction of Unit Area Ten Years After Sustained Unit Production. Any lease, a part of which is neither included in a Participating Area nor which facilitates production of hydrocarbons in Paying Quantities on the tenth anniversary of the commencement of Sustained Unit Production from the initial Participating Area formed under this Agreement, shall be excluded from the Unit Area and from this Agreement. If any portion of a lease is included in a Participating Area or facilitates production of hydrocarbons in Paying Quantities, the entire lease will remain commited to the Unit. Nothing in this Agreement shall operate to excuse further development on the portion of any lease lying outside the Unit Area where the circumstances would require a prudent lessee to further develop.

9.3 Contraction for Failure to Drill Second Well pursuant to Exhibit G. Unless a well has been commenced on or before March 31, 1987 which will have a bottomhole location in Block B, which Block is shown in Exhibits A and B, or such drilling obligation has been suspended in accordance with the provisions of 11 AAC.83.336(b), the Unit Area shall be contracted to exclude all of the Tracts in Block B, except those Tracts included in an established Participating Area or a Participating Area for which an application is pending.

9.3.1 Effect of Contraction. Upon contraction of the Unit Area as provided in Article 9.3 of this Agreement, operations on any Tract excluded from the Unit Area may be continued. Each oil and gas lease covering lands within Block B excluded from the Unit Area shall remain in force for at least one year after the date on which such a contraction is made, and for a further period, if any, as provided by the lease. The salvaging of any equipment or the need for rehabilitation of lands excluded from the Unit Area shall be as provided for in Article 14.4.

9.3.2 If any lease within Block A of the Unit Area as set out in Exhibits A and B of this Agreement includes a work commitment pursuant to Stipulation #5 of such lease, that work commitment will be satisfied by the drilling of the first well with a bottom hole location under a lease contained in Block A of the Unit Area. If any lease within Block B of the Unit Area as set out in Exhibits A and B of this Agreement includes a work commitment pursuant to Stipulation #5 of such lease, that work commitment will be satisfied by the drilling of the first well with a bottom hole location under a lease contained in Block B of the Unit Area. Any well with a bottom hole location under a lease contained in Block A of the Unit Area will not satisfy a work commitment for any lease contained in Block B of the Unit Area and vice versa.

9.3.3 If any lease commited to this Agreement is eliminated from the Unit Area in accordance with the provisions of Artictle 9.3 of this Agreement, and that lease contains a work commitment pursuant to Stipulation #5 of such lease, that work commitment will reattach to such lease at the time of its contraction out of the Unit Area. The time period allowed for the lessee to commence the drilling of a well as required by the work commitment shall be the period of time that remained for the completion of the work commitment at the time such lease was commited to Unit Area but in no event shall that period be less than one year from the date such work commitment reattaches.

ARTICLE 10
TITLES

10.1 Removal of Tract form Unit Agreement. If a Working Interest Owner or a Royalty Owner ceases to have any of its Tracts committed to theis Agreement because of failure of title, those Tracts shall be removed from this Agreement effective as of 12:01 a.m. on the first day in the calendar month in which the failure ot title is finally determined unless within 90 days after the date of its final determination of the failure of title, the true Working Interest Owner and Royalty Owner of the Tract execute this Agreement and, if a Working Interest Owner, the Unit Operating Agreement.

10.2 Revision of Exhibits. If a Tract in a Participating Area is removed from this Agreement because of failure of title, the Unit Operator shall recompute the Tract Participation of each of the Tracts remaining in the

Participating Area and shall revise the exhibits to this Agreement accordingly; provided, however, that the revised Tract Participations of the Tracts remaining in the Participating Area shall remain in the same ratio one to another. The revised exhibits shall be effective as of 12:01 a.m. on the first day of the calendar month in which the failure of title is finally determined.

10.3 Failure of Title of Part of Tract. In the event of the failure of title of any party to this Agreement as to a divided portion of any Tract, the Unit Operator, with the approval of the Working Interest Owners and the Commissioner, shall divide that Tract into separate Tracts, and if that Tract is in a Participating Area, shall recompute the Tract Participation of each of the resulting Tracts (the sum of which shall equal the Tract Participation of the original Tract) and revise the Exhibits to this Agreement accordingly. After that revision, that resulting Tract in which title was not affected shall remain in this Agreement, and the resulting Tract in which title failed shall be subject to the provisions of Articles 10.1 and 10.2 of this Agreement.

10.4 Working Interest Titles. If title to a Working Interest fails, the rights and obligations of the Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement.

10.5 Royalty Interest Titles. If title to a Royalty Interest fails, but the Tract to which it relates is not removed from this Agreement, the party whose title failed shall not be entitled to royalty.

10.6 Production Where Title is in Dispute. If the title or right of any party claiming the right to receive all or any portion of the Unitized Substances allocated to a Tract is in dispute, the Unit Operator, at its discretion, shall either

(1) require that the party to whom Unitized Substances are delivered or to whom the proceeds or value are paid furnish security for the proper accounting to the rightful owner if the title or right of that party fails in whole or in part; or

(2) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds until the title or right is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds impounded shall be paid to the party rightfully entitled to them.

10.7 Definition of "In Dispute." For purposes of Article 10.6 of this Agreement, the State of Alaska's title shall not be deemed "in dispute" until a court with initial jurisdiction to adjudicate title has entered a judgment that the State does not have title to the lands.

10.8 Payment of Taxes to Protect Title. The owner of surface rights to lands within the Unit Area, or severed mineral interests or Royalty Interest in those lands or lands outside the Unit Area on which personal property, lease and well equipment, plants, and other facilities and equipment used, taken over, or otherwise acquired by the Working Interest Owners for use in Unit Operations are located, is responsible for the payment of any ad valorem taxes on all those

rights, interests, or property, unless that owner and the Working Interest Owners otherwise agree. If any ad valorem taxes are not paid by or for that owner when due, the Unit Operator may, with approval of the Working Interest Owners, at any time prior to tax sale, or prior to expiration of the period of redemption after tax sale, pay the tax lien. Any payment shall be an item of Unit Expense or Participating Area Expense. Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due any delinquent taxpayer an amount sufficient to defray the costs of payment or redemption, and credit the withholding to the Working Interest Owners. Withholding shall be without prejudice to any other remedy available to Unit Operator or Working Interest Owners.

10.9 Transfer of Title. Any conveyance of all or any part of any interest owned by any party with respect to any Tract shall be made expressly subject to this Agreement.

10.10 Successors and Assigns. This Agreement shall extend to, be binding upon, and inure to the benefit of the parties and their respective heirs, devisees, legal representatives, successors, and assigns and shall constitute a covenant and equitable servitude running with the land, leases, and interest covered by them.

ARTICLE 11

RELATIONSHIP OF PARTIES

11.1 No Partnership. The duties, obligations, and liabilities of the parties are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties to this Agreement. Each party shall be individually responsible for its own obligations.

11.2 No Joint Refining or Marketing. This Agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any joint refining or marketing of Unitized Substances.

11.3 Royalty Owners Free of Costs. This Agreement is not intended to impose, and shall not be construed to impose upon the State of Alaska or any other Royalty Owner any obligation to pay Unit Expense or Participating Area Expense.

11.4 Confidentiality of Information. Upon the request of the Unit Operator or the Working Interest Owners, the Commissioner shall hold as confidential to the extent authorized by statute any engineering, geophysical, or geological data, well data, daily drilling reports, or any other data or information of a similar nature which may be required by the State for any purpose of this Agreement.

ARTICLE 12

FORCE MAJEURE AND SUSPENSION OF OPERATIONS

12.1 Force Majeure and Suspension of Operations. If a suspension of Unit Operations or production on all or part of the Unit Area has been ordered under federal, state, or local law, or if the Commissioner determines that the Unit Operator has been prevented, after efforts made in good faith, from complying with any express or implied promise, term, condition, or covenant of this Agreement, from conducting drilling operations, or from producing or marketing Unitized Substances from the Unit Area by reason of Force Majeure, the Unit Operator's obligation to comply with that provision will be held in abeyance, but not voided, and the Commissioner will extend the term of the Unit Agreement for a period of time equal to the time lost under the unit term due to the suspension or prevention by Force Majeure. If Unit Operations or production are suspended or prevented under this Article and the continuation of those operations or production without suspension or prevention would have had the effect of extending the Unit Agreement, the Unit Agreement does not terminate during the period in which operations or production are suspended or prevented plus a reasonable time after that period, which shall not be less than six months, for the Unit Operator to resume operations or production. Nothing in this Article holds in abeyance the obligation to pay rentals, royalties, or other production or profit-based payments to the State of Alaska from operations or production in the Unit Area which are not suspended or prevented, or from operations or production which are unrelated to any suspension or prevention. For the purposes of this Article, any seasonal restriction on operations or production or other conditions specifically required or imposed as a term of sale of an original lease, or as a condition imposed under this Agreement, will not be considered a suspension of operations or production ordered pursuant to law, or prevention due to Force Majeure. However, upon application to the Commissioner, seasonal restrictions on operations or production imposed subsequent to approval of a Unit Agreement will be considered a suspension of operations or production ordered under law.

ARTICLE 13

EFFECTIVE DATE

13.1 Effective Date. This Agreement shall become binding upon each party as of the date each party signs the instrument by which it becomes a party, and shall become effective as of 12:01 a.m. on the day following approval by the Commissioner. At least one counterpart of this Agreement shall be filed for record by the Unit Operator in the filing office of the Department of Natural Resources, Anchorage, Alaska.

ARTICLE 14

TERM

14.1 Term. This Agreement terminates five years from the Effective Date unless

(1) a unit well in the Unit Area has been certified as capable of producing Unitized Substances in Paying Quantities, in which case this Agreement shall remain in effect for so long as Unitized Substances are produced in Paying Quantities from the Unit Area, or for so long as Unitized Substances can be produced in Paying Quantities and Unit Operations are being conducted in accordance with an approved Unit Plan of Exploration or Development, or, should production cease, for so long thereafter as diligent operations are in progress to restore production and then so long thereafter as Unitized Substances are produced in Paying Quantities; or

(2) the unit term is extended by the Commissioner in accordance with applicable regulations.

14.2 Termination by Working Interest Owners. This Agreement may be terminated at any time by the Working Interest Owners with the approval of the Commissioner.

14.3 Effect of Termination. Upon termination of this Agreement, the further development and operation of the Unit Area as a unit shall be abandoned, and Unit Operations shall cease. Each oil and gas lease or other agreement covering lands within the Unit Area shall remain in force for at least one year after the date on which this Agreement terminates, and for a further period, if any, as provided by the lease.

14.4 Salvaging Equipment and Rehabilitation Upon Termination. The Unit Operator and the Working Interest Owners shall have the right for a period of 3 years after the date of termination of this Agreement in which to salvage and remove all personal property, lease and well equipment, plants, and other facilities and equipment used, taken over, or otherwise acquired by the Working Interest Owners for use in Unit Operations. The Unit Operator shall rehabilitate the Unit Area to the satisfaction of the Commissioner within 3 years after the date of termination of this Agreement. The Commissioner may extend the period for salvage and removal of equipment and rehabilitation of the Unit Area. Upon the expiration of this period, and at the discretion of the Commissioner, any equipment not removed from the Unit Area becomes the property of the State of Alaska or may be removed by the State at the expense of the Working Interest Owners. All other improvements, such as roads, well pads, water reservoirs, landing strips, and material sites either shall be abandoned and the sites rehabilitated to the satisfaction of the Commissioner or shall be left intact and the Unit Operator and the Working Interest Owners absolved of all further responsibility or liability as to their maintenance, repair, and eventual abandonment and rehabilitation.

ARTICLE 15

EXECUTION

15.1 Original, Counterpart, or Other Instrument. An owner of Oil and Gas Rights may become a party to this Agreement by signing the original of this instrument, a counterpart, or other instrument agreeing to become a party. The signing of these instruments shall have the same effect as if all parties had signed this Agreement.

15.2 Joinder in Dual Capacity. Execution of this Agreement by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by that party in the Unit Area to this Agreement.

ARTICLE 16

RELATIONSHIP OF AGREEMENTS

16.1 Unit Agreement and Unit Operating Agreement. This Unit Agreement shall control the respective rights and obligations of the Unit Operator, the Working Interest Owners, the State of Alaska, and Royalty Interest Owners other than the State of Alaska in case of any conflict between this Agreement and the Unit Operating Agreement. However, where conflicts exist solely between Working Interest Owners, the Unit Operating Agreement shall prevail.

ARTICLE 17

LAWS AND REGULATIONS

17.1 Laws and Regulations. This Agreement shall be subject to all applicable federal, state, and local laws, rules, regulations, and orders in effect on the Effective Date and, insofar as is constitutionally permissible, to all laws, rules, regulations, and orders subsequently enacted or adopted after the Effective Date of this Agreement.

17.2 Construction. This agreement shall be construed according to the laws of the State of Alaska.

ARTICLE 18

GENERAL

18.1 Amendments. Except as otherwise provided in this Agreement, this Agreement may be amended by the parties. Except as otherwise provided in this Agreement, an amendment becomes effective upon approval by the Commissioner.

18.2 Action by Working Interest Owners. Except as otherwise provided in this Agreement, any action or approval required by the Working Interest Owners under this Agreement shall be in accordance with the provisions of the Unit Operating Agreement.

ARTICLE 19

DEFAULT

19.1 Default. Failure to comply substantially with any of the terms of this Agreement, including any Plans of Exploration, Development, or Operations which are a part of this Agreement, is a default under this Agreement.

19.1.1 The Commissioner will give notice to the Unit Operator and defaulting party (if other than the Unit Operator) of the default. The notice will state the nature of the default and include a demand to cure the default within a reasonable time, which, in the case of failure to pay rentals or royalties, will be a date determined by the Commissioner, and the case of any other default will be a date not less than 90 days after the date of the Commissioner's notice of default.

19.1.2 If there is no well certified as capable of producing Unitized Substances in Paying Quantities at the time a default occurs under this Agreement and the default is not cured by the date indicated in the demand, the Commissioner will, in his discretion, and after giving the Unit Operator and defaulting party (if other than the Unit Operator) reasonable notice and an opportunity to be heard, terminate this Agreement by mailing notice of the termination to the Unit Operator and defaulting party. Termination is effective upon mailing the notice.

19.1.3 If there is a well capable of producing Unitized Substances in Paying Quantities at the time a default occurs under this Agreement and the default is not cured by the date indicated in the demand, the Commissioner will, in his discretion, seek to terminate this Agreement by judicial proceedings.

IN WITNESS OF THE FOREGOING, the parties have executed this Unit Agreement on the dates opposite their respective signatures.

Party: _____ Date: _____
By: _____
Title: _____
Address: _____
_____
_____

Party: _____ Date: _____
By: _____
Title: _____
Address: _____
_____
_____

EXHIBIT A
OWNERSHIP INFORMATION
KEY UNIT "A" BLOCK

Tract No..	Legal Description	No. of Acres	ADL#	Lessee of Record Ownership	Working Interest	State Royalty	NPSI.
1			318601	CHEVRON			
2			318615	CHEVRON			
3	T10N-R17E-UM Sec. 5, 6, 7, 8	2501	318618	KELLEY EVERETTE C. BURGLIN R. WAGNER W. COURTNEY R. GREGORY DAVID BURGLIN	5% 15% 15% 15% 15% 35%	20%	30%
4	T10N-R18E-UM Sec. 17, 18, 19, 20	2512	318626	KELLEY EVERETTE C. BURGLIN A. GRIEG J. DIERINGER R. WAGNER BRIAN BURGLIN	5% 15% 20% 20% 20% 20%	20%	30%
5				UNLEASED			
6	T10N-R17E-UM Sec. 15, 16, 21, 22	2560	318621	KELLEY EVERETTE C. BURGLIN W. WAUGAMAN J. RIBAR V. GAVORA MARY GUSTAFSON	5% 15% 205 20% 20% 20%	20%	30%

EXHIBIT A
OWNERSHIP INFORMATION
KEY UNIT "A" BLOCK

Tract No..	Legal Description	No. of Acres	ADL#	Lessee of Record Ownership	Working Interest	State Royalty	NPSL
7	T10N-R17E-UM Sec. 17, 18, 19, 20	2512	318620	KELLEY EVERETTE C. BURGLIN J. THURMAN R. GREGORY C. COLE MARY GUSTAFSON	5% 15% 20% 20% 20% 20%	20%	30%
8			318616	CHEVRON			
9			318617	CHEVRON			
10			318622	CHEVRON			
11	T10N-R17E-UM Sec. 27, 28, 33, 34	2560	318623	KELLEY EVERETTE C. BURGLIN A. GRANT BOB GROSECLOSE M. MILLER BRIAN BURGLIN	5% 15% 20% 20% 20% 20%	20%	30%
12	T10N-R17E-UM Sec. 25, 26, 35, 36	2560	318624	KELLEY EVERETTE C. BURGLIN L. SANDERS E. COOK E. BIVENS MARY GUSTAFSON	5% 15% 20% 20% 20% 20%	20%	30%
13			318627	AMOCO			

EXHIBIT A
OWNERSHIP INFORMATION
KEY UNIT "B" BLOCK

Tract No..	Legal Description	No. of Acres	ADL#	Lessee of Record Ownership	Working Interest	State Royalty	NPSL
14			318673	AMOCO			
15				UNLEASED			
16	T9N-R17E-UM						
	Sec. 1, 2, 11, 12	2560	318667	KELLEY EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				C. COLE	20%		
				W. BOGGESS	20%		
				D. MORRISON	20%		
				DAVID BURGLIN	20%		
17	T9N-R17E-UM						
	Sec. 3, 4, 9, 10	2560	318666	KELLEY EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				R. WAGNER	20%		
				J. ARSENAULT	20%		
				M.MILLER	20%		
				MARY GUSTAFSON	20%		
18	T9N-R16E-UM						
	Sec. 5, 6, 7, 8	2533	318665	KELLEY EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				C. COLE	20%		
				W. BOGGESS	20%		
				D. LARSON	20%		
				BRIAN BURGLIN	20%		

EXHIBIT A
OWNERSHIP INFORMATION
KEY UNIT "B" BLOCK

Tract No..	Legal Description	No. of Acres	ADL#	Lessee of Record Ownership	Working Interest	State Royalty	NPSL
19	T9N-R17E-UM Sec. 17, 18, 19, 20	2544	318668	K. EVERETTE C. BURGLIN R. WAGNER J. ARSENAULT O. DROZ BRIAN BURGLIN	5% 15% 20% 20% 20% 20%	20%	30%
20				UNLEASED			
21	T9N-R17E-UM Sec. 13, 14, 23, 24	2560	318669	K. EVERETTE C. BURGLIN C. COLE R. SPAKE J. JOHNSON MARY GUSTAFSON	5% 15% 20% 20% 20% 20%	20%	30%
22	T9N-R18E-UM Sec. 17, 18, 19, 20	2544	318674	K. EVERETTE C. BURGLIN R. WAGNER J. DIERINGER R. SPAKE BARBARA BURGLIN	5% 15% 20% 20% 20% 20%	20%	30%
23			318675	AMOCO			
24			318676	AMOCO			
25				AMOCO			
26				UNLEASED			
27				UNLEASED			

EXHIBIT A
OWNERSHIP INFORMATION
KEY UNIT "B" BLOCK

Tract No.	Legal Description	No. of Acres	ADL#	Lessee of Record Ownership	Working Interest	State Royalty	NPSL
28	T9N-R20E-UM						
	Sec. 29, 30, 31, 32	2555	318682	K. EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				R. GREGORY	20%		
				J. THURMAN	20%		
				J. MURPHY	20%		
				BRUCE BURGLIN	20%		
29	T9N-R19E-UM						
	Sec. 25, 26, 35, 36	2560	318681	K. EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				J. ARSENAULT	20%		
				J. THURMAN	20%		
				C. COLE	20%		
				BRUCE BURGLIN	20%		
30				UNLEASED			
31	T9N-R19E-UM						
	Sec. 29, 30, 31, 32	2555	318680	K. EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				R. GREGORY	20%		
				J. THURMAN	20%		
				R. GOMEZ	20%		
				BARBARA BURGLIN	20%		
32				MOBIL/PHILLIPS			

EXHIBIT A
OWNERSHIP INFORMATION
KEY UNIT "B" BLOCK

Tract No..	Legal Description	No. of Acres	ADL#	Lessee of Record Ownership	Working Interest	State Royalty	NPSI
33	T9N-R18E-UM Sec. 27, 28, 33, 34	2560	318678	K. EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				R. GREGORY	20%		
				J. THURMAN	20%		
				R. WAGNER	20%		
				BARBARA BURGLIN	20%		
34	T9N-R18E-UM Sec. 29, 30, 31, 32	2555	318677	K. EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				J. THURMAN	20%		
				J. ARSENAULT	20%		
				R. WAGNER	20%		
				BARBARA BURGLIN	20%		
35	T9N-R17E-UM Sec. 25, 26, 35, 36	2560	318671	K. EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				R. GREGORY	20%		
				J. THURMAN	20%		
				C. COLE	20%		
				BARBARA BURGLIN	20%		
36				UNLEASED			
37	T9N-R17E-UM Sec. 29, 30, 31, 32	2555	318670	K. EVERETTE	5%	20%	30%
				C. BURGLIN	15%		
				R. GREGORY	20%		
				J. THURMAN	20%		
				R. SPAKE	20%		
				MARY GUSTAFSON	20%		

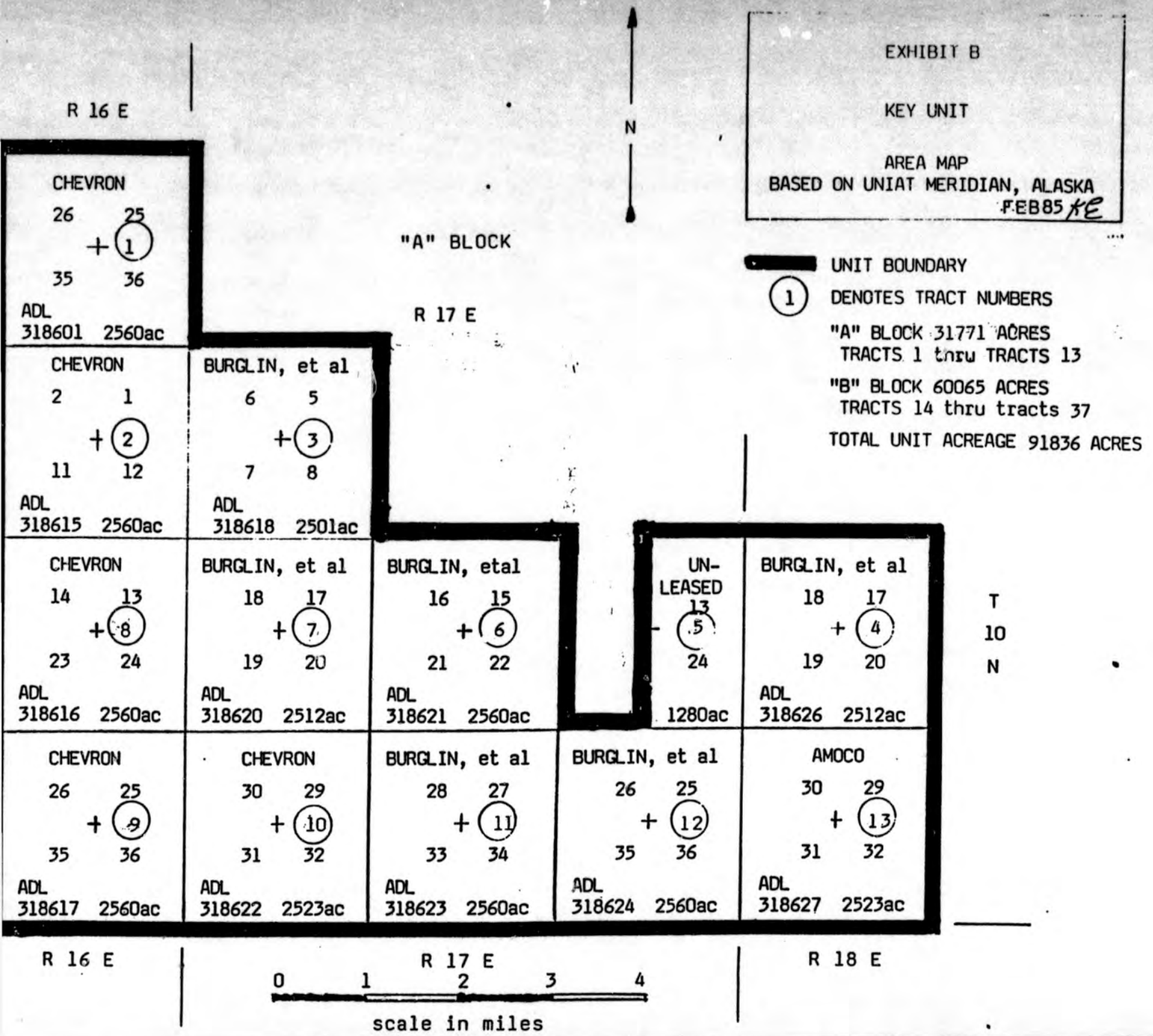
EXHIBIT B
KEY UNIT
AREA MAP
BASED ON UNIAT MERIDIAN, ALASKA
FEB85 KE
N
"A" BLOCK
UNIT BOUNDARY
1 DENOTES TRACT NUMBERS
"A" BLOCK 31771 ACRES
TRACTS 1 thru TRACTS 13
"B" BLOCK 60065 ACRES
TRACTS 14 thru tracts 37
TOTAL UNIT ACREAGE 91836 ACRES
R 16 E
R 17 E
R 18 E
T 10 N
CHEVRON
26 25
1
35 36
ADL 318601 2560ac
CHEVRON
2 1
2
11 12
ADL 318615 2560ac
BURGLIN, et al
6 5
3
7 8
ADL 318618 2501ac
CHEVRON
14 13
8
23 24
ADL 318616 2560ac
BURGLIN, et al
18 17
7
19 20
ADL 318620 2512ac
BURGLIN, etal
16 15
6
21 22
ADL 318621 2560ac
UN-LEASED
13
5
24
1280ac
BURGLIN, et al
18 17
4
19 20
ADL 318626 2512ac
CHEVRON
26 25
9
35 36
ADL 318617 2560ac
CHEVRON
30 29
10
31 32
ADL 318622 2523ac
BURGLIN, et al
28 27
11
33 34
ADL 318623 2560ac
BURGLIN, et al
26 25
12
35 36
ADL 318624 2560ac
AMOCO
30 29
13
31 32
ADL 318627 2523ac
0 1 2 3 4
scale in miles

EXHIBIT B

KEY UNIT
"B" BLOCK

R 17 E | R 18 E

BURGLIN, et al 6 5 + (18) 7 8 ADL 318665 2533ac.	BURGLIN, et al 4 3 + (17) 9 10 ADL 318666 2560ac.	BURGLIN, et al 2 1 + (16) 11 12 ADL 318667 2560ac.	UNLEASED 6 5 + (15) 7 8 2560ac.	AMOCO 4 3 + (14) 9 10 ADL 318673 2560ac.	
BURGLIN, et al 18 17 + (19) 19 20 ADL 318668 2544ac.	UNLEASED 16 15 + (20) 21 22 2560ac.	BURGLIN, et al 14 13 + (21) 23 24 ADL 318669 2560ac.	BURGLIN, et al 18 17 + (22) 19 20 ADL 318674 2544ac.	AMOCO 16 15 + (23) 21 22 ADL 318675 2560ac.	AMOCO 14 13 + (24) 23 24 ADL 318676 2560ac.
BURGLIN, et al 30 29 + (37) 31 32 ADL 318670 2555ac.	UNLEASED 28 27 + (36) 33 34 2560ac.	BURGLIN, et al 26 25 + (35) 35 36 ADL 318671 2560ac.	BURGLIN, et al 30 29 + (34) 31 32 ADL 318677 2555ac.	BURGLIN, et al 28 27 + (33) 33 34 ADL 318678 2560ac.	MOBIL/PHILLIPS 26 25 + (32) 35 36 2560ac.

T 9 N

CONTINUED ON PAGE 3

R 17 E | R 18 E

EXHIBIT B

KEY UNIT

"B" BLOCK

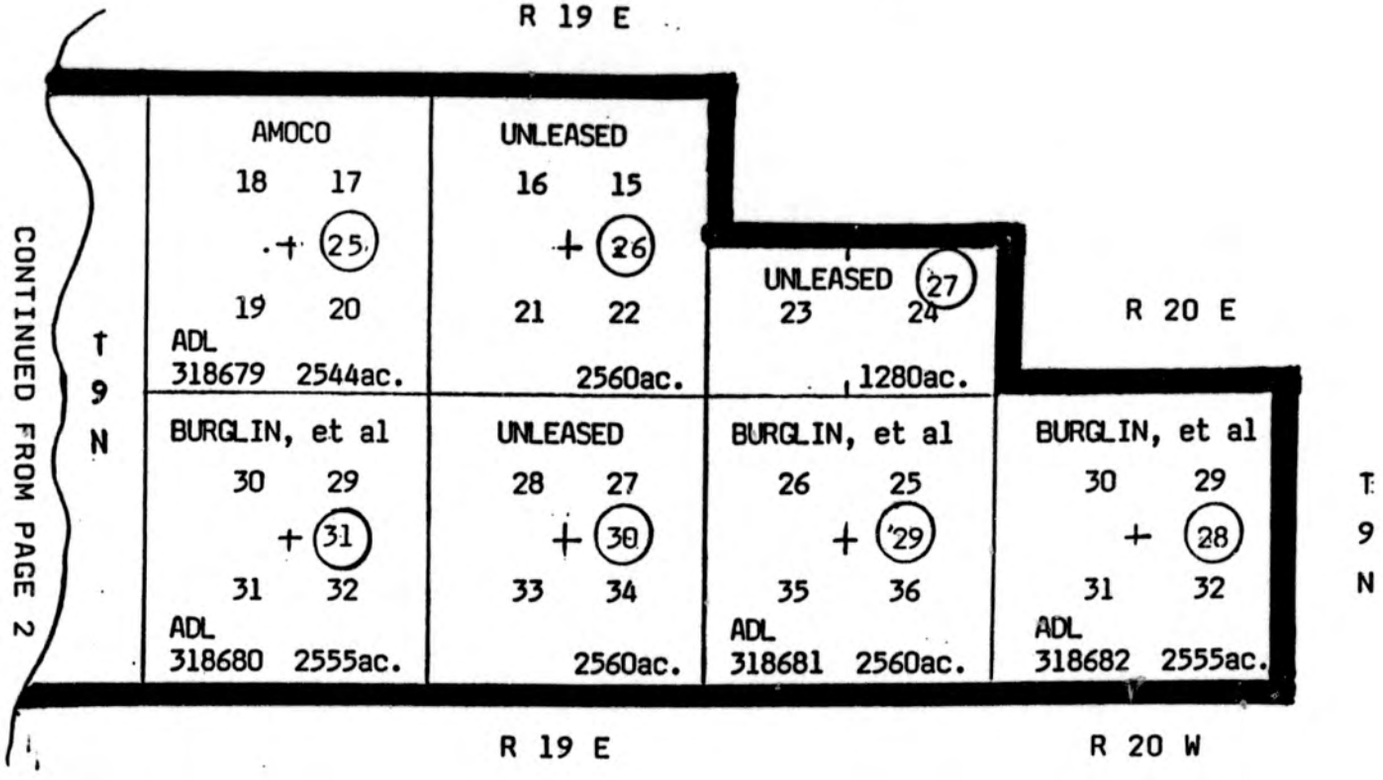

EXHIBIT A
Ownership Information

Tract No.	Description (Township, Range, Sec., Lot)	No. of Acres	ADL No.	Lessee of Record Ownership	Working Interest	Royalty Percentage and Owner	NPSL

EXHIBIT B
Map of Unit Area and Tracts

EXHIBIT C
_____ Participating Area
(General Geologic Description)

Tract No.	Legal Description (Township, Range, Sec., Lot)	ADL No.	Tract Participation

EXHIBIT D
Map of _____ Participating Area

EXHIBIT E
Allocation of Participating Area Expense

Tract No.	Allocation of _____ Participating Area Expense (%)

EXHIBIT F
Allocation of Unit Expense

Tract No.	Allocation of Unit Expense

EXHIBIT G
Plan of Development or Exploration

KEY TO ABBREVIATIONS:

ACC	-	Alaskan Crude Corporation
BURGLIN	-	Burglin, et al

EXHIBIT G

UNIT PLAN OF EXPLORATION

Attached to and made a part of
the Key Unit Agreement

For the period starting with the Effective Date of this Agreement and continuing for five (5) years thereafter, the Working Interest Owners intend to proceed with the following Unit Plan of Exploration.

1. Exploratory Wells

   a. The first well will have a bottomhole location in the northeast quarter (NE¼) of Section 5 of T10N-R17E on Lease ADL 318618 drilled to a depth sufficient to test the hydrocarbon potential of the Lisburne Group. The Lisburne Group is that interval (or stratigraphic equivalent) which was encountered between 9353 and 9656 feet measured depth in the ARCO Delta State No. 1. (Section 10-T10N-R16E). This well is planned to commenced prior to March 31, 1987.

   b. A second exploratory well is planned to be commenced prior to March 31, 1989. The bottomhole location of the second well will be in Block B of the Unit as described in Exhibits A and B and will take into account information obtained from all previous wells and the studies mentioned below. The geological justification for the well bottom-hole location will be provided to the State.

2. Studies

   Geological, geophysical and engineering studies based on available information and integrated with new data will continue to be carried out by the Working Interest Owners in order to evaluate the hydrocarbon potential of the leases within the Unit boundary.

The terms of the Unit Plan of Exploration shall cover the time period from Effective Date of this Agreement through a period of five (5) years.

The Unit Operator will continue to obtain applications and permits for Unit Operations as required by State laws, regulations and/or State Oil and Gas Lease Stipulations. Commencing in 1986, The Unit Operator will file annual progress reports describing operations and results to date under the Unit Plan of Exploration.

provision is in the lease or in the regulations dealing with the products to be taken, all or any portion of the state's share will, at the option of the commissioner, be taken in kind in accordance with the following:

(1) 90 days written notice will be given to each lessee of the state's election to take the royalty products in kind; however, if the portion of the state's share to be taken in kind exceeds 50 percent of the state's share, 180 days notice will be given;

(2) after taking has actually commenced, the amount to be taken in kind will, in the commissioner's discretion, be increased or decreased from time to time by

(A) not more than 10 percent, upon 30 days written notice to each lessee of record;

(B) from 10 percent to 50 percent, upon 90 days written notice; and

(C) more than 50 percent, upon 180 days written notice; and

(3) the products must be delivered to the state or its designated purchaser free of charge at the point specified in the lease for determination of the value of the royalty product as if the product to be taken were to be paid in money rather than taken in kind; the condition of the product must be the same as the non-royalty share at the point of taking; the lessee shall, if necessary, furnish safe storage for the royalty share free of charge for the same duration and in the same manner as storage is provided for the non-royalty share. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 7/19/86, Reg. 99)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.182

11 AAC 82.705. BIDDING METHOD FOR ROYALTY PRODUCTS OTHER THAN OIL, GAS, OR GAS LIQUIDS. Royalty products, other than oil, gas, or gas liquids, which the commissioner determines are to be sold by competitive bid will be offered for sale by sealed bid or at public auction. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 7/19/86, Reg. 99)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.183

11 AAC 82.710. NOTICE OF SALE FOR ROYALTY PRODUCTS OTHER THAN OIL, GAS, OR GAS LIQUIDS. If the commissioner determines that royalty products other than oil, gas, or gas liquids will be offered for competitive sale, notice of the sale will be given as provided by AS 38.05.945. The notice must specify all the terms and conditions of the sale including the royalty products to be sold, bidding method, bond requirements, sale place and time, minimum bid, if prescribed, and any other term or condition that the commissioner determines necessary to carry out the purposes of AS 38.05.183. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 3/18/83, Reg. 85; am 3/30/83, Reg. 85; am 7/19/86, Reg. 99)

Authority: AS 38.05.020 AS 38.05.180
AS 38.05.135(b) AS 38.05.183
AS 38.05.145

11 AAC 82.715. QUALIFICATIONS FOR ROYALTY PRODUCTS OTHER THAN OIL, GAS, OR GAS LIQUIDS. A purchaser of the state royalty products other than oil, gas, or gas liquids must comply with the qualification requirements of 11 AAC 82.200 and must supply the showing of qualification required of mineral permittees and lessees by 11 AAC 82.205. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 7/19/86, Reg. 99)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.183

ARTICLE 8.
RECORDS AND REPORTS

Section

11 AAC 82.800. PRODUCTION RECORDS. (a) Mineral lessees of state land shall keep in their possession accurate books and records showing the production and disposition of all minerals produced from the leased land and shall

permit the commissioner or his agents at all reasonable hours to examine them.

(b) The commissioner will, in his discretion, require copies of sales contracts and other agreements with the first bona fide purchaser affecting produced minerals which are subject to royalties. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020(b)(1)
AS 38.05.145(a)

11 AAC 82.805. TEST RESULTS. The lessee of a state-issued mineral lease shall furnish, upon request of the commissioner, a copy of all geological, geophysical, engineering, and other factual data obtained from the lease, including all pertinent tests, records, surveys, and analyses conducted on or pertaining to the leased land or products from it, but not including interpretations of these items or proprietary research data

or techniques. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 3/18/83, Reg. 85)

Authority: AS 38.05.020(b)(1)
AS 38.05.145(a)

11 AAC 82.810. CONFIDENTIALITY OF DATA. (a) Geological, geophysical, and engineering data, including well and bore hole data, and interpretations of those data, will be kept confidential at the written request of the person supplying the information. Cost data and financial information submitted in support of applications, bonds, leases, and similar items will be kept confidential at the written request of the person supplying the information except as provided in AS 38.05.036.

(b) Information for which confidentiality is requested must be identified as "confidential" on the outer envelope and on each page, and must be submitted separately from information not entitled to confidential status. (Eff. 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.035
AS 38.05.145

11 AAC 82.815. CROSS-REFERENCING. A party who is required to submit information to the commissioner under this title may cross-reference information which it or other parties, including agencies of state or federal government, have previously filed with the commissioner. A party making a cross-reference shall precisely identify the referenced information, the approximate date, and the office with which it was filed. If the information cannot be located in departmental files, or if inaccessibility of the information would delay processing of the application, the commissioner will, in his discretion, require that the information be submitted. (Eff. 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.035
AS 38.05.145

CHAPTER 83.
OIL AND GAS LEASING

Article

Editor's Note: The mineral-leasing regulations in 11 AAC 82, 11 AAC 83, 11 AAC 84, 11 AAC 86 and 11 AAC 88, effective September 5, 1974, and distributed in Alaska Administrative Register 51, constitute a comprehensive reorganization and revision of this material, and thus the history line at the end of each section does not reflect the history of the provisions before September 5, 1974, and the section numbering may or may not be related to the numbering before that date.

ARTICLE 1.
GENERAL OIL AND GAS LEASE PROVISIONS

Section

182. Royalty bidding
183. Sliding scale royalty
185. Royalty reduction
190. Extension by commitment to an approved unit

11 AAC 83.100. LEASING METHOD. All land is competitive for oil and gas leasing purposes and may only be leased under competitive procedures provided in 11 AAC 82. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020 AS 38.05.145(a)
AS 38.05.135 AS 38.05.180

11 AAC 83.105. "PAYING QUANTITIES" DEFINED. "Production in paying quantities," as used in 11 AAC 83.100 – 11 AAC 83.295 and 11 AAC 83.400 – 11 AAC 83.910, means production in such quantity as to enable the operator to realize a profit. For purposes of the habendum clause of a lease, that is, for the purpose of keeping the lease in force after the expiration of the primary term, "paying quantities" means production in quantities sufficient to yield a return in excess of operating costs, even though drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss. (Eff. 9/5/74, Reg. 51; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180

11 AAC 83.110. RENTAL. (a) All oil and gas leases are conditioned upon payment of the annual rental in advance on or before the beginning of each lease year before completion of a well capable of producing oil and gas in paying quantities on these leased lands.

(b) After a well has been plugged and abandoned and there is no other well on the lease capable of production, the commissioner will, in his discretion, allow the rental rate effective during the year of the abandonment to be the rate for the remainder of the term of the lease, or, if production is achieved from a subsequent well, until the royalty or net profit share to the state exceeds the rental for that year. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(n)

11 AAC 83.115. MINIMUM ROYALTY. Repealed 6/28/81.

11 AAC 83.120. EXTENSION FOR EXTENUATING CIRCUMSTANCES. Repealed 6/28/81.

11 AAC 83.125. EXTENSION BY DRILLING. (a) If drilling, including redrilling, sidetracking, or other means necessary to reach the originally proposed bottom hole location, has commenced on or before the expiration date of the primary term of the lease and is continued through that date with reasonable diligence, the lease will continue in full force until 90 days after the drilling has ceased and for so long after that date as oil or gas is produced in paying quantities.

(b) In (a) of this section, "drilling" means operations necessary or convenient to drilling a well in the ground with equipment of sufficient size and capacity to drill to the total depth proposed for the well. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180

11 AAC 83.130. EXTENSION AFTER PRODUCTION. If production occurs in paying quantities during the primary term of any lease, and if at the end of the primary term or at any time prior to the end of the primary term that production has ceased, or if production ceases at any time after the expiration of the primary term, then the lease does not terminate if the lessee commences drilling or reworking operations (either in a well from which the production has ceased or in a new well) within 60 days after the cessation of production; and the lease remains in full force and effect so long as operations are prosecuted with reasonable diligence; and, if the drilling or reworking operations result in the production of oil or gas, the lease remains in full force and effect so long as oil or gas is produced from it in paying quantities. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(b)

11 AAC 83.135. SHUT-IN PRODUCTION. No lease covering land on which there is a well capable of producing oil or gas in paying

quantities will expire because the lessee fails to produce oil or gas, unless the commissioner gives notice to the lessee or operator allowing a reasonable time, which will not be less than 60 days after receipt of notice, to place the well on a producing status and the lessee or operator fails to do so. After producing status is established, production must continue on the leased land until suspension of production is allowed by the commissioner. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.140(d)
AS 38.05.180

11 AAC 83.140. EXTENSION BY ELIMINATION FROM A UNIT. If any lease or a portion of one is eliminated from the unit plan or recovery program, or if the unit plan or recovery program is terminated, then the lease or portion of it so eliminated continues in full force and effect as may be provided in the unit or cooperative agreement, but for not less than 90 days from the date of the elimination or termination and so long thereafter as drilling or redrilling operations are being conducted on it and so long thereafter as oil or gas is produced in paying quantities. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(d)

11 AAC 83.145. DIRECTIONAL DRILLING CLAUSE. The commissioner will include a directional drilling clause in all oil and gas leases that have been issued or that may be subsequently issued by the state. The clause will provide that actual drilling from a well located off the leased premises, but to be completed or bottomed on leased premises, will be considered as actual drilling under the lease terms. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180

11 AAC 83.150. RESERVATIONS. (a) Every oil and gas lease must reserve to Alaska the right to dispose of to others the surface of the leased land subject to the lease, and the right to authorize others by grant, lease, or permit, subject to the lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights and operations under the lease, to enter upon and use the leased land

(1) to explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet;

(2) to explore for, develop and remove natural resources other than oil, gas, and associated substances on or from the leased land;

(3) for non-exclusive easements and rights-of-way for any lawful purpose, including shafts and tunnels necessary or appropriate for working of the leased land or other land for natural resources other than oil, gas, or associated substances;

(4) for well sites and well bores of wells drilled from or through the leased land to explore for or produce oil, gas, and associated substances in and from other land; and

(5) for any other purpose now or after September 4, 1974 authorized by law and not inconsistent with the rights under the lease.

(b) The subsurface storage of oil or gas is not authorized except as a necessary incident to recycling, pressure maintenance, repressuring, or other similar operations designed to increase the ultimate recovery of oil or gas or prevent the waste of oil or gas produced from the leased land or from any unit area of which the leased land is a part. Every lease must reserve to Alaska the right to authorize the subsurface storage of oil, gas or associated hydrocarbons in the leased land by the lessee or by others in order to avoid waste or to promote conservation of natural resources in accordance with 11 AAC 83.500 – 11 AAC 83.520, and upon conditions that will prevent unnecessary or unreasonable interference with the rights and operations under the lease, including conditions prohibiting the storage of oil or gas in any reservoir capable of producing oil and gas in paying quantities without the consent of the holder of any lease covering the reservoir. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020 AS 38.05.145(a)
AS 38.05.125 AS 38.05.180(u)

11 AAC 83.153. CONFIDENTIAL REPORTS. (a) If the commissioner finds that reports or information required under AS 31.05.035(a) contain significant information relating to the valuation of unleased land within a three-mile radius of the well from which these reports or information were obtained, the commissioner will, upon the written request of the owner of the well, keep the reports or information confidential for a reasonable time not to exceed 90 days after disposal of the unleased land, unless the owner of the well gives written permission to release the reports and information at an earlier date. The commissioner will, in his or her discretion, extend confidentiality to reports or information required under AS 31.05.035 from a well located more than three miles from any unleased land if the owner of the well from which these reports or information are derived makes a sufficient showing that the reports or information contain significant information relating to the valuation of unleased land beyond the three-mile radius.

(b) Reports or information for which extended confidentiality is requested or has been granted under AS 31.05.035 will not be eligible for extended confidentiality when

(1) the lease on which the well is drilled has expired; or

(2) the unleased land within a three-mile radius of the well from which the reports or information are obtained is offered in a competitive lease sale, but receives no bids greater than or equal to any minimum bid established for that sale.

(c) As used in this section, "mile" means a statute mile or 5,280 feet.

(d) As used in this section, "disposal" means the grant or issuance of an oil and gas lease. (Eff. 3/30/84, Reg. 89)

Authority: AS 31.05.035(c)
AS 38.05.020
AS 38.05.180

11 AAC 83.155. DAMAGES. Each lessee or permittee is required to pay any damage that becomes payable under AS 38.05.130 and shall indemnify Alaska and hold it harmless from and against any claims, demands, liabilities and expenses arising from or in connection with the damage. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.130
AS 38.05.145(a)

11 AAC 83.158. PLAN OF OPERATIONS. (a) Except as provided in (b) of this section, a plan of operations for all or part of the leased area must be approved by the commissioner before any operations may be undertaken on the leased area if

(1) the state owns all or part of the surface estate of the leased area;

(2) the lease reserves a net profit share to the state; or

(3) the state owns all or part of the mineral estate, but the entire surface estate is owned by a party other than the state, and a surface owner requests that a plan of operations be required by the commissioner for the portion of the leased area owned by that surface owner.

(b) A lease plan of operations is not required for

(1) activities that would not require a land use permit under this title; or

(2) operations undertaken under an approved unit plan of operations in accordance with this title.

(c) Before undertaking operations on the leased area, the lessee shall provide for full payment of all damages sustained by the owner of the surface estate as well as by the surface owner's lessees and permittees, by reason of entering the land. If the surface estate is owned by a party other than the state, the lessee shall also notify the surface owner of his opportunity to request that the commissioner require a plan of operations before allowing operations to be undertaken on the portion of the leased area owned by the requesting surface owner.

(d) An application for approval of a plan of operations must contain sufficient information, based on data reasonably available at the time

the plan is submitted for approval, for the commissioner to determine the surface use requirements and impacts directly associated with the proposed operations. An application must include statements and maps or drawings setting out the following:

(1) the sequence and schedule of the operations to be conducted on the leased area, including the date operations are proposed to begin and their proposed duration;

(2) projected use requirements directly associated with the proposed operations, including but not limited to the location and design of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment necessary to conduct the proposed operations;

(3) plans for rehabilitation of the affected leased area after completion of operations or phases of those operations; and

(4) a description of operating procedures designed to prevent or minimize adverse effects on other natural resources and other uses of the leased area and adjacent areas, including fish and wildlife habitats, historic and archeological sites, and public use areas.

(e) In approving a lease plan of operations or an amendment of a plan, the commissioner will require amendments he determines necessary to protect the state's interest. The commissioner will not require any amendment that would be inconsistent with the terms of sale under which the lease was obtained, or with the terms of the lease itself, or which would deprive the lessee of reasonable use of the leasehold interest.

(f) The lessee may, with approval of the commissioner, amend an approved plan of operations.

(g) Upon completion of operations, the lessee shall inspect the area of operations and submit a report indicating the completion date of operations and stating any noncompliance of which the lessee knows, or should reasonably know, with requirements imposed as a condition of approval of the plan.

(h) In submitting a proposed plan of operations for approval, the lessee shall provide 10 copies of the plan if activities proposed are within the coastal zone, and five copies if activities proposed are not within the coastal zone. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83; am 3/18/83, Reg. 85)

Authority: AS 38.05.020 AS 38.05.145
AS 38.05.130 AS 38.05.180

11 AAC 83.160. OIL AND GAS LEASE BOND. (a) Before operations commence on a state oil and gas lease, a bond in the amount of at least $10,000 must be furnished to the department.

(b) The commissioner will, in his discretion, after notice and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified in (a) of this section where a greater amount is justified by the nature of the surface, the uses and improvements on or in the vicinity of the leased land, and the degree of risk involved in the types of operations proposed or being conducted on the lease. A statewide bond furnished under (c) of this section will not satisfy any requirement of a bond imposed under this provision but will be considered by the commissioner in determining the need for and the amount of any additional bond under this subsection.

(c) Any person holding any interest in any lease may furnish a statewide bond in the amount of $500,000. A statewide bond satisfies all the bond requirements to which an oil or gas lease is subject under the Department of Natural Resources except that the commissioner will, in his discretion, require an additional unusual risk bond under (b) of this section or specific lease provisions.

(d) All oil and gas lease bonds must comply with 11 AAC 82.600. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/29/80, Reg. 74)

Authority: AS 38.05.020(b)
AS 38.05.145(a)

11 AAC 83.165. CONDITIONAL LEASES. (a) If all or any part, as shown on the division leasing plats when the lease was issued, of the land covered by a lease is land that has been selected by Alaska under laws of the United States granting land to Alaska but the land has not been patented to Alaska by the United States, then the lease shall be a conditional lease as provided by law with respect to the land until a patent becomes effective. If for any reason a selection is disapproved or patent is denied as to all or any part of the land, no rentals, royalties or minimum royalties paid to Alaska under the lease will be refunded. Any bonus paid for a competitive lease will be refunded in full if the entire lease fails or if the lease fails in part and the lessee elects to surrender the remaining part. If the lessee elects to retain a remaining part, the bonus will be refunded in pro rata part on an acreage basis.

(b) To be considered a conditional lease under this section, the lease must contain at least a legal subdivision or 40 acres in the aggregate of land which has not been patented to Alaska by the United States. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(a)

11 AAC 83.170. FAILURE TO PAY RENTAL. (a) Any lease on which there is no well capable of producing oil or gas in paying quantities terminates by operation of law if any rental due is not timely paid on or before each anniversary date of the lease, except where the provisions of 11 AAC 83.620 are applicable.

(b) For purpose of this section, and notwithstanding 11 AAC 88.130(a)(2), rental is timely if it is received in the designated office by the anniversary date. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/29/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.175. REINSTATEMENT. (a) The commissioner will reinstate a lease automatically terminated under 11 AAC 83.170 if he finds that the failure to pay rental was justifiable and not due to lack of reasonable diligence by the lessee and the rental is paid within 15 days after receipt of notice of the termination, along with a statement and supporting evidence of the reasons for the failure. The burden of showing that he qualifies for reinstatement under this subsection is on the lessee and only those cases will be considered where the circumstances can be verified by independent evidence other than lessee's statements. The failure to pay rental will not be considered justifiable unless payment was prevented or delayed by unforeseen circumstances beyond the lessee's reasonable control. Situations such as ignorance of the lease, law, or regulations, inability to pay, error or oversight of the lessee's employees or agents, forgetfulness, and failure to receive a billing are not grounds for reinstatement. Situations caused by major sickness, accidents, death, acts of God, and errors of departmental employees, the U.S. Postal Service, or a commercial delivery service may be considered as grounds for reinstatement.

(b) If the rental payment due under a lease is timely paid but the amount of the payment is deficient, and the commissioner believes the payment was determined in accordance with the rental or acreage figure stated in the lease or in a bill, decision, notice, or letter by the department and the figure is found to be in error, or if the commissioner finds that the deficiency was otherwise justifiable and not due to a lack of reasonable diligence on the part of the lessee, the lease will be reinstated if the lessee corrects the deficiency within 15 days after receipt of notice of the deficiency. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145

11 AAC 83.180. DEFAULT. (a) Whenever the lessee of a lease on which there is no well capable of producing oil or gas in paying quantities fails to comply with any provision of the lease or applicable regulations other than the payment of rental and the failure to comply continues for 60 days after receipt of notice to the lessee of the failure to comply, the director may terminate the lease by mailing notice of the termination to the lessee. Termination is effective upon giving the notice.

(b) Whenever the lessee of a lease on which there is a well capable of producing oil or gas in paying quantities fails to comply with any of the provisions of the lease or applicable regulations and the failure continues for a period of 60 days following notice to the lessee of the failure to comply, the lease may be cancelled by judicial proceedings instituted for that purpose in any court of competent jurisdiction having jurisdiction over the land covered by the lease or any part of it. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.035
AS 38.05.145(a)

11 AAC 83.182. ROYALTY BIDDING. If the commissioner selects a method of bidding in which the royalty share reserved to the state is the bid variable, the commissioner will set a minimum fixed cash bonus in an amount to be announced no later than the date of the notice of sale. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.183. SLIDING SCALE ROYALTY. If the commissioner selects a method of bidding which sets a royalty reserved to the state, either fixed or as the bid variable, based on a sliding scale, the sliding scale will be determined, according to a method chosen at the commissioner's discretion which will be based on volume of production or other factors. The method chosen by the commissioner will consider the prolongation of the economic life of the oil and gas reservoir or reservoirs underlying the sale area or lease to which the sliding scale is to be applied. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.185. ROYALTY REDUCTION. (a) An application for a reduction of royalty on leases under AS 38.05.180(j) must comply with 11 AAC 88.105 and

(1) state all the facts entitling the applicant to relief;

(2) state location and status of all past and present activities on the lease;

(3) include a detailed report of all production during the six months preceding the filing of the application;

(4) contain a detailed statement covering the entire life of the lease showing all expenses and costs of operating the lease, including all royalties and overriding royalties and all income from all produced minerals from the lease; and

(5) include an agreement by the applicant to defray the cost of publishing a notice as provided by (b) of this section.

(b) Upon receipt of an application complying with (a) of this section, the commissioner will cause to be published a notice of public hearing as required on the application. The notice will

(1) state the time and place of hearing;

(2) describe the land involved; and

(3) state the name of the applicant and the nature of the relief applied for.

(c) The notice will be published at least once a week for at least two consecutive weeks in advance of the hearing date, which must be at least 15 days after the last date of publication, in at least one newspaper of general circulation in the vicinity of the principal office of the department, and must be posted at the principal office for the same period.

(d) At the time and place specified in the published notice, the commissioner will hear evidence offered by the applicant and any other interested party.

(e) Within a reasonable time following the hearing or any continuation of it, the commissioner will make written findings together with his determination as to the relief that should be granted.

(f) The commissioner will give notice of the findings and determination to the lessee and to any other person who has filed a written request for it. The action taken is effective on the date specified in the notice. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020(b)
AS 38.05.145(a)
AS 38.05.180(j)

11 AAC 83.190. EXTENSION BY COMMITMENT TO AN APPROVED UNIT. If, on or before the expiration date of the primary term of a lease, the lease is committed to a unit agreement approved by the state, the lease will be extended for so long as it remains subject to the unit agreement. (Eff. 7/22/79, Reg. 71)

Authority: AS 38.05.020(b)

ARTICLE 2.
NET PROFIT SHARE LEASING

Section
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Editor's Note: The former Article 2, relating to oil and gas leases discovery royalty, consisting of 11 AAC 83.200, 11 AAC 83.205, 11 AAC 83.210, 11 AAC 83.215, 11 AAC 83.220, 11 AAC 83.225 and 11 AAC 83.230, was repealed effective November 9, 1979.

11 AAC 83.201. PURPOSE. 11 AAC 83.201 – 11 AAC 83.295 establish procedures to be used by the lessee in calculating net profit share payments due the state for the production of oil and gas from any state net profit share lease (NPSL) issued by the department. The purpose of 11 AAC 83.201 – 11 AAC 83.295 is to allow a lessee to recover development costs, with interest, and operating costs, for each NPSL from production revenue for each NPSL before any net profit share payments become due the state from the lessee. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.202. PAYMENT DUE STATE. The net profit share payment due the state each month under a NPSL equals the balance in the net profit payment account for that month, defined in 11 AAC 83.214, multiplied by the net profit share rate, defined in 11 AAC 83.204. (Eff. 11/9/79, Reg. 72; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.204. NET PROFIT SHARE RATE. The net profit share rate is the fixed percentage share of the net profit payment account, defined in 11 AAC 83.214, payable to the state. The net profit share rate is determined through competitive bidding or by the commissioner as a condition of sale. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.207. ACCOUNTING SYSTEM. (a) The lessee of a NPSL shall establish and maintain on a monthly, accrual basis, in addition to its own standard accounting system for itself or joint operators, an accounting system for that NPSL in accordance with 11 AAC 83.201 – 11 AAC 83.295 for the purpose of the reporting and payment requirements established in 11 AAC 83.245. The accounting system consists of three accounts: the development account, the production revenue account and the net profit payment account. These accounts allow a lessee to accumulate and recover development costs under 11 AAC 83.219, with interest compounded monthly, and to apply it against the NPSL production revenue account under 11 AAC 83.209 from which direct operating expenses, and royalties under 11 AAC 83.240 and 11 AAC 83.242, respectively, are deducted before any net profit share payments under 11 AAC 83.202 become due to the state from the lessee.

(b) The lessee's books and records relating to the NPSL accounting system and the financial accounting system for itself or joint operators must be available for inspection and copying by representatives and agents of the state during normal business hours. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.209. PRODUCTION REVENUE ACCOUNT. (a) The production revenue under 11 AAC 83.222 for the NPSL during a month is credited to the NPSL's production revenue account for that month.

(b) Debited to the NPSL's production revenue account for a month are

(1) the NPSL's direct operating costs under 11 AAC 83.240 for that month; and

(2) the NPSL's royalty payments, as specified in 11 AAC 83.242, for that month.

(c) If the credits to the production revenue account for a NPSL during a month equal or exceed the debits that month to that account, an amount equal to that excess, (if any) is to be credited that month to the development account of that NPSL and the same amount debited to the NPSL's production revenue account so the ending balance in the production revenue account that month is zero. If the debits to the production revenue account for a NPSL during a month exceed the credits that month to that account, an amount equal to that excess is to be carried forward as a debit to the production

revenue account of the NPSL for the following month. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.212. DEVELOPMENT ACCOUNT. (a) The beginning balance in the development account for a NPSL at the time the NPSL is issued by the state is zero. For each month thereafter the beginning balance in the development account for the NPSL equals the ending balance in that account for the previous month.

(b) The NPSL's development costs under 11 AAC 83.219 during a month, less any exploration incentive credits which are applied against oil and gas royalties payable in value, rental payments to the state or taxes payable under AS 43.55, are debited to the NPSL's development account for that month.

(c) If a credit to the NPSL's development account arises under 11 AAC 83.209(c) from the NPSL's production revenue account, that credit is entered in the development account in the same month as the month in which it arises from the production revenue account.

(d) If a month's preliminary ending balance in the NPSL's development account is a debit balance, interest accrues and the amount of that interest is debited that month to the NPSL's development account. A month's preliminary ending balance in the NPSL's development account equals the beginning balance that month in that account together with the debits under (b) of this section and the balance transferred under (c) of this section that are booked to the NPSL's development account for that month. The amount of interest is to be calculated on the basis of the annual rate prescribed by the commissioner in the terms of the sale for the NPSL, using as the principal an amount equal to one half of the absolute value of the sum of the beginning balance and the preliminary ending balance in the NPSL's development account for that month.

(e) Each month the ending balance in the development account for a NPSL equals the preliminary ending balance in that account for the month together with the amount of interest, if any, debited to that account for that month under (d) of this section, provided the ending balance in the NPSL's development account is not a credit balance. If the month's ending balance in the NPSL's development account is a credit balance, then that balance is transferred to the NPSL's net profit payment account for that month so that the ending balance that month in the NPSL's development account is zero. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.214. NET PROFIT PAYMENT ACCOUNT. The net profit payment account for a NPSL in any month equals the amount, if any, transferred for that month from the NPSL's development account under 11 AAC 83.212(e). Each amount so transferred is a credit in the net profit payment account. If for a month no transfer is made from the NPSL's development account under 11 AAC 83.212(e), the balance in the NPSL's net profit payment account for that month is zero. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.217. EXCLUSIONS FROM ACCOUNTS. The following costs will be excluded in determining net profit share payments due the state:

(1) lease acquisition costs in the form of a cash bonus;

(2) expense of handling, investigating and settling litigation or claims against the state, discharging liens held by the state, paying judgments and amounts for settlement of claims against the state incurred in or resulting from a net profit share lease operation or necessary to protect or recover the net profit share lease property;

(3) any franchise tax, value added tax or any tax based on or measured by net income imposed upon the lessee;

(4) expenses incurred in the preparation and audit of a net profit share payment to the state;

(5) any expense incurred before the effective date of the NPSL; and

(6) net profit share payments to the state. (Eff. 11/9/79, Reg. 72; am 11/19/79, Reg. 72; am 3/27/82, Reg. 81)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.219. DEVELOPMENT COSTS. (a) The development costs that are incurred by or for a lessee for a NPSL are a debit to the lessee's NPSL development account.

(b) The lessee's development costs for a NPSL equal direct charges, as defined in 11 AAC 83.243, that are not excluded under 11 AAC 83.217 and that are directly attributable to a NPSL for

(1) geological, geophysical, geotechnical and geochemical examinations and other investigations on or adjacent to the NPSL relating to pre and post drilling operations on the NPSL;

(2) cost of design of construction projects, as defined in the approved "Plan of Operation";

(3) accumulated cost of capital work in progress, on or adjacent to the NPSL or on a contractor's premises;

(4) rentals and other payments directly attributable to the NPSL such as lease rental, licenses or permits, renewal or extension fees, and other similar payments required and made to maintain the interest of the lessee in the NPSL;

(5) drilling costs for wells bottomed on the NPSL;

(6) costs to acquire, construct and/or install facilities and equipment on or in support of the NPSL that directly result in or are necessary for continued or enhanced production from the NPSL;

(7) that portion of the full consideration given by the lessee in acquiring a production interest in the NPSL that is properly attributable to the wells, facilities and equipment on or in support of the NPSL which directly result in or are necessary for continued or enhanced production from the NPSL, as opposed to the consideration given for the lease itself; the lessee transferring the production interest must credit his development account for a like amount;

(8) before the commencement of commercial production, ad valorem tax paid to the state (net of all credits and refunds for municipal ad valorem taxes on the same property) for property used in the drilling described in (5) of this subsection or for property described in (6) of this subsection, that is installed or constructed before the commencement of commercial production and ad valorem and other taxes paid to one or more municipalities that were incurred directly as the result of, and in the course of, the drilling described in (5) of this subsection and/or the acquisition, installation or construction of property described in (6) of this subsection before the commencement of commercial production but excluding any windfall profits, franchise or income taxes.

(c) Costs that are "directly attributable" within the meaning of this section are only those direct charges incurred for activities occurring on or in support of the NPSL premises which are necessary for production or support of production from the lease. For NPSL's included in a unit, "directly attributable" costs are direct charges incurred for activities occurring on or in support of the unit premises and allocated to that lease. Any costs debited as direct operating costs under 11 AAC 83.240 are specifically excluded from "directly attributable" costs.

(d) If the NPSL is subject to an operating agreement in which at least one working-interest owner is a third party to the operator, then a non-operator may include as a development cost for that NPSL the direct charges allowed in (b), (c), and (f) of this section that are incurred by the operator in developing that NPSL, if they are reimbursable to the operator by the non-operator under the terms of that operating agreement.

(e) Repealed 8/15/82.

(f) General overhead and administrative expenses for a month may be included as a direct development cost at the rate of three precent of the development costs as defined in (b)(1), (2), (3), (5), and (6) of this section. If the NPSL is subject to a unit operating agreement in which at least one working interest owner is a third party to the operator, the

commissioner will, in his discretion, require use of the overhead rate applicable to development costs specified in the unit operating agreement. (Eff. 11/9/79, Reg. 72; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.222. PRODUCTION REVENUE. A lessee's production revenue during a month from each NPSL is

(1) the value at the point of production of the lessee's gross share of the oil and gas produced from that lease; however, oil or gas that is used, flared or unavoidably lost in the production operations for the NPSL or that is injected into a reservoir in the course of the operations for the same field for purposes of repressuring or conservation, (if any) may not be included in determining the lessee's production revenue from that NPSL; and

(2) all extraordinary production revenue or loss as defined in 11 AAC 83.231. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.223. UNITIZATION. If all or part of a NPSL is included within a participating area of a unit, a cooperative drilling agreement, or other similar arrangement, such that production (in kind or in value) or expenses are attributed to the NPSL for activities of the unit, any formula or method of allocation governing the attribution of that production or expenses must be approved by the commissioner before it may take effect, unless that formula or other method of allocation is imposed and mandated by the Oil and Gas Conservation Commission under AS 31. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.224. VALUATION OF OIL OR GAS. (a) Except as provided in (e) of this section, this section applies to all oil and gas produced on a NPSL whether or not the oil or gas is removed from the NPSL.

(b) Except when (c) of this section applies, the gross value at the point of production for all oil and gas is the sales price under 11 AAC 83.226 less the reasonable costs of transportation under 11 AAC 83.228 and 11 AAC 83.229 from the point of production to the sales delivery point. When (c) of this section applies, the gross value at the point of production is the prevailing value as determined under 11 AAC 83.227 less the reasonable costs of transportation under 11 AAC 83.228 and 11 AAC 83.229 from the point of production to the sales delivery point.

(c) Prevailing value must be used if the oil or gas is sold or exchanged under circumstances where the sales price is substantially lower than the prevailing value for oil or gas of like kind, character and quality being sold at sales delivery points in the same market or in a comparable market if there are no sales of significant quantities in the same market; for the purposes of this subsection

(1) "circumstances" refers to instances where terms of a contract set a single price for oil or gas without adjustments tied to market conditions for periods of longer than six years, or where the terms of a contract set prices which do not reasonably reflect market conditions for that field or area prevailing at the time the contract is executed or renegotiated, or where fraud or an intent to evade the net profit share payment is demonstrated; and

(2) the determination of a "substantially lower" price is to be made by analyzing the cash value of consideration received for oil or gas and taking into account any asserted difference between sales price and prevailing value, the quantity of oil or gas involved in the transaction, and the duration of the contract giving rise to the claim.

(d) For valuation purposes, production of oil or gas does not include oil or gas

(1) used, flared, or unavoidably lost in production operations on the NPSL; or

(2) injected into a reservoir in the course of operations in the same field for purposes of repressuring or conservation.

(e) Notwithstanding anything to the contrary in (a) – (d) of this section, where a lessee's gas from a NPSL is run through a gas processing

plant and part or all of the residue gas and extracted liquids are returned to that lessee, the "value at the point of production" for that gas is the total value of that residue gas and extracted liquids as they come out of the plant, less

(1) a reasonable allowance (either withheld in kind by the plant operator or paid in cash to the plant operator) for the cost of processing that gas through the plant;

(2) the reasonable cost of transportation, under 11 AAC 83.228 and 11 AAC 83.229, if any, from the point of production for that gas to the intake into the plant; and

(3) the value of any residue gas returned to the lessee that is used, flared or unavoidably lost in the production operations for the lease or property or is injected into a reservoir in the course of operations for the same field. (Eff. 11/9/79, Reg. 72; am 3/27/82, Reg. 81; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.226. SALES PRICE. (a) Sales price under this chapter for the first bona fide, arm's-length sales to a third party is the cash value of the full consideration given in receipt for the lessee's oil or gas so sold.

(b) Sales price under this chapter for all transactions other than those set forth in (a) of this section is the greater of

(1) the cash value of the full consideration given in receipt for the lessee's oil or gas used, exchanged, or otherwise transferred to another party; or

(2) the sales price attributable to that transaction entered on a lessee's books in accordance with the generally accepted accounting principles, consistently applied. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.227. PREVAILING VALUE. (a) For a lessee's oil, the prevailing value is the arithmetic average acquisition cost CIF (at the refinery inlet in the same market in which the lessee's Alaska oil is refined) based on the sales price of like oil sold in up to three third-party, arm's-length transactions selected by the department, if disclosure of the sales price information is permitted by the parties to those transactions at the time of an audit of the lessee. In this subsection, "like oil" means an oil of substantially similar quality produced in the same general area of the state and subject to the same federal price controls, if any, as the oil for which the prevailing value is to be determined.

(b) If the information under (a) of this section may not be disclosed or is unavailable, then the prevailing value for purposes of this chapter equals the arithmetic average acquisition cost CIF, (at the refinery inlet in the same market in which the lessee's Alaska oil is refined) of up to six oils selected by the department, including

(1) up to three domestic oils of substantially similar quality which are sold in significant quantities in the same market or near the same market; and

(2) up to three imported oils of substantially similar quality which are sold in significant quantities in the same market or near the same market.

(c) The respective acquisition cost CIF at the refinery inlet in a market for each of the oils used in this section equals the sum of

(1) the respective official government sales price or posted price of the oil (with adjustments for differentials and surcharges) appearing in the latest Platt's Oilgram Price Report published on or before the last day of the month of sale; and

(2) the respective tanker transportation cost of the oil from its port of origin to ship's rail in the same market as that in which the lessee's Alaska oil is refined; this cost is calculated by

(A) multiplying the London Tanker Broker's average freight rate assessment ("AFRA") applicable to that voyage during that month for AFRA LR 2 (Long range 2) oil tankers, by the most recently published worldscale rate for that voyage; or

(B) applying another applicable freight rate if foreign flag vessels are prohibited from transporting that oil; and

(3) any canal tolls and expenses not included in the applicable freight rate for that voyage; and

(4) pipeline or other carrying charges.

(d) Prevailing value for gas is

(1) the volume-weighted average of the prices received by the lessee in arm's-length sales transactions which have been entered into or whose pricing provisions have been amended during the calendar year or the two preceding years for significant quantities at the sales delivery points within the same market for that production for Alaska gas of like kind, character and quality produced during the month of sale; or

(2) if the lessee makes no arm's-length sales of significant quantities at the sales delivery points within the same market for Alaska gas of like kind, character and quality produced during the month, the volume-weighted average of the prices being given and received under the terms of arm's-length sales contracts (whether between third parties or not) which have been entered into or whose pricing provisions have been amended during the calendar year or the two preceding years for significant quantities of gas from the same field as the lessee's gas (or if there are no such contracts for that field, the counterparts of those contracts in the nearest field), with appropriate adjustments for differences (if any) in kind, character, and quality between gas sold under the reference sales contracts and the lessee's gas.

(e) For purposes of this section, "same market" means

(1) with respect to a lessee's oil refined in Alaska, the Alaska market;

(2) with respect to a lessee's oil landed on the U.S. West Coast (including Hawaii), the West Coast market or, if appropriate, the submarkets on the West Coast (i.e., Puget Sound, San Francisco Bay, the Long Beach and Los Angeles area, and Hawaii);

(3) with respect to a lessee's oil landed on the U.S. Gulf Coast, the Gulf Coast market;

(4) with respect to a lessee's oil landed on the U.S. East Coast, the East Coast market;

(5) with respect to a lessee's oil landed in Puerto Rico or the U.S. Virgin Islands, the Puerto Rico and Virgin Islands market;

(6) with respect to a lessee's gas marketed in Alaska, the Alaskan market or portion of it served by gas from the same field or area as the lessee's gas;

(7) with respect to a lessee's gas marketed in the continental United States, the continental United States market;

(8) with respect to a lessee's gas marketed in a foreign country, the market in that foreign country. (Eff. 11/9/79, Reg. 72; am 3/27/82, Reg. 81)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.228. CHOICE OF METHODS FOR DETERMINING REASONABLE COSTS OF TRANSPORTATION. (a) Except as provided in (b) of this section, the reasonable cost of transportation is the actual cost of transportation as determined in 11 AAC 83.229.

(b) The reasonable cost of transportation is the fair market value as defined in 11 AAC 83.229, when all of the following conditions exist:

(1) the parties to the transportation of oil or gas are affiliated;

(2) the contract for the transportation of oil or gas is not an arm's-length transaction or is not representative of the market value of the transportation; and

(3) the method of transportation of oil or gas is not reasonable in view of existing alternative methods of transportation. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.229. CALCULATION OF REASONABLE COSTS OF TRANSPORTATION. (a) Reasonable costs of transportation shall be calculated from the point of production to the sales delivery point.

(b) Reasonable costs of transportation under 11 AAC 83.228(a) are actual costs of transportation. The actual costs of transportation are

(1) in the case of transportation of oil or gas by a regulated carrier, the tariff on file with the FERC or other regulatory agency having jurisdiction that is applicable to that transportation of the oil or gas by the carrier, from the point where that oil or gas is tendered into the facilities of the carrier to the point where it is delivered from the facilities of the carrier;

(2) in the case of transportation of oil by a tanker or other vessel that is not owned or effectively owned by the lessee

(A) for a single voyage charter, the reasonable cost for that transportation is, for purposes of this chapter, the charter fee for that vessel, plus any voyage and port costs not included in that fee that are incurred with respect to that transportation during the term of the charter and that are borne by the lessee plus the positioning cost, if any, borne by the lessee for that vessel;

(B) for a consecutive voyage charter or a time charter, the reasonable cost for that transportation is, for purposes of this chapter, the charter fee for that vessel, plus any voyage and port costs not included in that fee that are incurred with respect to that transportation during the term of the charter and that are borne by the lessee, plus the positioning cost (amortized over the lesser of 36 months or the term of the charter in the case of a time charter, and amortized on the basis of the number of voyages in the case of a consecutive voyage charter), if any, borne by the lessee for that vessel;

(C) for a contract of affreightment, the reasonable cost for that transportation is, for purposes of this chapter, the affreightment fee specified in that contract, plus any voyage and port costs and any positioning costs not included in that fee that are incurred with respect to that transportation during the term of the contract of affreightment and that are borne by the lessee.

(c) In the case of transportation of oil by a tanker or other vessel that is owned or effectively owned by the lessee, the department will, in its discretion, authorize the lessee to use the fair market value of like transportation as the reasonable cost for the transportation in question. The department, and not the lessee, will determine the fair market value of like transportation, on the basis of third-party time charters (that is, time charters in which the lessee does not own or effectively own the vessel) of one year or more that are reported to the department for like vessels; and when it makes its determination, the department will notify the lessee. Two vessels will be considered like vessels for purposes of this chapter if the difference between them in deadweight tonnage is less than

10,000 deadweight tons and if they are both Jones Act vessels, or are both CDS vessels, or are both ODS vessels, or are both CDS/ODS vessels. If the department does not authorize the lessee to use fair market value of like transportation (as described in this subsection) as the reasonable cost for the transportation in question, then the reasonable cost for that transportation is, for purposes of this chapter, the lessee's actual cost for that transportation. This actual cost equals the sum of

(1) the voyage and port costs incurred with respect to that transportation;

(2) the positioning cost, amortized over 36 months, for that vessel, but only for placing that vessel into position before its employment in the Alaska trade and not for placing it into position after its employment in the Alaska trade for employment in another trade;

(3) depreciation of the vessel; if the vessel is actually owned by the lessee, depreciation must be calculated in accordance with the applicable FASB Financial Accounting Standards for such owned assets; if the vessel is effectively owned by the lessee, depreciation must be calculated in accordance with FASB-13 from the standpoint of a lessee under a capital lease; and

(4) an amount which, when taken together with depreciation under (3) of this subsection, will provide a reasonable return on the acquisition cost of the vessel over its expected life; for purposes of this paragraph

(A) "acquisition cost" means the cost of the vessel which may be capitalized by its actual owner under generally accepted accounting principles, but not including costs of improvements made after the date the vessel is placed in service by or on behalf of the lessee, and

(B) "expected life" means the period of the time used to calculate depreciation under (3) of this subsection.

(d) In the case of transportation of gas as LNG where not all of the LNG transportation facilities are subject to tariff regulation (by FERC or another agency of the United States, a state, territory or possession of the United States or a foreign nation)

(1) when the lessee does not have or effectively have an ownership interest in the LNG transportation facility, the reasonable cost of transportation for that LNG transportation facility is, for purposes of this chapter, the amount charged to the lessee for that LNG transportation; or

(2) when the lessee has or effectively has an ownership interest in the LNG transportation facility, the department will, in its discretion, authorize the lessee to use the fair market value of like transportation as the reasonable cost for the transportation in question; the department, and not the lessee, will determine the fair market value of like transportation, on the basis of third-party charters or leases (that is, charters or leases in which the lessee does not own or effectively own the LNG transportation facility in question) of three years or more that are reported to the department for like LNG transportation facilities; and if it makes such a determination, the department will notify the lessee of its determination; if the department does not authorize or require the lessee to use fair market value of like transportation (as described in this paragraph) as the reasonable cost for the transportation in question, then the reasonable cost for that transportation is, for purposes of this chapter, the lessee's actual cost for that transportation; this actual cost equals the sum of

(A) the direct operating costs of the LNG transportation facility (in the case of an LNG tanker, its respective voyage and port costs) incurred with respect to the lessee's gas;

(B) depreciation of the LNG transportation facility (if the facility is actually owned by the lessee, depreciation must be calculated in accordance with the applicable FASB Financial Accounting Standards for the owner of such assets; if the LNG transportation facility is effectively owned by the lessee, depreciation must be calculated in accordance with FASB-13 from the standpoint of a lessee under a capital lease); and

(C) an amount that, when taken together with depreciation under (B) of this paragraph, will provide a reasonable return on the acquisition cost of the LNG transportation facility over its expected life; for the purposes of this subparagraph

(i) "acquisition cost" means the cost of the LNG transportation facility which may be capitalized by its actual owner under generally accepted accounting principles, and

(ii) "expected life" means the period of time used to calculate depreciation under (B) of this paragraph.

(e) Reasonable cost of transportation under sec. 228(b) of this chapter is fair market value. Fair market value of transportation is to be determined

(1) for shipments of oil, on the basis of third party charters (that is, time charters in which the lessee does not own or effectively own the vessel) of one year or more, plus regulated transportation costs determined under (a) of this section; two vessels will be considered like vessels for purposes of comparing like transportation under this chapter if the difference between them in deadweight tonnage is less than 10,000 deadweight tons and if they are both Jones Act vessels, or are both CDS vessels, or are both ODS vessels or are both CDS/ODS vessels; or

(2) for shipments of gas as LNG, on the basis of third party charters or leases (that is, charters or leases in which the lessee does not own or effectively own the LNG transportation facility in question) of three years or more which are reported to the department for like LNG transportation facilities, plus regulated transportation costs determined under (b)(1) of this section.

(f) If a lessee sells its oil or gas to a third party in what would otherwise be a bona fide, arm's-length sale but at the time of this particular sale the lessee expects to repurchase that oil or gas at a subsequent time and place, then that sale to the third party and the repurchase from the third party, when it occurs, must be disregarded and the oil or gas subject to that sale must be regarded as if it had remained the lessee's own oil or gas throughout the time between that sale and repurchase. In determining the value at the point of production in such a case, the reasonable cost of transportation between the point of sale for that sale and the point of repurchase must be determined as if the lessee were the shipper. This subsection does not apply if the lessee's expected repurchase does not in fact occur.

(g) For the purposes of this chapter, "voyage and port costs" for a vessel are

(1) costs actually incurred for fuel for the vessel while in port and at sea, stores and provisions for the vessel and for her captain and crew, wages and benefits of the vessel's captain and crew, routine maintenance, port and dock fees, storage costs, demurrage, tug and pilotage fees, marine agents' fees in port, lightering, transshipment charges, customs fees and duties, regular and customary gratuities that are also legal, insurance premiums actually paid to third party insurers, minor cargo losses or measuring differentials, loading and unloading inspection fees, Panama Canal transit fees, a reasonable management fee (to be prorated equally among vessels) for coordinating arrivals and departures into and out of ports for vessels owned, effectively owned or chartered by the shipper and other reasonable costs associated with the operation or maintenance (or both) of the vessel; and

(2) in addition to the costs listed in (1) of this subsection, in the case of catastrophic loss or damage of a vessel transporting oil or LNG from Alaska or en route to Alaska to take on oil or LNG, a portion of the loss (for loss or damage of the ship, for injury or loss of her captain or crew and for damage and cleanup due to spillage of part or all of her cargo, but not for the loss of the cargo itself) that is borne by the lessee as the result of that catastrophic loss or damage and that is not reimbursed by insurance or by a third party but excluding any civil and criminal penalties and civil punitive damages which may be assessed as a result of this loss or damage; a lessee's portion of the loss is determined by dividing the unreimbursed liability on the basis of deadweight tonnage among the vessels owned, effectively owned or chartered by the lessee to transport oil or LNG (whichever was lost) from Alaska.

(h) A lessee "effectively owns," "has effective ownership of" or "effectively has an ownership interest in" a vessel or LNG transportation facility for purposes of this section if

(1) the vessel or LNG transportation facility is owned by another person comprising part of a consolidated business in which the lessee is also a part;

(2) the vessel or LNG transportation facility is the subject of a capital lease on which the lessee or another person comprising part of a consolidated business in which the lessee is also a part, is the lessee under that capital lease;

(3) the vessel or LNG transportation facility was built to the account of the lessee (or another person comprising part of the consolidated business in which the lessee is also a part), was sold and was chartered back by the lessee (or another person comprising part of the consolidated business in which the lessee is also a part) all in a simultaneous transaction and the vessel or LNG transportation facility is on a term charter or lease to the lessee (or another person comprising part of the consolidated business in which the lessee is also a part) for a period of 15 years or longer.

(i) For purposes of this chapter, the "positioning cost" for a vessel includes the costs not included in the charter for that vessel that are borne by the lessee for placing that vessel into position before the first voyage under that charter or the estimated costs to be borne by the lessee for delivering it up at a specified location after the last voyage under that charter, or both if the lessee is obligated under the terms of the charter or contract of affreightment to bear them both.

(j) A reasonable return under (c)(4) or (d)(2)(C) of this section is presumed to be that internal rate of return (after federal income tax) on the amount which yields an investment that equals two percent plus the average annual national inflation rate (measured by the GNP deflator) during

(1) the period between the time the commitment is made to construct or acquire the vessel or LNG transportation facility and the time when the vessel or LNG transportation facility has been received (or delivered) and is ready to be placed into service, or

(2) if the period in (1) of this subsection falls entirely within a calendar year, that entire calendar year.

(k) At the request of the lessee, the department will in its discretion, or, on its own motion, the department will replace the presumed return under (j) of this section with one based on the rate of return imputed to that investment or similar ones by the person owning or effectively owning the vessel or LNG transportation facility.

(l) The third-party nature of an agreement between a shipper and a third-party carrier regarding transportation costs is not affected during the term of that agreement by a subsequent consolidation of that lessee and carrier into a consolidated business, if, at the time they entered that agreement, neither the lessee nor the carrier exercised, directly or indirectly, any control over the business affairs of the other in anticipation of their subsequent consolidation into the same consolidated business. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.231. EXTRAORDINARY PRODUCTION REVENUE OR LOSS. (a) A lessee's extraordinary production revenue or loss for a lease is fully recognized for purposes of this chapter in the month in which it is realized. Multiple realizations of extraordinary production revenue or loss by a lessee during a single month are cumulative, with revenues added to revenues and losses to losses, and with revenues and losses offset against each other.

(b) A retroactive decrease or increase in the tariff or fee allowed to be charged by a regulated carrier for transporting a lessee's oil and gas produced from the lease results in extraordinary production revenue or loss, respectively, for that NPSL, which is realized for purposes of this chapter at the time the retroactive change takes effect.

(c) A retroactive increase or decrease in the sales price in a bona fide, arm's-length sale of a lessee's oil and gas produced from the lease results in extraordinary production revenue or loss, respectively, for that lessee, which is realized for purposes of this chapter at the time the retroactive change takes effect.

(d) The amount of a lessee's extraordinary production revenue or loss under (b) or (c) of this section for the NPSL is the amount of the increase or decrease, respectively, in the value at the point of production for the lessee's oil and

gas from that lease to which the retroactive tariff change or change in sales price applies, offset by any corresponding increase or decrease in costs or expenses under 11 AAC 83.219 – 11 AC 83.242 that change as the result of changing the value at the point of production for that oil and gas. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.232. DEVELOPMENT ACCOUNT AND PRODUCTION REVENUE ACCOUNT – IN GENERAL. (a) Unless otherwise specified, a lessee's costs under this chapter are regarded as being incurred on an accrual basis.

(b) When a lessee incurs costs under this chapter and part or all of those costs are reimbursable to the lessee from one or more third parties, only the unreimbursed portion of those costs of the lessee may be used in calculating that debit. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.240. DIRECT OPERATING COSTS. (a) The direct operating costs during a month that are incurred by or for a lessee for the NPSL are a debit to the production revenue account.

(b) After commencement of commercial production from the NPSL, the direct operating costs for that NPSL are

(1) the direct charges under 11 AAC 83.243 that are not excluded under 11 AAC 83.217, that have not been charged as a development cost under 11 AAC 83.219, and that are incurred for the operation of the wells and equipment on or in support of the NPSL which directly result in or are necessary for continued production from the NPSL;

(2) general overhead and administrative expenses in the manner and amount provided in (d) of this section;

(3) abandonment costs in the manner and amount provided in (e) of this section;

(4) the amount of liability for taxes imposed on the value of production or on sales from a NPSL that are incurred by, or on behalf of, a lessee during a month; the amount of tax liability imposed on the value of production includes Early Development Incentive Credits applied against that tax;

(5) the amount of tax paid during a month to the state (net of credits or refunds made that month for municipal ad valorem taxes on the same properties) and the total amount paid that month for municipal ad valorem taxes which are based on the value of a lessee's properties used directly in the production, gathering, treatment or preparation for pipeline shipment of oil and gas from a NPSL that is in commercial production before those payments to the state or any municipality are made.

(c) If the NPSL is subject to an operating agreement in which at least one working-interest owner is a third party to the operator, then a non-operator may include as a direct operating cost for that NPSL the direct charges allowed in (b) of this section that are incurred by the operator in operating that NPSL if they are reimbursable to the operator by the non-operator under the terms of that operating agreement.

(d) General overhead and administrative expenses for a month may be included as a direct operating cost at the rate of nine percent of the allowable direct operating costs defined in (b)(1) of this section. If the NPSL is subject to a unit operating agreement in which at least one working-interest owner is a third party to the operator, the commissioner will, in his or her discretion, require use of the overhead rate applicable to direct operating costs specified in the unit operating agreement.

(e) Following commencement of commercial production, abandonment costs of wells and facilities on or in support of the NPSL may be included as a direct operating cost, and, if included, must be amortized on a unit-of-production basis. The initial amount amortized per Btu equivalent equals the estimated real cost (i.e., without regard to inflation) as of the commencement of commercial production for abandonment of the wells and facilities on or in support of the NPSL, divided by the number of Btu equivalents represented by the proved reserves of the NPSL as of that time. The

amount amortized per Btu equivalent may be redetermined, not more often than once every two years at the commencement of the operator's fiscal year, by dividing the number of Btu equivalents represented by the proved reserves of the NPSL as of the time of redetermination into the difference between the then-estimated real cost for abandonment of the wells and facilities on or in support of the NPSL and the cumulative amortization already allowed as of that time for the NPSL. If, upon abandonment of all wells and facilities on or in support of the NPSL, the actual abandonment costs, less salvage value (if any) are less than the total amount amortized for abandonment on or in support of that NPSL, the excess amortization must be included as extraordinary production revenue under 11 AAC 83.231 for the purposes of determining a lessee's net profit share payment due the state. If, upon abandonment of all wells and facilities on or in support of the NPSL, the actual abandonment costs, less salvage value (if any), are greater than the total amount amortized for abandonment on or in support of that NPSL, the difference may be included as extraordinary production loss for the purpose of determining a lessee's net profit share payment due the state.

(f) For purposes of this section

(1) a "development cost" is the cost of

(A) the acquisition of equipment, other than a well, and the extension, alteration or expansion of that equipment, or the replacement of it, where the intended purpose of the replacement includes extension, alteration or expansion; included are all costs and related indirect costs, associated with the design, procurement, construction, transportation, installation and commissioning of such equipment; and

(B) the drilling and completion of a well and the initial installation of artificial-lift equipment and the extension, alteration or expansion of a well or the replacement of equipment in it where the intended purpose of the extension, alteration, expansion or replacement is to increase the capacity or improve the operating characteristics of the well over a level that could be realized if the equipment in the well prior to replacement were in new condition; included are all costs, both tangible and intangible, and related indirect costs associated with them including the design, procurement and transportation of the equipment in the well;

(2) A "direct operating cost" is a cost incurred for normal ongoing operating and maintenance activities that cannot be defined as a development cost. (Eff. 11/9/79, Reg. 72; am 3/27/82, Reg. 81; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.242. ROYALTY. (a) The amount of royalty in value to the state, if any, for each NPSL that is accrued during a month by or for a lessee, including a shut-in or minimum royalty, is a debit to the lessee's production revenue account.

(b) The value at the point of production (determined on the basis of the value at the point of production for the lessee's production interest at the time the royalty is delivered) of royalty to the state for a NPSL that is delivered in kind by or for a lessee during a month is a debit to the lessee's production revenue account.

(c) For purposes of this section, "royalty" does not include the lessee's net profit share payment due the state. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.243. DIRECT CHARGES. For the purposes of this chapter, direct charges are

(1) lease rentals paid by lessee to the state for the operations of the NPSL, but excluding net profit share payments to the state;

(2) labor, which includes (A) salaries and wages of lessee's employees including supervisors and technical employees such as geologists, geophysicists, engineers, and drilling and construction supervisors directly employed on, or in transit to or from, the NPSL in lease operations, including earned or compensatory time off; and (B) salaries and wages of technical employees including engineers, technologists, draftsmen, engineering clerks, landmen, and other personnel performing technical services within the technical organizations who are

either temporarily or permanently assigned to, and directly employed in NPSL operations; charges for these technical personnel must be limited to that portion of the salaries and wages attributable to the time actually devoted to the NPSL operations; these charges may be made on a per diem basis as approved by the parties;

(3) lessee's cost of holiday, vacation, sickness, and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the appropriate NPSL account under (2) of this section; costs under this paragraph may be charged on a "when and as-paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the appropriate NPSL account under this paragraph; if percentage assessment is used, the rate must be based on the lessee's cost experience;

(4) expenditures or contributions made under assessments imposed by governmental authority which are applicable to the lessee's labor cost of salaries and wages chargeable to the appropriate NPSL account under (2) and (3) of this section;

(5) reasonable personal expenses of those employees whose salaries and wages are chargeable to the appropriate NPSL account under (2) and (3) of this section and for which expenses the employees are reimbursed under lessee's usual practice;

(6) the lessee's current costs for established plans for employee group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other similar benefit plans, applicable to the lessee's labor costs chargeable to the NPSL account under (2) and (3) of this section, provided that these costs do not exceed the percent most recently recommended by the Council of Petroleum Accountants Societies of North America;

(7) material purchased or furnished by lessee for use on the NPSL as provided under 11 AAC 83.244 so far as it is reasonably practical and consistent with efficient and economical operation; however, only such material as may be required for immediate use may be purchased for or transferred to the NPSL, and the accumulation of surplus stocks must be avoided;

(8) transportation of employees and material necessary for operations on the NPSL with the following limitations:

(A) if material is moved to the NPSL from the lessee's warehouse or other properties, no charge may be made to the appropriate NPSL account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, railway or air cargo receiving point where like material is normally available, unless that charge is provided for by 11 AAC 83.244(3);

(B) if surplus material is moved to lessee's warehouse or other storage point, no charge may be made to the appropriate NPSL account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, railway or air cargo receiving point; no charge may be made to the appropriate NPSL account for moving material to other properties belonging to lessee;

(C) however, under (A) and (B) of this paragraph there may be no equalization of actual gross trucking cost of $400 or less, excluding accessorial charges;

(9) the lessee's cost of contract services, equipment and utilities provided by outside sources, except the cost and expense of services provided by outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies and those services excluded by (12) of this section; the cost of professional consultant services or contract services of technical personnel not directly engaged on the NPSL must be limited to that portion of the cost attributable to the time actually devoted to the NPSL;

(10) the lessee's cost of using lessee-owned equipment and facilities, including shore base and offshore facilities, based on rates commensurate with costs of ownership and operation; those rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on depreciated investment not to exceed a percentage to be determined by the commissioner; in addition, the rate may include an element for the estimated cost of abandonment, reclamation, and

restoration; these rates may not exceed average commercial rates currently prevailing in the immediate area of the NPSL; in place of charges in this paragraph, the lessee may elect to use average commercial rates prevailing in the immediate area of the NPSL less 20 percent; for automotive equipment, the lessee may elect to use rates published by the Petroleum Motor Transport Association;

(11) all costs or expenses necessary to repair or replace property due to damage or loss caused by fire, flood, storm, theft, accident, or other causes, less reimbursements and contributions made to a reserve account by a self-insurer, except those costs resulting from the lessee's gross negligence or willful misconduct; however, the lessee shall furnish the lessor written notice of damage or loss as soon as practicable after the lessee receives a report of them;

(12) expense of handling, investigating, and settling litigation or claims, discharging liens, paying judgments, and settling of claims incurred in or resulting from operations or necessary to protect or recover property, less any reimbursements and contributions made to a reserve account by a self-insurer; except that no charge for services of the lessee's legal staff or fees or expense of outside attorneys may be made;

(13) net premiums paid for insurance required to be carried for the operations for the protection of the parties; if operations are conducted at offshore locations in which lessee may act as self-insurer for workmen's compensation and employers' liability, lessee may include the risk under its self-insurance program in providing coverage under state and federal laws and charge the appropriate NPSL account at lessee's cost not to exceed manual rates;

(14) costs of acquiring, leasing, installing, operating, repairing, and maintaining communication systems including radio and microwave facilities between the NPSL and the lessee's nearest base facility; if communication facilities/systems serving the NPSL are lessee-owned, charges to the appropriate NPSL account must be made as provided in (10) of this section;

(15) costs incurred on the NPSL for archaeological and geophysical surveys relative tc identification and protection of cultural resources and/or other environmental or ecological surveys as may be required by applicable laws and regulations plus costs to provide or have available pollution containment and removal equipment plus costs of actual control and cleanup and resulting responsibilities of oil spills as required by applicable laws and regulations, but excluding any civil and criminal penalties and civil punitive damages which may be assessed as a result of this loss or damage and excluding any costs under 11 AAC 83.229(g)(2);

(16) all proper costs and expenditures relative to the NPSL operations incurred under a contract other than the NPSL;

(17) costs of environmental impact statements and cleanup contingency plans;

(18) costs of preliminary platforms, feasibility, and design studies, or similar marine projects, incurred in compliance with applicable laws and regulations;

(19) contributions or advances to others if based on the lessee's working-interest participation;

(20) standby costs incurred while working-interest operations are deferred, suspended or curtailed by reason of force majeure;

(21) cost of compliance with applicable laws and regulations directly related to the lessee's working-interest participation in effect at the date of agreement or later enacted or adopted;

(22) dry or bottom hole contributions for information relative to the exploration or development of the working-interest participation;

(23) costs of permits and licenses for the operation of the area;

(24) costs of required well work commitment;

(25) costs of purchased substances, less cost recoveries, used as injection for repressuring, pressure maintenance, cycling or other secondary or tertiary recovery purposes;

(26) adjustments paid or received for investment costs and expenses resulting from changing

participations, unitization, or equity adjustments in the operating area according to the applicable operating agreements;

(27) charges for clearing, dehydration, desulphurization, etc., for making the production of the royalty, overriding royalty and other non-operating interest share of production marketable, offset by reimbursements (if any) from the royalty owner;

(28) charges for losses for lease fuel, vapor losses, drilling, etc., which are borne by working-interest participation according to applicable laws and regulations. (Eff. 11/9/79, Reg. 72; am 6/28/81, Reg. 78; am 3/27/82, Reg. 81; am 8/15/82, Reg. 83; am 4/14/84, Reg. 90)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.244. PRICING OF MATERIALS AND SUPPLIES. Material purchases, transfers and dispositions by a lessee for use on a NPSL must be priced according to the following standards:

(1) Material purchased must be charged at the price paid by lessee after deduction of all discounts received. In case of material found to be defective or returned to a vendor for any other reason, credit must be passed to the appropriate account when adjustment has been received by the lessee.

(2) Material transferred within the NPSL operations and material transferred from the NPSL operations or disposed of by the lessee must be priced at average warehouse stock prices. Transfers will be priced at current-condition value using average warehouse stock prices if they are available and reasonably representative of current market price. If they are not available or are not reasonably representative of current market price, the following applies. Material transferred must be priced at current-condition value replacement cost effective at date of transfer as specified in paragraph (3) of this section which must include material invoice cost, labor supplies, transportation, and material handling charges associated with getting material FOB to the NPSL property.

(3) Material required for operation must be purchased for direct charge to the NPSL account whenever practical. However, under circumstances where it is most practical for lessee to furnish materials from lessee's storehouse or other properties located in Canada, Alaska, or the continental United States, those material movements are subject to the following:

(A) New material is classified as Condition "A" and must be priced as follows:

(i) Tubular goods, except line pipe involving movements for less than 30,000 pounds, must be priced at the current price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price FOB railway receiving point, recognized barge terminal, or air cargo receiving point nearest the NPSL where that material is normally available.

(ii) Line pipe involving movement of less than 30,000 pounds must be priced at the current price in effect at date of movement, as listed by a reliable supply store nearest the NPSL where such material is normally available. Movement of 30,000 pounds or more must be priced under provisions of tubular goods pricing in (i) of this subparagraph.

(iii) Other material must be priced at the current new price in effect at the date of movement, listed by a reliable supply store or FOB railway or air cargo receiving point nearest the NPSL where that material is normally available.

(iv) The NPSL account will not be credited with cash discounts applicable to prices provided for in paragraph (3) of this section.

(B) Used material is classified as either Condition "B" or "C" and must be priced as follows:

(i) Material in sound and serviceable condition and suitable for reuse without reconditioning moved to the NPSL, must be classified as Condition "B" and priced at 75 percent of the current price of new material.

(ii) Material in sound and serviceable condition and suitable for reuse without reconditioning moved from the NPSL must be classified as Condition "B" and priced at 75 percent of current new price if material was originally charged to NPSL account as new material, or at 65 percent of current new price if material was originally charged to the NPSL account as used material at 75 percent of current new price.

(iii) Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning must be either classified as Condition "B" and priced at 75 percent of the current price of new material when the cost of reconditioning is to be absorbed by the transferor or classified as Condition "C" and priced at 50 percent of current price of new material when the cost of reconditioning is to be charged to the transferee, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(iv) Obsolete material or material which cannot be classified as Condition "B" or Condition "C" must be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose must be priced on a basis comparable with that of items normally used for those other purposes.

(C) Loading and unloading costs may be charged to the appropriate NPSL account only at the rate of 25 cents per hundred weight on all tubular goods movements, in place of loading and unloading costs sustained when actual hauling costs of those tubular goods are equalized under 11 AAC 83.243(8).

(D) Material involving erection costs must be charged at applicable percentage of the current knocked-down price of new material.

(E) The pricing and origination point of that material must be FOB a reliable supply store or railway, barge terminal, or air cargo receiving point nearest that lessee's storehouse from which the material is furnished.

(4) Whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the lessee has no control, the lessee may charge the appropriate NPSL account for the required material at the lessee's actual cost incurred in providing that material, in making it suitable for use, and in moving it to the NPSL.

(5) In case of defective material, credit may not be passed to the appropriate NPSL account until adjustment has been received by the lessee from the manufacturers or their agents. (Eff. 11/9/79, Reg. 72; am 3/27/82, Reg. 81; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.245. REPORTING AND PAYMENT REQUIREMENTS. (a) For each NPSL not in commercial production, each lessee shall file an annual report within 90 days following the end of each calendar year on forms prescribed by the department. Where two or more lessees hold a working interest in the same NPSL, they may, with the consent of the commissioner, appoint a designated operator of that NPSL to be responsible for the above reporting requirements.

(b) Once commercial production commences, each lessee shall file a report on forms prescribed by the department, together with the appropriate payment due the state on each NPSL, not later than 60 days following the end of each month during production. If the due date falls on a Saturday, Sunday or holiday, the report is due on the next business day. The report must contain the following information:

(1) the volume and dispositions of all oil and gas production saved, removed or sold for the production period;

(2) the value of oil or gas removed or sold;

(3) the amount and description of items in the NPSL accounts as defined in 11 AAC 83.209 – 11 AAC 83.214 and the balance of the accounts for the month; and

(4) the monthly profit share of the lessee and the monthly net profit payment due the state.

(c) Repealed 8/15/82.

(d) Interest will be charged at a variable rate per year equal to the prime rate as announced from time to time by the Bank of America, San Francisco, California, plus 1.25 percent a year on the amount of the net profit share payment due the state from the due date of the net profit share payment until the payment is received by the state.

(e) Records pertaining to development costs incurred before the start of commercial production, which are not included in reports filed under (b) of this section, must be kept and maintained for four years after the expiration of the calendar year in which commercial production begins or until abandonment of the lease if no commercial production begins. Records of the information required in (b) of this section, including a lessee's standard or joint accounting system records, must be kept and maintained for six years after the expiration of the calendar year in which the reports were filed with the state under (b) of this section. However, records of information required in (b) of this section, including standard or joint accounting system records, relating to abandonment cost amortization, must be kept and maintained from the date of issuance of the lease until three years following abandonment of the lease. Upon request by the state, the lessee shall make all records required by this section available for inspection and copying by authorized representatives of the state during normal business hours.

(f) Upon notice to the lessee, the state has the authority to audit the lessee's records of financial transactions, including the lessee's standard or joint accounting system records, inventories and other records pertaining to net profit share leasing operations. The audit period will remain open for the same period of time as specified in (e) of this section for record retention. If the commissioner determines there has been a showing of fraud or misrepresentation, then the audit period will remain open. Where possible, the auditor for the state will coordinate audit efforts with any other non-operators. (Eff. 11/9/79, Reg. 72; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.247. REDETERMINATION. (a) If, as a result of an inspection of records under 11 AAC 83.245(e) or an audit under 11 AAC 83.245(f), the commissioner determines that (1) the method of allocating costs and production to a NPSL within a unit is improper, (2) there is an error or an improper cost claimed in a net profit share lease account, or (3) there is an error in the net profit share payment due the state, the commissioner will redetermine the net profit, recalculate the net profit share payment due the state, and notify the lessee of the redetermination.

(b) In the event of an underpayment, the lessee shall pay any additional amount of net profit share payment due the state plus interest at a variable rate per year equal to the prime rate prevailing during the month of the underpayment, as announced from time to time by the Bank of America, San Francisco, California, plus 1.25 percent a year. In the event of an overpayment, the state will return the overage to the lessee plus interest at a variable rate per year equal to the prime rate prevailing during the month of the overpayment, as announced from time to time by the Bank of America, San Francisco, California, plus 1.25 percent a year, or the lessee may claim a credit in the same amount to be applied to the next profit share payment. (Eff. 11/9/79, Reg. 72; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.250. LESSEE PROTESTS. (a) A lessee who disagrees with and wishes to protest the commissioner's redetermination issued under 11 AAC 83.247, shall file a written protest with the department. To preserve the lessee's rights and to receive consideration by the department, this written protest must

(1) be filed within 60 days after the mailing date of the department's notice of redetermination with which the lessee disagrees or is aggrieved;

(2) be mailed or personally delivered to: Office of the Commissioner, Alaska Department of Natural Resources, Pouch M, Juneau, Alaska 99811;

(3) state what action by the department it is that the lessee is protesting and what relief the lessee seeks;

(4) state the grounds for the lessee's protest, including the facts (if any) at issue, the legal authority (statutes, regulations and case law), and any generally accepted accounting principles that support the lessee's protest;

(5) state whether the lessee wants an informal conference or waives its right to an informal conference in favor of a formal hearing.

(b) All sums declared to be owing for the net profit share payment due the state must be paid in full no later than 60 days following the mailing date of the department's notice of redetermination in accordance with 11 AAC 83.245(c). Payment under this subsection is subject to refund if, when and to the extent a refund is finally determined to be warranted. Failure to make timely payment of those sums forfeits the lessee's rights to pursue its protest before the department.

(c) A lessee may be represented or assisted by an attorney, certified public accountant or other authorized representative at the informal conference and the formal hearing. Proof of that authorization must be submitted for each representative at the conference or formal hearing. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.252. INFORMAL CONFERENCES. (a) Upon receipt of the lessee's written protest, the department will designate a conference officer who will promptly schedule the informal conference with the lessee. A lessee wishing to present facts and financial information regarding its NPSL in support of its position must bring all pertinent books, records and other documents to the conference or must make them readily available for examination by the conference officer. The conference officer may copy any of the books, records and other documents brought to the conference or made available for the conference officer's examination.

(b) A lessee whose protest turns solely on one or more findings of material fact and who has waived its right to an informal conference in favor of a formal hearing, may be required to attend an informal conference prior to going to a formal hearing if the department believes the disagreement over material facts can be resolved at the conference level.

(c) After considering the facts, financial information and arguments presented by the lessee at the informal conference, the conference officer will make a recommendation. The conference officer is not authorized to compromise or waive the net profit share payment that is protested by the lessee; however, upon a conference officer's recommendation that a correction of the department's original action is warranted, the department will make the recommended correction and promptly notify the lessee in writing of the correction.

(d) A lessee dissatisfied with the conference officer's recommendation and wishing to continue its protest in the matter, shall, within 30 days after the date of the department's notice of its action on the conference officer's recommendation, file a written request for a formal hearing before the department. Failure to file a timely request waives the lessee's right to further consideration of its protest before the department.

(e) A conference officer's recommendation is not a final administrative determination of the lessee's protest by the department. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.255. FORMAL HEARINGS. (a) The department will hold a formal hearing for a lessee

(1) when the lessee files a timely protest fulfilling the requirements of 11 AAC 83.250 (a) and (b), waiving the right to an informal conference in favor of a formal hearing;

(2) when the lessee files a request for a formal hearing within 30 days after the date of the conference officer's recommendation regarding that lessee's protest, if the request for a formal hearing fulfills the requirements of (b) of this section; or

(3) when, under the facts and circumstances

of a particular case, it appears appropriate to the department to conduct a formal hearing.

(b) A lessee's request to continue its protest at a formal hearing after the department has acted on the conference officer's recommendation regarding that protest must

(1) be mailed to: Office of the Commissioner, Alaska Department of Natural Resources, Pouch M, Juneau, Alaska 99811;

(2) state the nature of the lessee's continuing protest and the relief sought;

(3) state the grounds for the lessee's protest, including the facts (if any) remaining at issue, the legal authority (statutes, regulations, or case law) and any generally accepted accounting principles that support the lessee's protest.

(c) Upon receipt of the lessee's request for formal hearing, the department will promptly appoint a hearing officer to preside over that hearing.

(d) On the hearing officer's own motion or at the request of the lessee or of a representative of the appropriate division of the department, the hearing officer may order that a prehearing conference be scheduled for the purpose of narrowing issues or establishing a schedule for the discovery or production of evidence, for submission of briefs or for stipulation of facts.

(e) The formal hearing will be scheduled as early as possible at an office of the department nearest the lessee's place of business or at another time and place acceptable to the department and the lessee.

(f) At the hearing, the lessee has the burden of proving its protest by a preponderance of the evidence. At the hearing both the lessee and the department's representative may introduce into evidence any materials relevant to a determination of the merit of the protest.

(g) After the hearing, the hearing officer shall prepare a written decision, specifying the hearing officer's findings of fact and conclusions of law. Upon approval by the commissioner, the written decision of the hearing officer becomes the final decision of the department. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.257. APPEALS. A lessee disagreeing with the decision of the department under 11 AAC 83.255 may appeal the decision to a court having jurisdiction to hear such appeals as provided in AS 44.62.560 and AS 44.62.570. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.295. DEFINITIONS. Unless the context clearly requires a different meaning, in 11 AAC 83.201 – 11 AAC 83.295

(1) "abandonment cost" means those costs that will be incurred by the lessee to meet state and/or federal requirements to satisfactorily restore the lease, to plug and abandon the well and remove personal property within a reasonable time;

(2) "Btu-equivalent" means a barrel of oil or six Mcf of gas; except if the Btu-equivalents of the proved reserves of oil originally in place in the field that includes a particular NPSL, do not exceed 20 percent of the Btu-equivalents of the proved reserves of gas originally in place in that field, or vice versa, then "Btu-equivalent" will be understood to refer to the unit of production (barrel or oil or Mcf of gas) of the dominant reserve of that field for purposes of this chapter; however, if a lessee uses a similar but different unit of production for its unit-of-production amortization or depreciation for financial accounting purposes, the "Btu-equivalent" will be understood to refer to the unit of production used in that amortization or depreciation;

(3) "capital lease" means a lease classified as a capital lease from the standpoint of the lessee under FASB-13;

(4) "CDS vessel" means a United States flag vessel built for use in foreign trade which receives (while it is so used) a subsidy for the differential in construction costs between building it in the United States and building it elsewhere;

(5) "CDS/ODS vessel" means a United States flag vessel built for use in foreign trade which

receives (while it is so used) both the subsidy for a CDS vessel and the subsidy for an ODS vessel;

(6) "commissioner" means the commissioner of the Department of Natural Resources, State of Alaska, or his designee;

(7) "commercial production" means the production of oil and gas for purposes of sale or other beneficial use, except when the sale or beneficial use is incidental to the testing of an unproved well or unproved completion interval;

(8) "credit" means an entry used within the context of generally accepted accounting procedures;

(9) "debit" means an entry used within the context of generally accepted accounting procedures;

(10) "department" means the Department of Natural Resources, State of Alaska;

(11) "entitlements treatment" refers to the issuance, purchase, sale or use of whole and/or fractional entitlements associated with refining a particular run of oil pursuant to 10 CFR §§ 211 and 212, or to the treatment of that oil under any other program having a similar effect that the United States Department of Energy may adopt or administer as a replacement or continuation of the present entitlements program;

(12) "FASB" means the Financial Accounting Standards Board;

(13) "FASB 13" means FASB's Statement of Financial Accounting Standards No. 13, "Accounting for Leases" (November 1976), as amended or interpreted by FASB's Statement of Financial Accounting Standards No. 17, "Accounting for Leases – Initial Direct Costs" (November 1977); FASB's Statement of Financial Accounting Standards No. 22, "Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt" (June 1978); FASB's Statement of Financial Accounting Standards No. 23, "Inception of the Lease" (August 1978); FASB Interpretation No. 19, "Lessee Guarantee of the Residual Value of Leased Property" (October 1977); and FASB Interpretation No. 21, "Accounting for Leases in a Business Combination" (April 1978);

(14) "FERC" means the Federal Energy Regulatory Commission of the United States Department of Energy, or the agency succeeding to its regulatory functions;

(15) "gross share" means the volume of production attributable to a production interest before any deductions for royalty in-value and royalty in-kind due the state that may be chargeable to that production interest.

(16) "Jones Act vessel" means a United States flag vessel built for use in domestic trade;

(17) "lessee" means an individual or individuals, a corporation, or, collectively, two or more corporations or individuals, that hold a working interest in a NPSL;

(18) "LNG" means a cryogenic liquid formed from normally gaseous hydrocarbons, chiefly methane;

(19) "LNG transportation facility" means any or all of the following when they are parts of a system to transport LNG: the LNG liquefaction plant, gathering lines to that plant, loading and unloading facilities for LNG tankers, LNG tankers themselves and facilities to regasify the LNG;

(20) "Mcf" or "Mcf of gas" means one thousand cubic feet of gas measured at 60 degrees Fahrenheit and 14.65 pounds per square inch (absolute);

(21) "ODS vessel" means a United States flag vessel built for use in foreign trade, that receives (while it is so used) a subsidy for the differential in operating costs between being manned by United States crews and being manned by foreign crews;

(22) "oil and gas" may, if appropriate, refer to either oil or gas, as well as meaning both of them in other contexts;

(23) "point of production" means

(A) for oil, the automatic custody transfer meter or unit through which the oil enters into the facilities of a carrier pipeline or other transportation carrier; and, in the absence of an automatic custody transfer meter or unit,

the "point of production" for oil is the outlet flange of the tank gauge (or, in the absence of an automatic transfer meter or a tank gauge, another mechanism or device to measure the quantity of oil that has been approved by the department for this purpose) through which the oil is tendered and accepted into the facilities of a carrier pipeline or other transportation carrier;

(B) for gas recovered in association with oil, the meter on or nearest (measured along the course taken by the gas) to the NPSL from which the gas is recovered, at which meter the sales stream of gas is measured with sufficient accuracy and at appropriate temperature, pressure and other condition for purposes of sale, regardless of whether the particular gas in question is actually sold at that meter;

(C) for gas not recovered from or in association with oil, the point where it is accurately metered or measured, or if the gas is sold on the NPSL premises from which it is recovered, then the point of such sale;

(24) "positioning costs" is defined in 11 AAC 83.229(i);

(25) "produced," in the sense of oil and gas produced from a NPSL, includes oil. and gas attributed (pursuant to the terms of a pooling agreement, unit agreement, lease-line well agreement, drainage agreement or other similar agreement between the production-interest owner(s) of the lease and the production-interest owner(s) of an adjacent lease, or pursuant to the terms of an order or decision by an appropriate regulatory agency or by a court) to that NPSL from one or more wells bottomed on the adjacent lease, as well as oil and gas from wells bottomed on the NPSL itself;

(26) "production interest" means a royalty interest or a working interest;

(27) "royalty" or "royalty interest" means a basic royalty or overriding royalty in the production of oil and gas;

(28) "sales delivery point" means

(A) for a lessee's oil and gas sold in a bona fide arm's-length sale to a third party, the point of delivery specified under the terms of the contract or agreement for that sale;

(B) for a lessee's oil not sold in a bona fide, arm's-length sale to a third party, the inlet of the refinery or comparable facility to which that oil is ultimately transported; and

(C) for a lessee's gas not sold in a bona fide, arm's-length sale to a third party, the point of delivery under the terms of the sales contract being used as the reference for the calculation of sales price of the lessee's gas under 11 AAC 83.226;

(29) "voyage and port costs" are defined in 11 AAC 83.229(g);

(30) "working interest" means any interest (including fee title) in the production of oil and gas that is not a royalty interest;

(31) "NPSL" is defined in 11 AAC 83.201.

(Eff. 11/9/79, Reg. 72; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

ARTICLE 3.
UNITIZATION

Section

Editor's Note: 11 AAC 83, Article 3, relating to the unitization of oil and gas leases, is repealed in its entirety. Many of the provisions are readopted with minor changes under new section numbers. Where possible, the previous history of those sections is shown in the history note following the corresponding regulation.

11 AAC 83.300. APPLICATION FOR DESIGNATION OF AREA. Repealed 6/28/81.

11 AAC 83.301. PURPOSE. (a) 11 AAC 83.301 – 11 AAC 83.395 establish standards and procedures governing the submission of applications to the commissioner and criteria for approval of unit agreements for state oil and gas leases, and standards to be followed by a state lessee in conducting lease operations under an oil and gas unit agreement approved by the commissioner.

(b) 11 AAC 83.301 – 11 AAC 83.395 apply to an existing oil and gas lease or approved unit agreement where not inconsistent with the lease or unit agreement or regulations in effect on the effective date of the lease or unit agreement. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.303. CRITERIA. (a) The commissioner will approve a proposed unit agreement for state oil and gas leases if he makes a written finding that the agreement is necessary or advisable to protect the public interest considering the provisions of AS 38.05.180(p) and this section. The commissioner will approve a proposed unit agreement upon a written finding that it will

(1) promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area;

(2) promote the prevention of economic and physical waste; and

(3) provide for the protection of all parties of interest, including the state.

(b) In evaluating the above criteria, the commissioner will consider

(1) the environmental costs and benefits of unitized exploration or development;

(2) the geological and engineering characteristics of the potential hydrocarbon accumulation or reservoir proposed for unitization;

(3) prior exploration activities in the proposed unit area;

(4) the applicant's plans for exploration or development of the unit area;

(5) the economic costs and benefits to the state; and

(6) any other relevant factors, including measures to mitigate impacts identified above, the commissioner determines necessary or advisable to protect the public interest.

(c) The commissioner will consider the criteria in (a) and (b) of this section when evaluating each requested authorization or approval under 11 AAC 83.301 – 11 AAC 83.395, including

(1) an approval of a unit agreement;

(2) an extension or amendment of a unit agreement;

(3) a plan or amendment of a plan of exploration, development or operations;

(4) a participating area; or

(5) a proposed or revised production or cost allocation formula. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.305. DESIGNATION; EFFECT. Repealed 6/28/81.

11 AAC 83.306. APPLICATION FOR UNIT APPROVAL. Any person owning an interest in a lease which is proposed to be committed to a unit which would include a state oil and gas lease may propose a unit agreement by applying to the commissioner for approval of the agreement. The following items constitute a complete application for approval:

(1) the unit agreement, including exhibits required under 11 AAC 83.341 or 11 AAC 83.343, executed by the proper parties;

(2) the unit operating agreement executed by the working-interest owners, which is submitted for information only and does not require the commissioner's approval for adoption or amendment;

(3) evidence of reasonable effort made to obtain joinder of any proper party who has refused to join the unit agreement;

(4) all pertinent geological, geophysical, engineering, and well data, and interpretations of those data, directly supporting the application;

(5) an explanation of proposed modifications, if any, of the standard state unit agreement form; and

(6) the application fee prescribed by 11 AAC 05.010. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83; am 3/18/83, Reg. 85; am 1/1/86, Reg. 96)

Authority: AS 38.05.020 AS 38.05.145
AS 38.05.035 AS 38.05.180

11 AAC 83.310. DRAFT OF AGREEMENT. Repealed 6/28/81.

11 AAC 83.311. PUBLIC NOTICE. Within 10 days after receipt of a complete application for approval of a unit agreement, expansion of an approved unit under 11 AAC 83.356, or extension of the unit term under 11 AAC 83.336(a)(2), the commissioner will publish notice of the application in a newspaper of general statewide circulation and in a newspaper serving the locality in which the unit or proposed unit is located. In addition, the commissioner will, in his discretion, publish notice by radio, television, or other electronic media. If the unit or proposed unit is within the boundary of an organized borough, municipality, regional corporation, or village corporation organized under Section 8(a) of the Alaska Native Claims Settlement Act, the notice will be mailed to the chief executive officer of the borough or municipality, or designated representative of the corporate entity. The notice also will be mailed to the postmaster of each permanent settlement of more than 25 persons located within six miles of the proposed unit area. In the case of a proposed unit expansion, a copy of the notice will be mailed to the unit operator. The notice will include

(1) the name and address of the applicant, and the location of the unit or proposed unit;

(2) a statement explaining the nature of the approval sought;

(3) a statement indicating where copies of the non-confidential portions of the application may be obtained; and

(4) a statement that any person may file written comments on the application with the commissioner within 30 days after publication of the notice. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.315. RATES OF PROSPECTING AND PRODUCTION. Repealed 6/28/81.

11 AAC 83.316. UNIT APPROVAL. (a) Within 60 days after the close of the public comment period required by 11 AAC 83.311, the commissioner will issue a written decision approving or disapproving the unit agreement, in

which he states the basis for his decision after considering the provisions of 11 AAC 83.303.

(b) If the commissioner determines that the provisions of 11 AAC 83.303 are not met, the commissioner will, in his discretion, propose modifications which, if accepted by the parties to the proposed unit agreement, would qualify the agreement for approval.

(c) No unit will be approved unless parties to the unit agreement hold sufficient interest in the unit area to give reasonably effective control of operations and at least one lease or portion of a lease in the unit area is a state lease. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.320. PARTIES Repealed 6/28/81.

11 AAC 83.321. COPIES OF APPLICATION REQUIRED. In submitting an application under 11 AAC 83.301 – 11 AAC 83.395, the applicant must provide five copies of the nonconfidential portions of the pertinent agreement, plan, modification, or other instrument or document for which approval is sought and two copies of any confidential material submitted. 10 copies of unit plans of operations are required for activities within the coastal zone. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145

11 AAC 83.325. SIGNATURES. Repealed 6/28/81.

11 AAC 83.326. STANDARD UNIT AGREEMENT. (a) Except as provided in 11 AAC 83.393, and as otherwise provided in this section, a unit agreement must be executed on, or in a manner consistent with, a standard state unit agreement form.

(b) The commissioner will allow a modification of the standard state unit agreement form, upon request by the unit applicant, when the commissioner determines that the modification is reasonably required to meet the needs and requirements of the particular unit considering the facts and conditions found to exist with respect to that unit, and the proposed modification meets the provisions of 11 AAC 83.303. The commissioner will require a modification of the standard state unit agreement form if required to meet the provisions of 11 AAC 83.303. Any request by the unit applicant for modification of the standard state unit agreement form must be made in writing not later than the time an application is submitted for approval under 11 AAC 83.306 and must include an explanation of proposed modifications. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.328. PARTIES. (a) The record owners of any right, title or interest in the oil or gas reservoirs or potential hydrocarbon accumulations to be included in a unit are the proper parties to the unit agreement. All proper parties must be invited to join the unit agreement.

(b) Where authorized by lease, the commissioner will, in his discretion, require a state lessee or any assignee of interest in a state lease to subscribe to a unit agreement. (Eff. 9/5/74, Reg. 51; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.330. COUNTERPARTS. Repealed 6/28/81.

11 AAC 83.331. UNIT OPERATOR. (a) A unit operator must be qualified to hold a lease as provided in 11 AAC 82.200 – 11 AAC 82.205, and must be qualified to fulfill the duties and obligations prescribed in the unit agreement.

(b) The unit operator may be a working-interest owner in the unit area or may be a party selected by the working-interest owners.

(c) No designation or change of the unit operator becomes effective until approved by the commissioner. The commissioner will approve or disapprove a proposed change of the unit operator within 30 days after receipt of request

and will explain in writing his basis for disapproval. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.335. UNIT OPERATORS. Repealed 6/28/81.

11 AAC 83.336. EFFECTIVE DATE AND TERM OF UNIT AGREEMENT. (a) A unit agreement becomes effective upon approval by the commissioner and automatically terminates five years from the effective date unless

(1) a unit well in the unit area has been certified as capable of producing hydrocarbons in paying quantities, in which case the unit agreement will remain in effect for so long as hydrocarbons are produced in paying quantities from the unit area, or for so long as hydrocarbons can be produced in paying quantities and unit operations are being conducted in accordance with an approved unit plan of exploration or development, or, should production cease, for so long after that as diligent operations are in progress to restore production and then so long after that as unitized substances are produced in paying quantities; or

(2) exploration operations have been conducted in accordance with an approved unit plan of exploration, and the commissioner, after issuing written notice under 11 AAC 83.311, issues a written decision extending the unit term in which he states the basis for his decision, considering the provisions of 11 AAC 83.303; no single extension will exceed five years.

(b) If a suspension of unit operations or production on all or part of the unit area has been ordered or approved under federal, state, or local law, or, if the commissioner determines that the unit operator has been prevented, despite good-faith efforts, from complying with any express or implied promise, term, condition, or covenant of the unit agreement, or from conducting exploration, development, production, transportation, or marketing operations on or from the unitized area by reason of force majeure, the unit operator's obligation to comply with the provision will be held in abeyance, but not voided, and the commissioner will extend the term of the unit agreement for a period of time equal to the time lost under the unit term due to the suspension or prevention by force majeure. If unit operations or production are suspended or prevented under this subsection and the continuation of those operations or production without suspension or prevention would have had the effect of extending the unit agreement, the unit agreement does not terminate during the period in which operations or production are suspended or prevented plus a reasonable time after that, which will not be less than six months, for the unit operator to resume operations or production. Nothing in this subsection holds in abeyance the obligation to pay rentals, royalties, or other production or profit-based payments to the State of Alaska from operations or production in the unitized area which are not suspended or prevented, or from operations or production which are unrelated to any suspension or prevention. For the purposes of this subsection, any seasonal restriction on operations or production or other conditions specifically required or imposed as a term of sale of an original lease, or as a condition required for unit agreement approval, will not be considered a suspension of operations or production ordered under law, or prevention due to force majeure. However, upon application to the commissioner, seasonal restrictions on operations or production imposed subsequent to approval of a unit agreement will be considered a suspension of operations or production ordered under law.

(c) A unit agreement may be terminated at any time with the approval of the commissioner.

(d) Upon termination of a unit, each lease or portion of a lease committed to the unit may be continued in effect only in accordance with the terms and conditions of the lease, statutes and regulations, or as provided in the unit agreement. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.340. APPROVAL OF UNIT AGREEMENT. Repealed 6/28/81.

11 AAC 83.341. UNIT PLAN OF EXPLORATION. (a) Unless a unit plan of development is

filed under 11 AAC 83.343, a unit plan of exploration must be filed for approval by the commissioner as an exhibit to the unit agreement under 11 AAC 83.306. The plan must describe the applicant's proposed exploration activities, including the bottom-hole locations and depths of proposed wells, and the estimated date drilling will commence. All exploration operations must be conducted under an approved plan of exploration. The commissioner will approve a unit plan of exploration if it complies with the provisions of 11 AAC 83.303. If the proposed unit plan of exploration is disapproved, the commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval.

(b) The unit plan of exploration must be updated and submitted to the commissioner for approval at least 60 days before the expiration date of the previously approved plan, as set out in that plan. The update must describe the extent to which requirements of the previously approved plan were achieved; if actual operations deviated from or did not comply with the previously approved plan, an explanation of the deviation or noncompliance must be included in the update. Within 10 days after receipt of an updated plan of exploration, the commissioner will inform the unit operator as to whether a proposed unit plan of exploration is complete. After the commissioner has determined that a unit plan of exploration is complete, as submitted or modified by the unit operator following the commissioner's suggestions, the commissioner will have an additional 30 days in which to approve or disapprove the plan; if no action is taken by the commissioner, the unit plan of exploration is approved.

(c) The commissioner will approve an update of the unit plan of exploration if it complies with the provisions of 11 AAC 83.303. If the proposed update of a unit plan of exploration is disapproved, the commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval.

(d) The unit operator shall submit an annual report to the commissioner describing the operations conducted under the unit plan of exploration during the preceding year.

(e) The unit operator may, with the approval of the commissioner, amend an approved plan of exploration. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.343. UNIT PLAN OF DEVELOPMENT. (a) A unit plan of development must be filed for approval as an exhibit to the unit agreement if a participating area is proposed for the unit area under 11 AAC 83.351, or when a reservoir has become sufficiently delineated so that a prudent operator would initiate development activities in that reservoir. All development operations must be conducted under an approved plan of development. A unit plan of development must contain sufficient information for the commissioner to determine whether the plan is consistent with the provisions of 11 AAC 83.303. The plan must include a description of the proposed development activities based on data reasonably available at the time the plan is submitted for approval as well as plans for the exploration or delineation of any land in the unit not included in a participating area. The plan must include, to the extent available information exists

(1) long-range proposed development activities for the unit, including plans to delineate all underlying oil or gas reservoirs, bring the reservoirs into production, and maintain and enhance production once established;

(2) plans for the exploration or delineation of any land in the unit not included in a participating area;

(3) details of the proposed operations for at least one year following submission of the plan; and

(4) the surface location of proposed facilities, drill pads, roads, docks, causeways, material sites, base camps, waste disposal sites, water supplies, airstrips, and any other operation or facility necessary for unit operations.

(b) The commissioner will approve the unit plan of development if it complies with the provisions of 11 AAC 83.303. If the proposed unit plan of development is disapproved, the

commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval.

(c) The unit plan of development must be updated and submitted to the commissioner for approval at least 90 days before the expiration date of the previously approved plan, as set out in that plan. The update must describe the extent to which the requirements of the previously approved plan were achieved; if actual operations deviated from or did not comply with the previously approved plan, an explanation of the deviation or noncompliance must be included in the update. The commissioner will approve the updated unit plan of development if it complies with the provisions of 11 AAC 83.303. If the proposed update of a unit plan of development is disapproved, the commissioner will, in his discretion, propose modifications which, if accepted by the unit operator, would qualify the plan for approval. Within 10 days after receipt of an updated unit plan of development, the commissioner will inform the unit operator as to whether the proposed unit plan of development is complete. After the commissioner has determined that an updated unit plan of development is complete as submitted, or as modified by the unit operator following the commissioner's suggestions, the commissioner will have an additional 60 days in which to approve or disapprove the plan; if no action is taken by the commissioner, the update of the unit plan of development is approved.

(d) The unit operator shall submit an annual report to the commissioner describing the operations conducted under the unit plan of development during the preceding year.

(e) The unit operator may, with the approval of the commissioner, amend an approved plan of development. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.345. MODIFICATION OF UNIT AGREEMENTS. Repealed 6/28/81.

11 AAC 83.346. UNIT PLAN OF OPERATIONS. (a) Except as provided in (b) of this section, a unit plan of operations for all or part of the unit area must be approved by the commissioner before any operations may be undertaken on the unit area if

(1) the state owns all or part of the surface estate of the unit area;

(2) the unit includes a lease that reserves a net profit share to the state; or

(3) the state owns all or part of the mineral estate, but the entire surface estate of the unit area is owned by a party other than the state, and a surface owner requests that a unit plan of operations be required by the commissioner for the portion of the unit area owned by that surface owner.

(b) A unit plan of operations will not be required by the commissioner for activities that would not require a land use permit under this title.

(c) Before undertaking operations of the unit area, the unit operator shall provide for full payment of all damages sustained by the owner of the surface estate as well as by the surface owner's lessees and permittees, by reason of entering the land. If the surface estate is owned by a party other than the state, the unit operator shall also notify the surface owner of his opportunity to request that the commissioner require a plan of operations before allowing operations to be undertaken on the unit area owned by the requesting surface owner.

(d) An application for approval of a plan of operations must contain sufficient information, based on data reasonably available at the time the plan is submitted for approval, for the commissioner to determine the surface use requirements and impacts directly associated with the proposed operations. An application must include statements, and maps or drawings, setting out the following:

(1) the sequence and schedule of the operations to be conducted in the unit area, including the date operations are proposed to begin and their proposed duration;

(2) projected use requirements directly associated with the proposed operations, including but not limited to the location and design of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment necessary to conduct the proposed operations;

(3) plans for rehabilitation of the affected unit area after completion of operations or phases of those operations; and

(4) a description of operating procedures designed to prevent or minimize adverse effects on other natural resources and other uses of the unit area and adjacent areas, including fish and wildlife habitats, historic and archeological sites, and public use areas.

(e) In approving a unit plan of operations or an amendment of a plan, the commissioner will require amendments he determines necessary to protect the state's interest. The commissioner will not require any amendment that would be inconsistent with the terms of sale under which the lease was obtained, or with the terms of the lease itself, or which would deprive the lessee of reasonable use of the leasehold interest.

(f) The unit operator may, with the approval of the commissioner, amend an approved plan of operations.

(g) Upon completion of operations, the unit operator shall inspect the area of operations and submit a report indicating the completion date of operations and stating any noncompliance of which the unit operator knows, or should reasonably know, with requirements imposed as a condition of approval of the plan. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83; am 3/18/83, Reg. 85)
Authority: AS 38.05.020 AS 38.05.145
AS 38.05.130 AS 38.05.180

11 AAC 83.350. APPROVAL OF FEDERAL UNITS. Repealed 6/28/81.

11 AAC 83.351. PARTICIPATING AREA. (a) At least 90 days before sustained unit production from a reservoir, the unit operator shall submit to the commissioner for approval a description, based on subdivisions of the public land or its aliquot parts, of the proposed participating area. The participating area may include only the land reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities. Under 11 AAC 83.371(a), the unit operator also shall submit to the commissioner for approval a proposed division of interest or formula setting out the percentage of production and costs to be allocated to each lease and portion of lease within the participating area. Upon approval by the commissioner, the area of productivity constitutes a participating area.

(b) A separate participating area must be established as provided in (a) of this section for each reservoir delineated, except that with the consent of the commissioner and all working interest owners, any two or more reservoirs or participating areas within the unit may be combined into one participating area. Separate participating areas may be established to distinguish between an oil rim and a gas cap within the same reservoir.

(c) A participating area must be expanded to include acreage reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to the production of hydrocarbons in paying quantities, and must be contracted to exclude acreage reasonably proven through use of geological, geophysical, or engineering data to be incapable of producing hydrocarbons in paying quantities, subject to approval by the commissioner. A revised division of interest or formula allocating production and costs must be submitted for approval under 11 AAC 83.371 at the time of expansion or contraction of a participating area. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85; am 3/30/84, Reg. 89)
Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.355. APPLICATIONS. Repealed 6/28/81.

11 AAC 83.356. UNIT AREA; CONTRACTION AND EXPANSION. (a) A unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations.

(b) 10 years after sustained unit production begins, the unit area must be contracted to include only those lands then included in an approved participating area and lands that facilitate production including the immediately adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling operations. The commissioner will, in his discretion, after considering provisions of 11 AAC 83.303, delay contraction of the unit area if the circumstances of a particular unit warrant. If any portion of a lease is included in the participating area, the entire lease will remain committed to the unit.

(c) Any expansion or contraction of the unit area must be based on legal subdivisions of land as defined in 11 AAC 88.185.

(d) No land will be excluded from a unit area due to the depletion of hydrocarbons.

(e) Not sooner than 10 years from the effective date of the unit agreement, the commissioner will, in his discretion, contract the unit area to include only that land covered by an approved unit plan of exploration or development, or that area underlain by one or more oil or gas reservoirs or one or more potential hydrocarbon accumulations and lands that facilitate production as set out in (b) of this section. Before any contraction of the unit area under this subsection, the commissioner will give the unit operator, the working-interest owners, and royalty owners of the leases or portions of leases being excluded reasonable notice and an opportunity to be heard. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 31.05.110 AS 38.05.145
AS 38.05.020 AS 38.05.180

11 AAC 83.360. NOTATION OF APPROVAL. Repealed 6/28/81.

11 AAC 83.361. CERTIFICATION OF WELL TEST RESULTS. For the purposes of 11 AAC 83.301 — 11 AAC 83.395, a well will be considered capable of producing hydrocarbons in paying quantities, as defined in 11 AAC 83.395, when so certified by the commissioner following application by the lessee or unit operator. The commissioner will require the submission of data necessary to make the certification, including all results of the flow test or tests, supporting geological data, and cost data reasonably necessary to show that the production capability of the well satisifies the economic requirements of the paying quantities definition. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.365. UNIT BONDS. Repealed 6/28/81.

11 AAC 83.366. UNIT OPERATING AGREEMENT. Any revision of the unit operating agreement must be submitted to the commissioner before it takes effect. The unit agreement controls the respective rights and obligations of the unit operator, the working-interest owners, the State of Alaska, and royalty interest owners other than the State of Alaska in case of conflict between the unit agreement and the unit operating agreement. Where conflicts exist solely between working-interest owners, the unit operating agreement shall control. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.370. SEGREGATED LEASES. Repealed 6/28/81.

11 AAC 83.371. ALLOCATION OF PRODUCTION AND COSTS. (a) The proposed or revised division of interest or formula allocating hydrocarbon production and unit operating costs among the leases in the unit area may not take effect until approved by the commissioner in writing. When requested by the commissioner, the lessees or unit operator shall promptly file with the commissioner all data that relates to the proposed or revised division of interest or allocation formula for all leases in the participating area. Before any disapproval of the proposed or revised division of interest or allocation formula, the commissioner will give the working interest and royalty owners reasonable notice and an opportunity to be heard. After the

hearing, the commissioner will approve the proposed or revised division of interest or allocation formula as submitted unless he finds in writing that the formula does not equitably allocate production and costs among the leases.

(b) If there is a separate division of interest or allocation formula among any of the parties holding an interest in the unit that is different from the division of interest or allocation formula approved by the commissioner, the parties to the separate division of interest or allocation formula not approved by the commissioner shall submit a copy of that formula to the commissioner and a statement explaining the reasons for the difference. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.373. SEVERANCE. (a) Except as otherwise provided in this section and 11 AAC 83.356, where only a portion of a lease is committed to a unit agreement approved or prescribed by the commissioner, the commitment constitutes a severance of the lease as to the unitized and nonunitized portions of the lease. The portion of the lease not committed to the unit will be treated as a separate and distinct lease having the same effective date and term as the original lease and may be maintained thereafter only in accordance with the terms and conditions of the original lease, statutes, and regulations. Any portion of the lease not committed to the unit agreement will not be affected by the unitization or pooling of any other portion of the lease by operations in the unit, or by suspension approved or ordered for the unit under 11 AAC 83.336(b).

(b) The commissioner will, in his discretion, grant up to a two-year extension of the lease term for that portion of a lease not committed to the unit agreement under this section.

(c) A lease having a well certified as capable of production in paying quantities before commitment to the unit agreement will not be severed. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.374. DEFAULT. (a) Failure to comply with any of the terms of an approved unit agreement, including any plans of exploration, development, or operations which are a part of the unit agreement, is a default under the unit agreement.

(b) The commissioner will give notice to the unit operator and defaulting party (if other than the unit operator) of the default. The notice will state the nature of the default and include a demand to cure the default by a specific date, which in the case of failure to pay rentals or royalties will be a date determined by the commissioner and in the case of any other default will be a date not less than 90 days after the date of the commissioner's notice of default.

(c) If a default occurs with respect to a unit in which there is no well capable of producing oil or gas in paying quantities and the default is not cured by the date indicated in the demand, the commissioner will, in his discretion, and after giving the unit operator and defaulting party (if other than the unit operator) reasonable notice and opportunity to be heard, terminate the unit agreement by mailing notice of the termination to the unit operator and defaulting party. Termination is effective upon mailing the notice.

(d) If a default occurs with respect to a unit in which there is a well capable of producing oil or gas in paying quantities and the default is not cured by the date indicated in the demand, the commissioner will, in his discretion, seek to terminate the unit agreement by judicial proceedings. (Eff. 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.375. CONFIDENTIALITY OF DATA. Repealed 3/18/83.

11 AAC 83.379. SIGNATURES. Each signature on the unit agreement must be notarized or attested by at least two witnesses. Corporate or other signatures made in a representative capacity must be accompanied by evidence of the authority of the signatory to act on behalf of the principal or by a reference to such evidence previously filed. The printed or typed name and address of each signatory to the unit agreement must be set out below the signature.

(Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.380. COUNTERPARTS. The parties may execute any number of counterparts of a unit agreement or may execute a ratification, joinder, or consent in a separate instrument. These documents have the same effect as if all parties signed the same instrument. (Eff. 9/5/74, Reg. 51; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.383. NOTATION OF APPROVAL. If approved by the commissioner, the counterparts of each instrument or document submitted for approval will be returned to the applicant with the commissioner's approval noted on the approved counterparts. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.385. MODIFICATION OF UNIT AGREEMENT. Any modification of an approved unit agreement is subject to the commissioner's approval. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.390. UNIT BONDS. In place of separate bonds required for each lease committed to a unit agreement, the unit operator shall furnish and maintain a statewide oil and gas lease bond under 11 AAC 83.160. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.393. APPROVAL OF FEDERAL AND PRIVATE PARTY UNITS. (a) If the State of Alaska selects or otherwise acquires any federal land which, at the effective date of selection or acquisition, is subject to a federal oil and gas lease which is committed to a unit agreement that has been approved in accordance with federal laws and regulations, the unit agreement will be considered to have been approved by the commissioner for all the purposes of AS 38.05 and 11 AAC 83.301 – 11 AAC 83.395.

(b) The commissioner will, in his discretion, enter into agreements with the federal government to provide for unitization of state and federal oil and gas leases overlying a common reservoir. If the agreement permits or requires the commissioner to take any action or enter into any unit agreement which is contrary to or inconsistent with 11 AAC 83.301 – 11 AAC 83.395, the commissioner will, in his discretion, do so after making a written finding that his action or the unit agreement is necessary or advisable to protect the public interest, and will, in all cases, comply with the requirements of 11 AAC 83.303 and 11 AAC 83.311.

(c) Any person owning an interest in a state oil and gas lease who has been asked to join a unit in which all state leases proposed to be committed to the unit constitute not more than 10 percent of the surface acreage of the unit or not more than five percent of the initial participation in the unit may request approval of the commissioner to join the unit as a working interest owner and may also request that the commissioner join the unit as a royalty owner. The commissioner will, in his discretion, approve and join the unit agreement as a royalty owner if, after giving public notice in accordance with 11 AAC 83.311, he makes written finding that the proposed unit is necessary or advisable to protect the public interest considering the criteria in 11 AAC 83.303. A unit agreement entered into under this section need not comply with the requirements of this chapter. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.395. DEFINITIONS. Unless the context clearly requires a different meaning, in 11 AAC 83.301 – 11 AAC 83.395 and in the applicable unit agreements

(1) "conservation of the natural resources of all or part of an oil or gas pool, field or like area" means maximizing the efficient recovery

of oil and gas and minimizing the adverse impacts on the surface and other resources;

(2) "commissioner" means the commissioner of the state Department of Natural Resources or his designee;

(3) "force majeure" means war, riots, acts of God, unusually severe weather, or any other cause beyond the unit operator's reasonable ability to foresee or control and includes operational failure to existing transportation facilities and delays caused by judicial decisions or lack of them;

(4) "paying quantities" means quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss; quantities are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities;

(5) "potential hydrocarbon accumulation" means any structural or stratigraphic entrapping mechanism which has been reasonably defined and delineated through geophysical, geological, or other means and which contains one or more intervals, zones, strata, or formations having the necessary physical characteristics to accumulate and prevent the escape of oil and gas;

(6) "reservoir" means an oil or gas accumulation which has been discovered by drilling and evaluated by testing and which is separate from any other accumulation of oil and gas;

(7) "unit" means a group of leases covering all or part of one or more potential hydrocarbon accumulations, or all or part of one or more adjacent or vertically separate oil or gas reservoirs, which are subject to a unit agreement;

(8) "unit agreement" means the agreement executed by the State of Alaska, working-interest owners, and royalty owners creating the unit; and

(9) "sustained unit production" means continuing production of oil or gas from a reservoir in the unit area into a pipeline or other means of transportation to market, but does not include testing, evaluation, or pilot production.

(Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

ARTICLE 4.
COMMUNITIZATION AND DRILLING AND DEVELOPMENT CONTRACTS

Section
400. Applications

11 AAC 83.400. APPLICATIONS. Applications for approval of a communitization or drilling agreement under AS 38.05.180(s) or drilling or development contracts under AS 38.05.180(t) must comply with 11 AAC 85.105 and must be accompanied by three signed copies of the proposed agreement. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180

ARTICLE 5.
UNDERGROUND STORAGE

Section
500. Qualifications to hold storage lease
505. Storage lease restrictions
510. Lieu royalty
515. Term of affected oil and gas leases
520. Applications for storage lease

11 AAC 83.500. QUALIFICATIONS TO HOLD STORAGE LEASE. A storage lease authorized by AS 38.05.180(u) may be issued to any person qualified to hold an oil and gas lease, whether or not the person holds an oil and gas lease on all or part of the land covered by the storage lease. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(u)

11 AAC 83.505. STORAGE LEASE RESTRICTIONS. A storage lease issued under AS 38.05.180(u)

(1) does not give the storage lessee any right to drill for, develop, produce, extract, remove, or market oil, gas or other natural resources in and from the land covered by the storage lease other than oil or gas or both in an amount not greater than the amount of oil or gas or both introduced into that land for storage;

(2) does not prohibit the state from issuing oil and gas leases to others covering all or portions of the land covered by the storage lease;

(3) must contain conditions that will prevent unnecessary or unreasonable interference with the rights and operations under any oil and gas lease, including conditions prohibiting the storage of oil or gas in any reservoir capable of producing oil or gas in paying quantities without the consent of the holder of any oil and gas lease covering the reservoir;

(4) must contain a damage provision as stated in sec. 160 of this chapter and the reservations provided for in sec. 155 of this chapter;

(5) must provide for a storage fee or rental on stored oil or gas or both, as determined by the commissioner;

(6) must specify its terms; and

(7) must contain any other provision that the commissioner considers reasonable and necessary to protect the interests of Alaska. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(u)

11 AAC 83.510. LIEU ROYALTY. In cases where the storage lessee also holds the right to produce oil or gas not previously produced in conjunction with stored oil or gas, the storage lease may, in place of the fee or rental provided for under sec. 505(5) of this chapter, provide for a royalty upon stored oil or gas when produced. The royalty rate may be the same as or different from the royalty rate or rates provided for in any oil and gas leases involved. If the rate is different from the rate or rates in the oil and gas lease or leases, the storage lease must specify whether or not that different rate applies to oil or gas not previously produced and thereafter produced in conjunction with stored oil or gas. If the different rate is to apply, the royalty rate or rates under the oil and gas lease or leases must be modified with respect to oil or gas so produced. If the different rate is not to apply, the storage lease must specify a reasonable method for determining respective portions of production to which the different royalty rates

apply. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180

11 AAC 83.515. TERM OF AFFECTED OIL AND GAS LEASES. Where the storage lessee also holds the right to produce oil or gas not previously produced in conjunction with stored oil or gas, any lease covering the oil or gas not previously produced shall be extended for the period of storage and so long thereafter as oil or gas is produced in paying quantities from the zones or geologic horizons used for that storage. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.180(r)

11 AAC 83.520. APPLICATIONS FOR STORAGE LEASE. Applications for storage leases must comply with 11 AAC 88.105 and be accompanied by

(1) three copies of a proposed form of storage lease; and

(2) supporting data demonstrating the feasibility of the proposed storage project. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)

ARTICLE 6.
FEDERAL LEASES AND PREFERENCE RIGHTS ON ALASKA LANDS

Section

11 AAC 83.600. DATE OF TRANSFER – UPLANDS AND SHORELANDS. The effective date of the transfer of the lessor's interest under leases transferred from the United States to Alaska is the effective date of patent, or the date on which the land subject to the leases is transferred from the United States to Alaska, whichever is applicable. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(o)

11 AAC 83.605. NOTICE OF PATENT. Promptly upon receipt of a lease from the federal government, the commissioner will mail notice to the lessee of record and to any operator whose operating agreement has been approved, stating the effective date of the patent and that all payments accruing after that effective date must be made as directed by the commissioner. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)

11 AAC 83.610. EXCHANGE. Repealed 7/22/79.

11 AAC 83.615. SUBSTITUTION OF LESSOR. Upon the transfer of a federal lease to the state, Alaska succeeds as the lessor, and all obligations accruing after that date are owed to Alaska, and all payments, reports, notices, applications, and similar matters required or permitted under the lease must, after that date, be addressed as directed by the commissioner. The commissioner is authorized to enforce all obligations, give all notices, make all determinations and do all other things that any officer or representative of the United States could do if the lease remained a federal lease. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(o)

11 AAC 83.620. RENTAL PAYMENT. The failure to timely pay rental to Alaska for the first and second lease years commencing after the effective date of the transfer of the lease to Alaska does not terminate the lease if the rental payment was made to the United States within the time allowed, and either the payment is transmitted to Alaska by the United States or the lessee makes payment to Alaska within 30 days after receiving written notice demanding the payment. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)

11 AAC 83.625. SHORELANDS PREFERENCE RIGHTS: GENERAL. For the purposes of AS 38.05, "shorelands" means that land belonging to the State of Alaska which is covered by nontidal waters that are navigable under the laws of the United States up to the ordinary high water mark, as modified by accretion, erosion, or reliction before September 5, 1974 or after September 4, 1974. This land does not include tideland which is periodically covered by tidal waters between the elevation of mean high and mean low tides, nor does it include submerged land, bays, or estuaries that are subject to the ebb and flow of the tide. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(o)

11 AAC 83.630. SHORELANDS PREFERENCE RIGHTS: LEASE APPLICATION. (a) After determination of navigability, the holder of a federal or private upland lease, on his own motion or within 30 days from receipt of notice from the commissioner, may apply for and will be issued a State of Alaska lease covering any land within the exterior boundaries of the federal or private lease which has been excluded from the lease on the basis of navigability. The term of the State of Alaska lease will conform to the primary term of the federal or private lease giving rise to the preference right, including any extended term of it.

(b) No attempt to segregate the shoreland preference right from the federal or private lease by assignment will be approved by the commissioner. If a partial assignment of the federal or private lease is made, the shoreland within the section or aliquot part of the section is subject to the assignment. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(o)

ARTICLE 7.
WORK COMMITMENT

Section
700. Work commitment
705. Work commitment modification

11 AAC 83.700. WORK COMMITMENT. (a) If a work commitment is a condition of a lease, the terms of the work commitment will be specified in the notice of sale. The work commitment will state the minimum requirement for exploration and development on each lease. The lessee shall file reports with the commissioner substantiating adherence to the work commitment terms.

(b) The commissioner will, in his or her discretion, alter or abrogate the terms of the work commitment if the lessee demonstrates to the satisfaction of the commissioner that the lease will be unproductive or uneconomic under the terms of the work commitment.

(c) The commissioner will abrogate a work commitment if the lessee relinquishes the lease.

(d) The commissioner will, in his or her discretion, grant a single waiver of any term of a work commitment imposed on a lease under (a) of this section for a period not to exceed two years if the commissioner makes a written finding that conditions preventing fulfillment of the work commitment were beyond the lessee's reasonable ability to foresee or control. The commissioner will consider the following factors when determining whether the conditions preventing fulfillment of the work commitment were beyond the lessee's reasonable ability to foresee or control:

(1) the lessee's statement of the conditions that prevented fulfillment of the work commitment;

(2) the lessee's explanation of how those conditions prevented fulfillment of the work commitment;

(3) the lessee's explanation of how and why the lessee did not foresee or failed to avoid the conditions that prevented fulfillment of the work commitment;

(4) the lessee's explanation of why the conditions that prevented fulfillment of the work commitment were beyond the lessee's reasonable control;

(5) the lessee's plans to remedy the conditions that prevented fulfillment of the work commitment during the initial term of the work commitment;

(6) the lessee's plans to fulfill the terms of the work commitment during the term of the waiver; and

(7) other relevant information.

(e) The commissioner will, in his or her discretion, grant a single waiver of any term of a work commitment imposed on a lease under (a) of this section for a period not to exceed two years if the commissioner makes a written finding that the lessee has demonstrated, through good faith efforts, the intent and ability to fulfill the terms of the work commitment during the term of the waiver. The commissioner will consider the following factors when determining whether a lessee has demonstrated the intent and ability to fulfill the terms of a work commitment during the term of any waiver that may be granted:

(1) whether the lessee has undertaken appropriate actions to fulfill the work commitment, including but not limited to having acquired permits, materials, and financing necessary to fulfill the work commitment;

(2) reasons why fulfillment of the work commitment during the term of any waiver that may be granted is more likely than it was during the initial term of the work commitment;

(3) the lessee's specific plans and actions to be taken to fulfill the work commitment during the term of the waiver; and

(4) other relevant information.

(f) The length of time for a waiver granted under (e) of this section will be based on the time determined by the commissioner to be needed for the lessee to take the specific actions planned by the lessee to fulfill the work commitment during the term of the waiver.

(g) If a lessee fails to meet any term of a work commitment by its due date, the lease will automatically terminate. In addition, any penalty provisions established by the commissioner in the work commitment stipulation or as a condition to any extension, alteration, or waiver will take effect immediately if the work commitment is not completed by its due date. For purposes of this subsection, the due date for a work commitment is its original due date under the work commitment stipulation to the lease, plus any additional time granted by extension, alteration, or waiver of the work commitment.

(h) As a condition of waiver of any term of a minimum work commitment under (e) of this section, the commissioner will, in his or her discretion, require the lessee to post a performance bond or other security acceptable to the commissioner. The amount of the performance bond or other security, if required, will be set by the commissioner in an amount not to exceed $100,000 for each lease. The bond or other security will be released to the lessee upon fulfillment of the work commitment. If, before the end of the waiver period granted under (e) of this section, the commissioner agrees to alter or abrogate the terms of the work commitment under (b) or (c) of this section, part of the bond or other acceptable security will forfeit automatically to the state in proportion to the portion of the waiver period that has elapsed, unless forfeiture is waived by the commissioner. If the work commitment is not fulfilled by the end of the waiver period, the performance bond or other security will forfeit automatically to the state. The commissioner will, in his or her discretion, establish additional terms or penalties as a condition of waiver of a work commitment.
(Eff. 11/9/79, Reg. 72; am 9/25/85, Reg. 95)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.705. WORK COMMITMENT MODIFICATION. Application for modification of a work commitment under AS 38.05.180(h) must comply with 11 AAC 88.105 and must

(1) state all the facts that may entitle the applicant to a modification of the work commitment;

(2) state the location and status of all past and present activities on the lease;

(3) contain a detailed report of all activity on the lease preceding the filing of the application and must include an accounting for all expenses and costs of operating the lease;

(4) be filed not later than 30 days before the existing deadline for the fulfillment of the term of the work commitment the lessee wishes to be modified;

(5) address all pertinent factors listed in 11 AAC 83.700(b), (c), (d) and (e), as appropriate; and

(6) in connection with an application for a waiver under 11 AAC 83.700(e), affirm the lessee's readiness and ability to post a performance bond or to provide other security acceptable to the commissioner to assure fulfillment of the work commitment. (Eff. 11/9/79, Reg. 72; am 9/25/85, Reg. 95)

Authority: AS 38.05.020
AS 38.05.180

ARTICLE 8.
EXPLORATION INCENTIVE CREDIT

Section
800. Exploration incentive credits
805. Credit for exploratory wells
810. Credit for geophysical work
815. Filing of statements
820. Definitions

11 AAC 83.800. EXPLORATION INCENTIVE CREDITS. (a) If the commissioner receives a request for exploration incentive credit, the commissioner will, in his discretion, allow credits for expenditures for both exploratory wells and geophysical work against

(1) oil and gas royalty payable in-value and rental payments payable to the state; or

(2) taxes payable under AS 43.55.

(b) The period during which exploration incentive credits may be earned and used and the percent of the exploration expenditures that will be allowed for credits in a particular region will be established by the commissioner and will be announced no sooner than two years before the sale but in no event later than the date of the notice of sale. The period during which exploration incentive credits may be earned and used may be extended at the discretion of the commissioner. Exploration incentive credits may be assigned. A notice of assignment must be filed with the commissioner on forms prescribed by the department. (Eff. 11/9/79, Reg. 72; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.805. CREDIT FOR EXPLORATORY WELLS. Credits may be earned only for one well per sale tract as that tract is defined on the day of a competitive oil and gas lease sale. Actual footage drilled in exploratory wells may earn exploration incentive credits at a rate established by the commissioner. In place of credit for actual footage drilled, expenditures for other operations related to the well will be considered for credit in the following manner:

(1) The cost of constructing and preparing the drilling location will be credited on a case-by-case basis at the discretion of the commissioner, who will determine the specific costs applicable to the exploratory well.

(2) Credits for other costs incurred by the lessee when drilling the exploratory well will also be considered on a case-by-case basis.

(3) At the request of the commissioner, the lessee shall submit all cost information necessary to determine the accuracy of the requested credits. If more than one company participates in drilling the exploratory well, then credit will be allowed in proportion to the participation in the drilling cost of the well. (Eff. 11/9/79, Reg. 72; am 3/30/84, Reg. 89)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.810. CREDIT FOR GEOPHYSICAL WORK. (a) Geophysical exploration costs may be credited at a rate approved by the commissioner in the following manner:

(1) If the applicant desires credits for geophysical work, copies of the geophysical data

obtained during the credit time period must be submitted to the commissioner within 90 days after completion of collection and processing of data.

(2) The commissioner will inspect the information submitted to ensure that the geophysical work was conducted according to accepted standards of geophysical practice before granting credits.

(3) The applicant is responsible for submitting correct information, for advising the state of any erroneous data previously submitted, and for correcting all errors in the geophysical information.

(b) Credits may be considered for geophysical work performed during the two seasons before the scheduled sale date.

(c) Geophysical information which accompanies an application under 11 AAC 83.815 for

geophysical exploration incentive credits, including information submitted under (a)(1) – (3) of this section, will be made public 30 days after the lease sale date. (Eff. 11/9/79, Reg. 72; am 3/18/83, Reg. 85)

Authority: AS 38.05.022
AS 38.05.180

11 AAC 83.815. FILING OF STATEMENTS. (a) Applications for determinations of total exploration incentive credits must be signed and notarized by the lessee or its authorized representative and contain a statement attesting to the truth and accuracy of the information submitted. Applications must be submitted in triplicate to the commissioner and must include an accounting of expenditures and the date the expenditure was made.

(b) Applications for geophysical work credits must be signed and notarized by the person performing the work or his authorized representative and contain a statement attesting to the truth and accuracy of the information submitted. Applications must be submitted in triplicate to the commissioner and contain copies of the required geophysical information.

(c) The commissioner will, in his discretion, request additional information if an application contains insufficient information to determine the accuracy of the request for credit.

(d) Once exploration incentive credit is granted by the commissioner, the commissioner will certify to the grantee the amount of the credit, the work for which the credit was given, the period during which it may be (or has been) earned, and the period during which it may be applied.

(e) Approved credits, when used, must be reported on the monthly royalty or tax payment statement or on the yearly rental payment statement against which they are being applied. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.030
AS 38.05.180

11 AAC 83.820. DEFINITIONS. Unless the context clearly requires a different meaning, as used in 11 AAC 83.800 – 11 AAC 83.820

(1) "commissioner" means the commissioner of the Department of Natural Resources, State of Alaska;

(2) "exploratory well" means a well drilled for the purpose of oil and gas exploration that

(A) is located three miles or more from any other well drilled for oil and gas with all distances measured as the horizontal distance between exploration targets, or

(B) is within three miles from a well drilled for oil and gas, but tests potential hydrocarbon traps that the commissioner, after analyzing evidence submitted by the lessee and other information, determines constitute a distinctly separate exploration target;

(3) "geophysical exploration season" means one year;

(4) "geophysical information" means the raw field data and all information necessary to compute, process, and prepare the field data for geological interpretation; for seismic work, this data includes the standard processed sections that are stacked after filtering and correction for statics and normal moveout;

(5) "geophysical work" means all geophysical methods used in hydrocarbon exploration and for the determination of geologic hazards, including but not limited to seismic, gravity, magnetic and electromagnetic measurements;

(6) "tax" means payments due under AS 43.55 or its successor tax.

(7) "actual footage drilled" means the well's measured depth, and may include sidetracking or redrilling necessary to reach the originally proposed bottom-hole location. (Eff. 11/9/79, Reg. 72; am 3/30/84, Reg. 89)

Authority: AS 38.05.020
AS 38.05.180

ARTICLE 9.
EXEMPT LEASE SALES

Section
900. Previously offered land
901. Exempt lease sales
910. Land contiguous to leased land

11 AAC 83.900. PREVIOUSLY OFFERED LAND. The commissioner will adopt a leasing method under AS 38.05.180(f) for exempt lease sales of land previously offered for oil and gas lease. (Eff. 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180(w)

11 AAC 83.901. EXEMPT LEASE SALES. An "exempt lease sale" or "exempt sale" is a lease sale excepted from the five-year oil and gas lease program requirement by AS 38.05.180(d)(1) – (4) or AS 38.05.180(w). (Eff. 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.910. LAND CONTIGUOUS TO LEASED LAND. As used in AS 38.05.180(d)(2), and notwithstanding 11 AAC 88.185(1), "contiguous" means sharing a common boundary or a common corner. (Eff. 3/26/81, Reg. 77)

Authority: AS 38.05.020(b)(1)

CHAPTER 84.
OTHER LEASABLE MINERALS

Article
1. Coal (Repealed)
2. Phosphates (11 AAC 84.200)
3. Oil Shale (11 AAC 84.300)
4. Sodium (11 AAC 84.400)
5. Sulphur (11 AAC 84.500)
6. Potassium (11 AAC 84.600)
7. Geothermal Leasing (11 AAC 84.700–11 AAC 84.790)
8. Geothermal Unitization (11 AAC 84.810–11 AAC 84.950)

Editor's Note: The mineral-leasing regulations in 11 AAC 82, 11 AAC 83, 11 AAC 84, 11 AAC 86 and 11 AAC 88, effective September 5, 1974, and distributed in Alaska Administrative Register 51, constitute a comprehensive reorganization and revision of this material, and thus the history line at the end of each section does not reflect the history of the provision before September 5, 1974, and the section numbering may or may not be related to the numbering before that date.

ARTICLE 1.
COAL

Repealed 6/18/82.

Editor's Note: The former Article 1 relating to coal leasing was replaced by 11 AAC 85, effective 6/18/82 and distributed in Register 82.

ARTICLE 2.
PHOSPHATES

Section
200. Phosphate leasing method

11 AAC 84.200. PHOSPHATE LEASING METHOD. Phosphate leases authorized by AS 38.05.155 are subject to disposition under 11 AAC 82. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)

ARTICLE 3.
OIL SHALE

Section
300. Oil shale leasing method

11 AAC 84.300. OIL SHALE LEASING METHOD. Oil shale leases authorized by AS 38.05.160 are subject to disposition under 11 AAC 82. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)

divided into two categories, those within the city boundaries of Fairbanks and North Pole, and those outside those boundaries. A certain number of signatures of each category of citizen is needed on the petitions, and then, a majority of votes in each category is needed when the unification issue is finally put on the ballot.

candidates. In fact, several league members later said that their participation in the gathering of signatures is not assured at this point and will be decided in a membership meeting March 5.

Whoever attempts to gather the needed signatures will certainly face an uphill battle in convincing rural residents that

studying unification?" To which a fair reply would be: If someone is determined to drown you in deep water, would you like to go for a little swim with him?

If this is on the fall ballot, we will also be asked to elect members of the charter commission. Rest assured that these folks will be advocates of one larger unified

clerk's office, voters who have previously signed the petition, but who now would like their name removed from it, may give a signed statement to that effect to that office. Possibly, as the true ramifications of a unification move sink in, the petitions will shrink in length rather than expand, and we can continue under our three smaller, more responsive local governments.

All Alaska Weekly Feb 26, 1988

Governor promises economic cures and big deals

by Cliff Burglin

Governor Cowper is turning into a carrot dangler. A carrot dangler could be defined as someone who is going to cure all of the state's economic ills with a big deal that is right around the corner. Like the proverbial rabbit, for the people of Alaska, the carrot is always two strides out of reach.

Among the governor's carrots are making the state a financial power in the Western Hemisphere. Another is a gas line from the North Slope that will soak up all of Alaska's unemployed at high wages. Still another is having foreign nations come in and invest a lot of money in the development of Alaska's timber, mining, agricultural, etc. resources. Notwithstanding the fact that every one of these resources can be developed more profitably and with more encouragement in other states and other nations.

It is relatively easy for the governor to meet and associate with the top people in other nations and other states. It is quite another thing for these people to invest hard dollars in Alaska's resources where state government with its regulations and restrictions prohibits any development from being profitable.

The governor and legislature could at least insure that our most profitable and viable industry is encouraged. The best way to do this is to amend and extend all of the oil and gas leases that were issued when oil was in excess of $30 a barrel.

The leases that were issued for shorter periods than 10 years should have their terms extended for the additional years up to 10 years. The terms of all leases should be the same: 12-1/2 percent royalty plus severance tax. This would bring state leases in line and competitive with adjacent federal and Native lands within the state.

For instance at 12-1/2 percent royalty plus severance tax, Conoco's Milne Point and Gwyder Bay fields would be economic and competitive. With the severance tax the state's take equals about 25 percent. Not too bad for putting forth very little positive effort.

It would also mean that the Texas Eastern, Amerada Hess, etc. tracts adjacent to Seal Island would be bringing in a great deal of money to the state when that field is put on line. As of now these leases carry between 85 and 93 percent net profits.

If the terms of these leases are not amended to be competitive, they will be drained by the adjacent federal tracts and rather than the state earning 25 percent of a couple hundred million barrels of oil plus any gas, it will earn 85 to 93 percent of nothing.

Out of the hundreds of state leases, fewer than 50 would have to be amended. If these leases are not amended, this acreage will probably never be developed.

Another advantage to amending the terms and the other provisions would be that it would not take an army of state accountants, lawyers and assorted bureaucrats to litigate the definition of net profits.

It would also be a good idea if the state adhered to the same leasing procedures and conditions for every sale.

If these suggestions are followed it might not be too late for the State of Alaska to continue to be a world class oil producer. Make no mistake, oil will be produced in Alaska, but certainly not on state lands with the current eccentric and inconsistent state policies.

Despite the fact that the majors have announced that they plan to spend $25 billion in Alaska, it is certainly not all going to be spent developing oil and gas reserves on state acreage. This is yet another reason for the state to get its policies, regulations and terms in line with their two major competitors within the state — the Native corporations and the federal government.

If the state does not change its practices, less than one half of this money will be spent on state lands which means eventually, less than one half of the oil flowing through the pipeline will be state oil.

Catastrophic illness insurance for all Alaskans

by Rep. Niilo Koponen
House District 21

The United States is the only major

The current proposals include SSHB 410 which provides for affordable catastrophic illness insurance automatically extended to all state residents. There is a

to go through the hearing process and be made both affordable and reasonable for the people of the state. Alternatives include lowering the benefit cost by raising

Like anything else, the bill would require continuing effort to lower costs and extend benefits as Alaska changes. One brick does not make a wall, but the cats

PARTICIPATING AREAS

Study shows as much as 25% error

by Ruth A. Maurer and Bruce C. Kirchhoff

Millions of dollars are invested in scientific exploration and development in federal oil and gas units. Yet participating area determinations are often made by simple observation.

And those determinations can be wrong.

Those are among the conclusions of a sample study of 30 successful exploratory wells in Colorado and Wyoming conducted at the Colorado School of Mines. Using a precise, computer-generated determination of the participating areas, the study showed 16 of the 30 improperly included or excluded acreage.

Even state-of-the-art technology cannot pinpoint the optimal well location within a reservoir.

Geophysical and geological information can only suggest, within a section or quarter-section of the public land survey, the well location having the greatest potential.

Geological data is of limited use or accuracy in determining, upon completion of a well, which lands are reasonably proved productive of unitized substances in paying quantities, such that certain lands should or should not be included in a participating area. Therefore, a technologically sound proxy must be developed to determine the boundaries from within which oil and gas are actually produced.

Several methods of allocation are used in the region, the study revealed. New Mexico uses a drilling block system, defined by a state well-spacing statute. Montana attempts, optimistically, to use only geological information in its determination of participating areas. Utah has reportedly processed relatively few operating federal units, but uses the circle-tangent method.

Colorado and Wyoming are the only Rocky Mountain states surveyed that extensively use the circle-tangent method. This method reasonably assumes that the fluid flow from the reservoir into the wellbore is in the radial direction.

The radius of this drainage boundary is determined primarily by geologic and engineering information. Consideration is also given to the depth of the productive zone and whether oil or gas is the primary substance produced. Only after a well is determined to be productive in paying quantities is the circle-tangent method applied.

According to the circle-tangent method, 40- or 10-acre tracts entirely within the drainage boundary are included in the participating area. Tracts

Summary of working interest changes

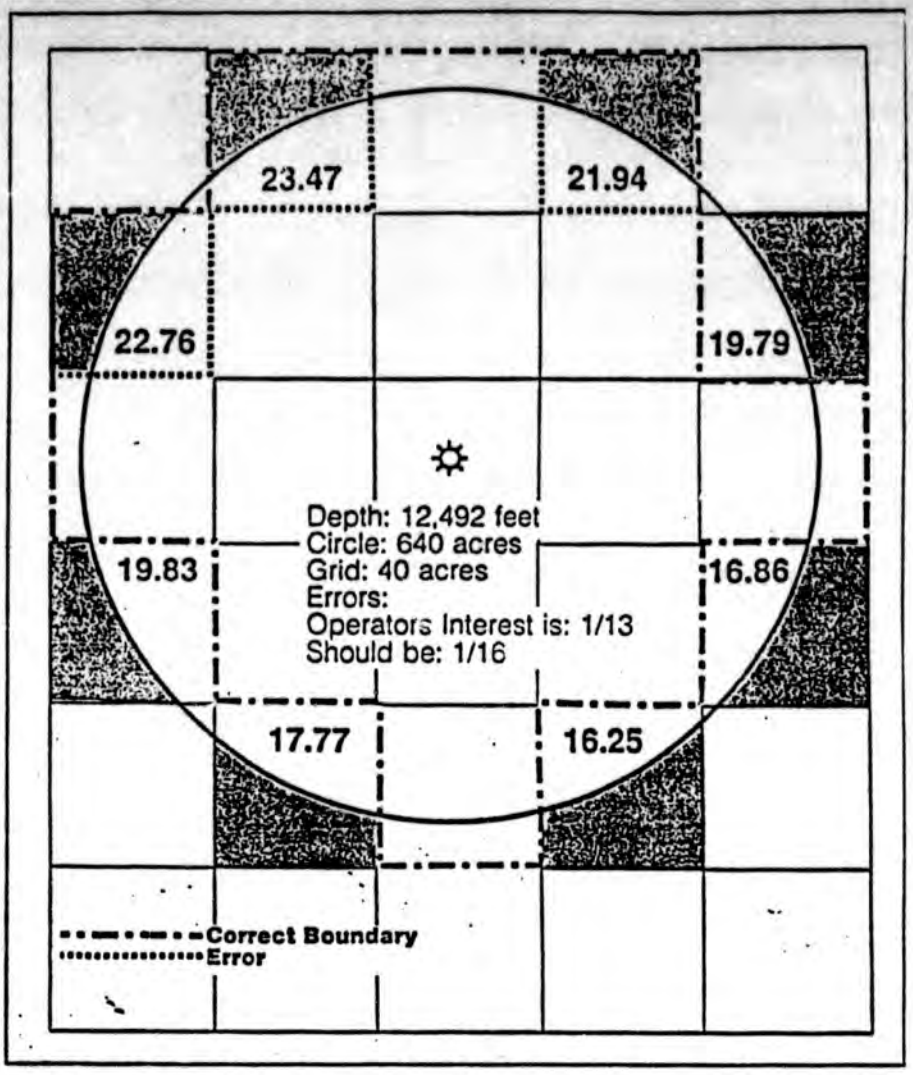
Calculated from precise participating area determinations

Well No.	Errors	Working Interest As Approved	Actual	Change	Comment
1	No	14/14	14/14		Operator holds no tracts
2	No	15/15	15/15		
3	No	10/17	10/17		
4	Yes	1/13	1/16	0.014423	Operator's benefit
5	Yes	8/8	6/8	0.250000	Operator's benefit
6	Yes	16/16	15/15		Operator's benefit subsequent well
7	Yes	8/14	8/15	0.038095	Operator's benefit
8	No	8/8	8/8		
9	Yes	8/8	8/8		Operator's benefit if drilled to southwest
10	No	13/15	13/15		
11	No	11/15	11/15		
12	No	8/17	8/17		
13	No	10	0		
14	No	9/14	9/14		
15	Yes	15/16	14/15	0.004167	Operator's benefit
16	Yes	4/8	4/7	0.071429	Not operator's benefit
17	Yes	14/14	15/15		Not consequence
18	No	11/15	11/15		
19	No	17/17	17/17		
20	Yes	15/17	14/15	0.007353	Operator's benefit
21	Yes	8/8	7/7		No consequence
22	No	16/16	16/16		
23	Yes	0/16	1/17	0.058824	Not operator's benefit
24	No	16/16	16/16		
25	Yes	4/15	3/14	0.052381	Not operator's benefit
26	Yes	15/15	16/16		Operator's benefit when P.A. enlarged
27	No	16/16	16/16		
28	Yes	8/8	8/8		consequence
29	Yes	16/16	15/15		Operator's benefit subsequent well
30	Yes	3/14	3/15	0.014286	Operator's benefit

Source: Ruth A. Maurer & Bruce C. Kirchhoff

Off target

This chart shows both the working interest for each participating area as approved by working interest owners and accepted by the BLM, and as precisely determined by the software used in the study. Errors ranged up to 25%.



Human error

One of the incorrectly determined participating areas. Computer-generated determinations showed that 16 out of 30 areas improperly included or excluded acreage. Most often operators benefited from the errors.

cut half or more by the boundary are also included.

When subsequent wells are drilled and determined to be productive from a common pool, the participating area is often enlarged. The revised participating area now includes all lands within each separate participating area by virtue of the common acreage drained.

An individual working interest within the participating area is determined by the proportion of acreage contributed by that working interest owner to the total acreage in the participating area.

Critical to this study is the rule that all acreage proved reasonably productive by this method shall be included in the participating area and will share in its expense and revenue.

Tools implementing the circle-tangent method today are basic. Wells are located on a scaled map by ruler and pencil. Circles are drawn by compass. The "eyeball technique" determines whether, in a questionable situation, a given tract is cut half or more by the drainage boundary.

A second technique attempts to be more accurate. A scaled grid system is employed to determine whether a given tract is cut half or more by the drainage boundary. For example, the number of grids in a questionable tract contained within the drainage boundary are counted and converted to an acreage figure. Such a tedious technique must assume the accuracy of the graph paper, the ruler and the compass.

Clearly, a problem exists where millions of dollars are invested in scientific exploration and development, but the participative determinations are made by simple observation. In order to de-

termine the problem's magnitude, a study was conducted at Colorado School of Mines.

A sample of 30 successful exploratory wells was studied to determine whether the corresponding participating areas were correctly determined. Data was obtained from several Bureau of Land Management (BLM) offices in Colorado and Wyoming. The information requested included the unitized substance produced, productive zone depths, well location coordinates and land maps showing participating area boundaries.

Using a newly available software package by Precision Units Inc., the participating area for each well was precisely determined, based on the circle-tangent method and the following assumptions:

- Unless otherwise noted on state well completion forms, surface well location coordinates indicate the bottomhole location, the true predicate for participating area determination.
- All information received concerned participating areas determined by the circle-tangent method, rather than by an exception to the method.

Of the 30 participating areas, 16 were in error. Of the 16 errors made by operators and approved by other working interest owners, 10 accrued, or likely would accrue to the operator's benefit. Of the remaining six errors, three were neutral and three decreased the operator's working interest.

In the study, differences between correct operator's working interests and working interests as approved ranged from 0.4167% to 25%.

Three of the errors deserve special mention. In one application, interest owners approved a participating area based on a well location established in the wrong 40-acre tract.

In another application, the operator submitted a completed well drilled in SW NW 17 and incorrectly determined the participating area to include all of the section. The operator omitted the acreage reasonably proved productive in Section 18. Incredibly, no acreage in Section 17 was leased by the operator, who held all of Section 18 under lease. The participating area was modified to include some of the operator's acreage in Section 18, but one 40-acre tract too many was included.

In a third case, an operator submitted a participating area which could only have been determined from a state regulatory commission spacing order. But no such order was issued for the acreage in question. The adjoining interest owners approved an 8/8 working interest in favor of a single party. That party's correct interest was 6/8. In this case, a single working interest owner lost the 1/4 interest in the well. □

About the authors

Ruth A. Maurer, Ph.D., is associate professor of mineral economics at the Colorado School of Mines, Golden, Colo. She has served as a consultant for several firms.

Bruce C. Kirchhoff will graduate this month from the Colorado School of Mines with a master of science degree in mineral economics. He completed his law degree at the University of Denver and is employed by a Denver law firm. He is also founder and president of Precision Units Inc., Denver, consultants in unitization.

1. What is the purpose of establishing a P.A. (participating area) (-11AAC 83.351)?

2. How does determination of a P.A. effect state revenues?

3. Why is it necessary to compromise P.A. s?

4. Who determines whether or not a P.A. compromise (revenue compromise) is in the State of Alaska or any other parties' best interest?

5. What state agency has statutory or regulatory authority to "compromise" geological, geophysical and engineering data used to establish an initial P.A.?

6. How many gas fields have been clearly delineated (defined) in the State of Alaska?

7. Is the drilling of delineation wells the most accurate method of determining the productive limits of a gas field?

8. Is there any consistent procedure or common industry knowledge (i.e. basic engineering principles used by the DO&G (Division of Oil & Gas) to "compromise" data used to determine P.A. s?

9. In general would a single gas pool with one producing well estimated to contain 50 BCF of gas reserves have a larger or smaller initial P.A. than one producing well in a single gas pool estimated to contain 400 BCF of gas reserves?

10. Does the DO&G feel it should have to comply with statutes and regulations adopted by the AOGCC?

11. Does the AOGCC feel it should have to comply and abide by the statutes and regulations adopted by the DO&G?

12. According to state regulation 20 AAC 25.055 Drilling Units and Well Spacing, what is the minimum area (acres) drained by a productive gas well as determined by the AOGGC (ALASKA OIL AND GAS CONSERVATION COMMISSION)?

13. When a gas well has been certified by the DO&G as capable of producing in paying quantities (11 AAC 83.105) is it reasonably known that at least 640 acres around the well bore is contributing to the gas being produced from a producing gas well?

C. Burglin
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(907) 452-5149

April 7, 1987

Katherine Fortney
State Division of Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510-0734

Dear Kate:

Burglin et al (Burglin) is requesting a written policy from the Division of Oil and Gas regarding PA (participating area) review. It is clear under II AAC 83.351 (c) "A participating area must be expanded to include acreage reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to the production of hydrocarbons in paying quantities, and must be contracted to exclude acreage reasonably proven through use of geological, geophysical or engineering data to be incapable of producing hydrocarbons in paying quantities, subject to approval by the commissioner. A revised division of interest or formula allocating production and costs must be submitted for approval under II AAC 83.371 at the time of expansion or contraction of a participating area."

The Division of Oil and Gas staff has emphasized initial P.A.'s in their recent decisions concerning P.A.'s. Burglin is requesting the division address Burglin's following conerns:

(1) How often are P.A.'s reviewed by division staff?
(2) When does an initial P.A. become a final P.A?
(3) How are initial P.A.'s clearly delineated?
(4) Does the division staff take any initiative to expand or contract P.A.'s based on additional information?
(5) Does the unit operator have any obligation to expand or contract a P.A. when additional information dictates a P.A. expansion or contraction?

If you have any questions concerning Burglin's request you may contact Brian at 452-5149.

Sincerely,

Brian Burglin

PB/mbg
cc: James Eason
Bill Van Dyke
Comm. Judy Brady
Senator Bettye Fahrenkamp
Senator Jack Coghill
Senator Dan Bennett

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

STEVE COWPER, GOVERNOR

P.O. BOX 7034
ANCHORAGE, ALASKA 99510-7034

(907) 762-4241

April 17, 1987

Mr. Brian Burglin
P. O. Box 131
Fairbanks, AK 99707

Dear Mr. Burglin:

I have reviewed your April 7, 1987 request to Ms. Catherine Fortney for a written policy regarding the Division of Oil and Gas's review and determination of participating areas (PAs) for oil and gas units.

In brief, the division agrees with you that the determination of participating areas is governed by 11 AAC 83.351, and that the configuration of participating areas, both initial and subsequent, must be determined on the basis of all geological and engineering data available at the time the PA is established or expanded/contracted. It is almost inevitable that some technical information pertaining to the establishment of participating areas will be proprietary, and not available to all parties within or adjacent to the unit; however, the division must, by the terms of 11 AAC 83.351, take all available information into account when approving a participating area.

The answers to your specific questions are as follows:

(1) Reviews of participating areas are generally triggered by internal unit action such as planned expansions or contractions of the unit area, or a request by one or more of the unit working interest owners for expansion or contraction of the participating area. However, the division may initiate a review and revision to an approved participating area on its own volition or at the request of others when new data are presented indicating that such a revision is necessary to protect the state's interest or the correlative rights of others.

(2) Generally there is no such thing as a "final" participating area until unit reserves are depleted. Participating areas are continually subject to review and expansion or contraction based on new technical data. For most oil and gas units, contraction of the unit area to exclude all lands outside of an approved participating area is tied to the date of establishment of the "initial" participating area (the first participating area within the unit). There may be no practical difference between "initial" participating areas and subsequent participating areas if sufficient data are available at the time the initial participating area is approved to confirm the distribution of reserves within the unit area.

(3) Initial participating areas are delineated on the basis of all geological, geophysical, and engineering data available to the division at the time the participating area is established. Data may be available from more than one source, and the separate parties, which may not have access to all information regarding the participating area limits, may not agree with one another's interpretations. In the case of conflicting technical data, the division reviews all information available, and makes an independent determination of an appropriate participating area based on the terms of 11 AAC 83.351.

(4) Under certain circumstances, the division has initiated action for expansion or contraction of a participating area, particularly in those instances where data indicate that an existing participating area does not adequately and equitably represent the interests of all parties involved. However, normal practice is for one or more of the working interest owners of a unit to initiate action for expansion or contraction of a participating area. A lessee adjacent to the unit may also initiate expansion or contraction if that lessee possesses technical information showing that such action is warranted.

(5) In general, under the terms of 11 AAC 83.351, the unit operator, representing the working interest owners of a unit, is obligated to expand or contract when additional information indicates that such an expansion or contraction is appropriate. This obligation is also usually reflected in the provisions of the various unit agreements.

I hope this is responsive to your questions regarding the division's policy on the establishment and expansion/contraction of participating areas. If you have any additional questions on the above, please feel free to contact me.

Sincerely,

James E. Eason
Director

cc: Judith M. Brady, Commissioner
Catherine Fortney, DNR/DO&G
Bill Van Dyke, DNR/DO&G
Cass Ariey, DNR/DO&G
Senator Bettye Fahrenkamp
Senator Jack Coghill
Senator Don Bennett

C Burglin
Land Consultant
P.O. Box 131
Fairbanks, Alaska 99707
(907) 452-5149

April 28, 1987

James Eason
Division of Oil and Gas
P. O. Box 7034
Anchorage, Alaska 99510-7034

Dear Jim:

As Burglin et al. (Burglin) understands your 4/17/87 letter. the division generally does not review participating areas unless requested to do so by an interested party.

Burglin's concern with this policy is that in undefined gas fields there can be many years and substantial drilling activity which change initial geological interpretation before a participating area is reviewed by the division.

For example, the last participating area review and revison for the Beluga River Unit was made in 1977. From 1968 thru 1977 six (6) gas wells were drilled within the Beluga River Unit, during which time there were five participating area revisions of the Beluga River Field. From 1978 to 1987 twelve (12) gas wells have been drilled with no participating area review by the Division of Oil and Gas. Mr. Bill Van Dyke confirmed that the Beluga River Unit participating areas had not been reviewed by the division staff in over 2 1/2 years, and was unaware of any Beluga River Unit participating area review since 1978. From 1985 thru 1986 eight (8) additional wells have been drilled in the Beluga River Unit. There is no economic incentive for a unit operator to initiate a participating area expansion or contraction when additional well data confirms, modifies, or rejects initial structural interpretation and estimated productive limits, once the original Working Interest Owners have lost their interest in the surrounding acreage, through unit contraction. Well data is usually confidential to adjacent lease holders or interested parties for at least two years after wells have been drilled.

Burglin feels the State's interest would be better protected if participating areas were reviewed on an annual basis and

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this review incorporated into unit plans of a development and operation, especially in undefined gas pools.

Sincerely,

Brian Burglin

BB/kd

cc: Commissioner Brady
Bill Van Dyke
Senator Fahrenkamp
Senator Coghill
Senator Bennett
Commissioner C. Chatterton

CHAPTER 83.
OIL AND GAS LEASING

Article

Editor's Note: The mineral-leasing regulations in 11 AAC 82, 11 AAC 83, 11 AAC 84, 11 AAC 86 and 11 AAC 88, effective September 5, 1974, and distributed in Alaska Administrative Register 51, constitute a comprehensive reorganization and revision of this material, and thus the history line at the end of each section does not reflect the history of the provisions before September 5, 1974, and the section numbering may or may not be related to the numbering before that date.

ARTICLE 1.
GENERAL OIL AND GAS LEASE PROVISIONS

Section

182. Royalty bidding
183. Sliding scale royalty
185. Royalty reduction
190. Extension by commitment to an approved unit

11 AAC 83.100. LEASING METHOD. All land is competitive for oil and gas leasing purposes and may only be leased under competitive procedures provided in 11 AAC 82. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020 AS 38.05.145(a)
AS 38.05.135 AS 38.05.180

11 AAC 83.105. "PAYING QUANTITIES" DEFINED. "Production in paying quantities," as used in 11 AAC 83.100 – 11 AAC 83.295 and 11 AAC 83.400 – 11 AAC 83.910, means production in such quantity as to enable the operator to realize a profit. For purposes of the habendum clause of a lease, that is, for the purpose of keeping the lease in force after the expiration of the primary term, "paying quantities" means production in quantities sufficient to yield a return in excess of operating costs, even though drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss. (Eff. 9/5/74, Reg. 51; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180

11 AAC 83.110. RENTAL. (a) All oil and gas leases are conditioned upon payment of the annual rental in advance on or before the beginning of each lease year before completion of a well capable of producing oil and gas in paying quantities on these leased lands.

(b) After a well has been plugged and abandoned and there is no other well on the lease capable of production, the commissioner will, in his discretion, allow the rental rate effective during the year of the abandonment to be the rate for the remainder of the term of the lease, or, if production is achieved from a subsequent well, until the royalty or net profit share to the state exceeds the rental for that year. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(n)

11 AAC 83.115. MINIMUM ROYALTY. Repealed 6/28/81.

11 AAC 83.120. EXTENSION FOR EXTENUATING CIRCUMSTANCES. Repealed 6/28/81.

11 AAC 83.125. EXTENSION BY DRILLING. (a) If drilling, including redrilling, sidetracking, or other means necessary to reach the originally proposed bottom hole location, has commenced on or before the expiration date of the primary term of the lease and is continued through that date with reasonable diligence, the lease will continue in full force until 90 days after the drilling has ceased and for so long after that date as oil or gas is produced in paying quantities.

(b) In (a) of this section, "drilling" means operations necessary or convenient to drilling a well in the ground with equipment of sufficient size and capacity to drill to the total depth proposed for the well. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180

11 AAC 83.130. EXTENSION AFTER PRODUCTION. If production occurs in paying quantities during the primary term of any lease, and if at the end of the primary term or at any time prior to the end of the primary term that production has ceased, or if production ceases at any time after the expiration of the primary term, then the lease does not terminate if the lessee commences drilling or reworking operations (either in a well from which the production has ceased or in a new well) within 60 days after the cessation of production; and the lease remains in full force and effect so long as operations are prosecuted with reasonable diligence; and, if the drilling or reworking operations result in the production of oil or gas, the lease remains in full force and effect so long as oil or gas is produced from it in paying quantities. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(b)

11 AAC 83.135. SHUT-IN PRODUCTION. No lease covering land on which there is a well capable of producing oil or gas in paying

quantities will expire because the lessee fails to produce oil or gas, unless the commissioner gives notice to the lessee or operator allowing a reasonable time, which will not be less than 60 days after receipt of notice, to place the well on a producing status and the lessee or operator fails to do so. After producing status is established, production must continue on the leased land until suspension of production is allowed by the commissioner. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.140(d)
AS 38.05.180

11 AAC 83.140. EXTENSION BY ELIMINATION FROM A UNIT. If any lease or a portion of one is eliminated from the unit plan or recovery program, or if the unit plan or recovery program is terminated, then the lease or portion of it so eliminated continues in full force and effect as may be provided in the unit or cooperative agreement, but for not less than 90 days from the date of the elimination or termination and so long thereafter as drilling or redrilling operations are being conducted on it and so long thereafter as oil or gas is produced in paying quantities. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(d)

11 AAC 83.145. DIRECTIONAL DRILLING CLAUSE. The commissioner will include a directional drilling clause in all oil and gas leases that have been issued or that may be subsequently issued by the state. The clause will provide that actual drilling from a well located off the leased premises, but to be completed or bottomed on leased premises, will be considered as actual drilling under the lease terms. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180

11 AAC 83.150. RESERVATIONS. (a) Every oil and gas lease must reserve to Alaska the right to dispose of to others the surface of the leased land subject to the lease, and the right to authorize others by grant, lease, or permit, subject to the lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights and operations under the lease, to enter upon and use the leased land

(1) to explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet;

(2) to explore for, develop and remove natural resources other than oil, gas, and associated substances on or from the leased land;

(3) for non-exclusive easements and rights-of-way for any lawful purpose, including shafts and tunnels necessary or appropriate for working of the leased land or other land for natural resources other than oil, gas, or associated substances;

(4) for well sites and well bores of wells drilled from or through the leased land to explore for or produce oil, gas, and associated substances in and from other land; and

(5) for any other purpose now or after September 4, 1974 authorized by law and not inconsistent with the rights under the lease.

(b) The subsurface storage of oil or gas is not authorized except as a necessary incident to recycling, pressure maintenance, repressuring, or other similar operations designed to increase the ultimate recovery of oil or gas or prevent the waste of oil or gas produced from the leased land or from any unit area of which the leased land is a part. Every lease must reserve to Alaska the right to authorize the subsurface storage of oil, gas or associated hydrocarbons in the leased land by the lessee or by others in order to avoid waste or to promote conservation of natural resources in accordance with 11 AAC 83.500 – 11 AAC 83.520, and upon conditions that will prevent unnecessary or unreasonable interference with the rights and operations under the lease, including conditions prohibiting the storage of oil or gas in any reservoir capable of producing oil and gas in paying quantities without the consent of the holder of any lease covering the reservoir. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020 AS 38.05.145(a)
AS 38.05.125 AS 38.05.180(u)

11 AAC 83.153. CONFIDENTIAL REPORTS. (a) If the commissioner finds that reports or information required under AS 31.05.035(a) contain significant information relating to the valuation of unleased land within a three-mile radius of the well from which these reports or information were obtained, the commissioner will, upon the written request of the owner of the well, keep the reports or information confidential for a reasonable time not to exceed 90 days after disposal of the unleased land, unless the owner of the well gives written permission to release the reports and information at an earlier date. The commissioner will, in his or her discretion, extend confidentiality to reports or information required under AS 31.05.035 from a well located more than three miles from any unleased land if the owner of the well from which these reports or information are derived makes a sufficient showing that the reports or information contain significant information relating to the valuation of unleased land beyond the three-mile radius.

(b) Reports or information for which extended confidentiality is requested or has been granted under AS 31.05.035 will not be eligible for extended confidentiality when

(1) the lease on which the well is drilled has expired; or

(2) the unleased land within a three-mile radius of the well from which the reports or information are obtained is offered in a competitive lease sale, but receives no bids greater than or equal to any minimum bid established for that sale.

(c) As used in this section, "mile" means a statute mile or 5,280 feet.

(d) As used in this section, "disposal" means the grant or issuance of an oil and gas lease. (Eff. 3/30/84, Reg. 89)

Authority: AS 31.05.035(c)
AS 38.05.020
AS 38.05.180

11 AAC 83.155. DAMAGES. Each lessee or permittee is required to pay any damage that becomes payable under AS 38.05.130 and shall indemnify Alaska and hold it harmless from and against any claims, demands, liabilities and expenses arising from or in connection with the damage. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.130
AS 38.05.145(a)

11 AAC 83.158. PLAN OF OPERATIONS. (a) Except as provided in (b) of this section, a plan of operations for all or part of the leased area must be approved by the commissioner before any operations may be undertaken on the leased area if

(1) the state owns all or part of the surface estate of the leased area;

(2) the lease reserves a net profit share to the state; or

(3) the state owns all or part of the mineral estate, but the entire surface estate is owned by a party other than the state, and a surface owner requests that a plan of operations be required by the commissioner for the portion of the leased area owned by that surface owner.

(b) A lease plan of operations is not required for

(1) activities that would not require a land use permit under this title; or

(2) operations undertaken under an approved unit plan of operations in accordance with this title.

(c) Before undertaking operations on the leased area, the lessee shall provide for full payment of all damages sustained by the owner of the surface estate as well as by the surface owner's lessees and permittees, by reason of entering the land. If the surface estate is owned by a party other than the state, the lessee shall also notify the surface owner of his opportunity to request that the commissioner require a plan of operations before allowing operations to be undertaken on the portion of the leased area owned by the requesting surface owner.

(d) An application for approval of a plan of operations must contain sufficient information, based on data reasonably available at the time

the plan is submitted for approval, for the commissioner to determine the surface use requirements and impacts directly associated with the proposed operations. An application must include statements and maps or drawings setting out the following:

(1) the sequence and schedule of the operations to be conducted on the leased area, including the date operations are proposed to begin and their proposed duration;

(2) projected use requirements directly associated with the proposed operations, including but not limited to the location and design of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment necessary to conduct the proposed operations;

(3) plans for rehabilitation of the affected leased area after completion of operations or phases of those operations; and

(4) a description of operating procedures designed to prevent or minimize adverse effects on other natural resources and other uses of the leased area and adjacent areas, including fish and wildlife habitats, historic and archeological sites, and public use areas.

(e) In approving a lease plan of operations or an amendment of a plan, the commissioner will require amendments he determines necessary to protect the state's interest. The commissioner will not require any amendment that would be inconsistent with the terms of sale under which the lease was obtained, or with the terms of the lease itself, or which would deprive the lessee of reasonable use of the leasehold interest.

(f) The lessee may, with approval of the commissioner, amend an approved plan of operations.

(g) Upon completion of operations, the lessee shall inspect the area of operations and submit a report indicating the completion date of operations and stating any noncompliance of which the lessee knows, or should reasonably know, with requirements imposed as a condition of approval of the plan.

(h) In submitting a proposed plan of operations for approval, the lessee shall provide 10 copies of the plan if activities proposed are within the coastal zone, and five copies if activities proposed are not within the coastal zone. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83; am 3/18/83, Reg. 85)

Authority: AS 38.05.020 AS 38.05.145
AS 38.05.130 AS 38.05.180

11 AAC 83.160. OIL AND GAS LEASE BOND. (a) Before operations commence on a state oil and gas lease, a bond in the amount of at least $10,000 must be furnished to the department.

(b) The commissioner will, in his discretion, after notice and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified in (a) of this section where a greater amount is justified by the nature of the surface, the uses and improvements on or in the vicinity of the leased land, and the degree of risk involved in the types of operations proposed or being conducted on the lease. A statewide bond furnished under (c) of this section will not satisfy any requirement of a bond imposed under this provision but will be considered by the commissioner in determining the need for and the amount of any additional bond under this subsection.

(c) Any person holding any interest in any lease may furnish a statewide bond in the amount of $500,000. A statewide bond satisfies all the bond requirements to which an oil or gas lease is subject under the Department of Natural Resources except that the commissioner will, in his discretion, require an additional unusual risk bond under (b) of this section or specific lease provisions.

(d) All oil and gas lease bonds must comply with 11 AAC 82.600. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/29/80, Reg. 74)

Authority: AS 38.05.020(b)
AS 38.05.145(a)

11 AAC 83.165. CONDITIONAL LEASES. (a) If all or any part, as shown on the division leasing plats when the lease was issued, of the land covered by a lease is land that has been selected by Alaska under laws of the United States granting land to Alaska but the land has not been patented to Alaska by the United States, then the lease shall be a conditional lease as provided by law with respect to the land until a patent becomes effective. If for any reason a selection is disapproved or patent is denied as to all or any part of the land, no rentals, royalties or minimum royalties paid to Alaska under the lease will be refunded. Any bonus paid for a competitive lease will be refunded in full if the entire lease fails or if the lease fails in part and the lessee elects to surrender the remaining part. If the lessee elects to retain a remaining part, the bonus will be refunded in pro rata part on an acreage basis.

(b) To be considered a conditional lease under this section, the lease must contain at least a legal subdivision or 40 acres in the aggregate of land which has not been patented to Alaska by the United States. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.180(a)

11 AAC 83.170. FAILURE TO PAY RENTAL. (a) Any lease on which there is no well capable of producing oil or gas in paying quantities terminates by operation of law if any rental due is not timely paid on or before each anniversary date of the lease, except where the provisions of 11 AAC 83.620 are applicable.

(b) For purpose of this section, and notwithstanding 11 AAC 88.130(a)(2), rental is timely if it is received in the designated office by the anniversary date. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.175. REINSTATEMENT. (a) The commissioner will reinstate a lease automatically terminated under 11 AAC 83.170 if he finds that the failure to pay rental was justifiable and not due to lack of reasonable diligence by the lessee and the rental is paid within 15 days after receipt of notice of the termination, along with a statement and supporting evidence of the reasons for the failure. The burden of showing that he qualifies for reinstatement under this subsection is on the lessee and only those cases will be considered where the circumstances can be verified by independent evidence other than lessee's statements. The failure to pay rental will not be considered justifiable unless payment was prevented or delayed by unforeseen circumstances beyond the lessee's reasonable control. Situations such as ignorance of the lease, law, or regulations, inability to pay, error or oversight of the lessee's employees or agents, forgetfulness, and failure to receive a billing are not grounds for reinstatement. Situations caused by major sickness, accidents, death, acts of God, and errors of departmental employees, the U.S. Postal Service, or a commercial delivery service may be considered as grounds for reinstatement.

(b) If the rental payment due under a lease is timely paid but the amount of the payment is deficient, and the commissioner believes the payment was determined in accordance with the rental or acreage figure stated in the lease or in a bill, decision, notice, or letter by the department and the figure is found to be in error, or if the commissioner finds that the deficiency was otherwise justifiable and not due to a lack of reasonable diligence on the part of the lessee, the lease will be reinstated if the lessee corrects the deficiency within 15 days after receipt of notice of the deficiency. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg 71; am 6/28/81, Reg. 78)

Authority: AS 38.05.020
AS 38.05.145

11 AAC 83.180. DEFAULT. (a) Whenever the lessee of a lease on which there is no well capable of producing oil or gas in paying quantities fails to comply with any provision of the lease or applicable regulations other than the payment of rental and the failure to comply continues for 60 days after receipt of notice to the lessee of the failure to comply, the director may terminate the lease by mailing notice of the termination to the lessee. Termination is effective upon giving the notice.

(b) Whenever the lessee of a lease on which there is a well capable of producing oil or gas in paying quantities fails to comply with any of the provisions of the lease or applicable regulations and the failure continues for a period of 60 days following notice to the lessee of the failure to comply, the lease may be cancelled by judicial proceedings instituted for that purpose in any court of competent jurisdiction having jurisdiction over the land covered by the lease or any part of it. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.035
AS 38.05.145(a)

11 AAC 83.182. ROYALTY BIDDING. If the commissioner selects a method of bidding in which the royalty share reserved to the state is the bid variable, the commissioner will set a minimum fixed cash bonus in an amount to be announced no later than the date of the notice of sale. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.183. SLIDING SCALE ROYALTY. If the commissioner selects a method of bidding which sets a royalty reserved to the state, either fixed or as the bid variable, based on a sliding scale, the sliding scale will be determined, according to a method chosen at the commissioner's discretion which will be based on volume of production or other factors. The method chosen by the commissioner will consider the prolongation of the economic life of the oil and gas reservoir or reservoirs underlying the sale area or lease to which the sliding scale is to be applied. (Eff. 11/9/79, Reg. 72)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.185. ROYALTY REDUCTION. (a) An application for a reduction of royalty on leases under AS 38.05.180(j) must comply with 11 AAC 88.105 and

(1) state all the facts entitling the applicant to relief;

(2) state location and status of all past and present activities on the lease;

(3) include a detailed report of all production during the six months preceding the filing of the application;

(4) contain a detailed statement covering the entire life of the lease showing all expenses and costs of operating the lease, including all royalties and overriding royalties and all income from all produced minerals from the lease; and

(5) include an agreement by the applicant to defray the cost of publishing a notice as provided by (b) of this section.

(b) Upon receipt of an application complying with (a) of this section, the commissioner will cause to be published a notice of public hearing as required on the application. The notice will

(1) state the time and place of hearing;

(2) describe the land involved; and

(3) state the name of the applicant and the nature of the relief applied for.

(c) The notice will be published at least once a week for at least two consecutive weeks in advance of the hearing date, which must be at least 15 days after the last date of publication, in at least one newspaper of general circulation in the vicinity of the principal office of the department, and must be posted at the principal office for the same period.

(d) At the time and place specified in the published notice, the commissioner will hear evidence offered by the applicant and any other interested party.

(e) Within a reasonable time following the hearing or any continuation of it, the commissioner will make written findings together with his determination as to the relief that should be granted.

(f) The commissioner will give notice of the findings and determination to the lessee and to any other person who has filed a written request for it. The action taken is effective on the date specified in the notice. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020(b)
AS 38.05.145(a)
AS 38.05.180(j)

11 AAC 83.190. EXTENSION BY COMMITMENT TO AN APPROVED UNIT. If, on or before the expiration date of the primary term of a lease, the lease is committed to a unit agreement approved by the state, the lease will be extended for so long as it remains subject to the unit agreement. (Eff. 7/22/79, Reg. 71)

Authority: AS 38.05.020(b)

11 AAC 88.130. TIMELY FILING. (a) Payments are timely if an affected lease or permit is identified by an Alaska Division of Lands' serial number, and is either (1) delivered at any of the division offices designated by the director as "filing offices" during filing hours within the time allowed by any notice, decision, regulation or law, or (2) mailed on or before the due date provided by any notice, decision, regulation or law and the mailing date can be verified by postmark or other post office record or notation.

(b) If the serial number is not identified as required in (a) of this section, the time of filing is the time of receipt of correct information unless the director determines that the lack of such information is immaterial or due to excusable inadvertance.

(c) All other documents are timely filed if received during filing hours within the time allowed by any notice, decision, regulation, or law at any office designated by the director and posted in the office as a filing office.

(d) When the last day of the time for filing or payment falls on a day the designated filing office is officially closed, the time for filing is extended to the next day the office is open to the public. (Eff. 9/5/74, Reg. 51; am 12/31/82, Reg. 84)

Authority: AS 38.05.020(b)(1)

11 AAC 88.135. MEANS OF FILING. Filings and payments may be made by mail or personal delivery, unless provided otherwise by the section dealing with the subject of the filing or payment. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.140. NOTICES. (a) Any notice which the director gives to any person must be in writing and must be delivered in person or mailed by registered or certified mail, return receipt requested, to the person at his current address of record with the division.

(b) Any person may file his current mailing address with the division in writing and may change his address of record by written notice filed with the division at any time. "Current mailing address" is the most recent or permanent legal address of an applicant, permittee, lessee or claimant. It is the responsibility of any person doing business with the division to notify the division of his most recent or permanent legal address.

(c) A notice is considered to be given and received on the date delivered to the current address of record.

(d) Whenever any notice is required to be given to a lessee, permittee or claimant, copies of the notice shall also be given, in the manner provided by (a) of this section, to any assignee whose assignment has been filed for approval. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.145. REFUNDS. (a) If an application on which rental has been submitted is rejected or withdrawn in whole or in part, the first year's rental will be refunded in whole or in pro rata part on an acreage basis.

(b) Notwithstanding any other provision of 11 AAC 82 – 11 AAC 88, no refund will be made for less than $2.00. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.150. MAILING LIST. The division shall maintain a mailing list for the purpose of sending general notices, orders and other information which the director determines to be of public interest regarding mineral activities of the division to persons who file a written request to be put on a list. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.151. NOTICE REQUIRED BY AS 38.05.945(c). (a) A village corporation will be given notice under AS 38.05.945(c)(3) if it owns or has selected land within six miles of the state land proposed for disposal.

(b) A community will be given notice under AS 38.05.945(c)(4) if land within its boundaries is no more than six miles from the state land proposed for disposal. A community is an incorporated or unincorporated place with 25 or more inhabitants, according to the most recent census of the U.S. Census Bureau. An incorporated community's boundaries will be those reported to the department by the Local Boundary Commission. An unincorporated community's boundaries will be those delineated

by the U.S. Census Bureau in the most recent census. (Eff. 6/28/81, Reg. 78; am 12/31/82, Reg. 84)

Authority: AS 38.05.020
AS 38.05.945

11 AAC 88.155. RECONSIDERATION. (a) An order, decision or other action of the director or the division which may be made or taken without the advance approval, consent or concurrence of the commissioner is subject to reconsideration by the director. After reconsideration by the director, any person aggrieved by the decision of the director may appeal the decision to the commissioner.

(b) An order, decision or other action of the commissioner, or of the director with the

advance approval, consent, or concurrence of the commissioner, is subject to reconsideration only by the commissioner. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.160. JUDICIAL APPEALS. A decision or other action of the division, the director or the commissioner becomes final for purposes of an appeal to the superior court 30 days after delivery as provided in 11 AAC 88.140 or as provided by applicable provisions of the Administrative Procedure Act, including AS 44.62.540, 44.62.560 and 44.62.570, and the Rules of Appellate Procedure of the State of Alaska, including Rule 44. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.165. APPLICATIONS FOR RECONSIDERATION AND APPEAL. An application for reconsideration or an appeal must

(1) be filed within 30 days after receipt of notice of the action;

(2) be filed at the principal office of the director;

(3) comply with 11 AAC 88.105 except that there is no filing fee;

(4) specify the action to be reconsidered or appealed; and

(5) specify the grounds on which the reversal or modification of the action is urged. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.170. BRIEFS. Written briefs in support of an application for reconsideration or an appeal may be filed with the division within 20 days after the filing of the application. The intention to file a brief must be specified in the application for reconsideration or appeal. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.175. ORAL ARGUMENT. Oral argument may be allowed at the discretion of the officer who is to reconsider the action if written request for it is filed with the division within the time allowed for filing written briefs. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.180. NOTICE OF DECISION. Following reconsideration of any action or final decision on appeal, the applicant will be given notice of the decision reached, specifying whether the action is affirmed, reversed, or modified, and, if the last, the details of the action as modified. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020(b)(1)

11 AAC 88.185. DEFINITIONS. As used in 11 AAC 82 – 11 AAC 88 and unless the context clearly requires a different meaning or unless otherwise defined in these chapters

(1) "adjacent" means touching or lying in close proximity, as opposed to "contiguous" which requires a common boundary;

(2) "cash" means cashier's or certified checks drawn on any solvent bank in the United States, postal or telegraphic money orders or legal tender of the United States of America, or any combination of these;

(3) "commissioner" means the Commissioner of the Department of Natural Resources;

(4) "cooperative agreement" means an agreement or plan of development and operation for the recovery of oil and gas from any pool, field, or like area or any part thereof in which separate ownership units are independently operated pursuant to the agreement without allocation of production;

(5) "director" means the Director of the Division of Lands;

(6) "division" means the Division of Lands, Department of Natural Resources;

(7) "filing office" means any place designated by the director as a filing office for applications, payments and filings under 11 AAC 82 – 11 AAC 88;

(8) "gas" means all natural gas and all hydrocarbons produced at a well not defined herein as oil;

(9) "gas well" means (A) a well which produces natural gas only; (B) that part of a well where the gas producing stratum has been successfully cased off from the oil, and the gas and oil being produced through separate casing or tubing; (C) any well classed as a gas well by the Alaska Oil and Gas Conservation Commission in the administration of the Alaska Oil and Gas Conservation Act;

(10) "leasehold location" or "mining leasehold location" means the interests in land subject to a location under AS 38.05.205 before a lease has been issued;

(11) "legal subdivision" means an aliquot part of a section of land according to the public land rectangular survey system, not smaller than one-quarter of one-quarter of one section of land, containing approximately 40 acres; where a section of land contains section lots, "legal subdivision" also means those section lots; "legal subdivision" also means a protracted legal subdivision according to any protracted public land rectangular survey prepared by the division or Bureau of Land Management of the Department of the Interior, and made available to prospective applicants for leases;

(12) "lessee or permittee of record" means the original lessee or permittee under any lease or permit or, if an assignment has been approved at any time, the latest assignee whose assignment has been approved;

(13) "locatable minerals" means those minerals which, on January 3, 1959, were subject to location under the United States mining laws (Title 30, USC);

(14) "Mineral Leasing Act" means the Act of Congress of February 25, 1920 (41 Stat. 437, 30 USC § 181, et seq.), as amended;

(15) "offshore" means tide and submerged lands, that is, those lands lying seaward from the line of mean high tide;

(16) "oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods;

(17) "oil well" means any well operated for the primary purpose of producing oil and which by the nature of its production cannot be classed as a gas well as defined in paragraph (6) of this section;

(18) "operating agreement" means an agreement giving the operator the right to carry on operations authorized by a lease or leases and to share in production obtained from the leased lands;

(19) "option" means an option to obtain an assignment of or an operating agreement covering a lease or portion of one;

(20) "order" means a determination made by the director or the commissioner in accordance with authority lawfully vested in him, issued in writing, filed in the permanent files of the division, posted in a conspicuous place in the offices of the division and made continuously available for inspection by the public;

(21) "participating area" means that part of an oil and gas lease unit area to which production is allocated in the manner described in a unit agreement;

(22) "person" includes a corporation and an association of persons;

(23) "pool" means an underground reservoir containing or appearing to contain a common accumulation of oil or gas or both; each zone of a general structure which is completely separated from any other zone in the structure is a pool;

(24) "primary term" means the initial term of an oil and gas lease and any extension of it;

(25) "smallest legal subdivision" means one-quarter of one-quarter of one section of land, containing 40 acres more or less, except where a section contains smaller section lots according to the public land rectangular survey or a protracted public land rectangular survey prepared by the division or by the Bureau of Land Management of the Department of the Interior, and made available to prospective applicants for leases, in which case "smallest legal subdivision" means those smaller section lots; as to unsurveyed land not covered by such

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

STEVE COWPER, GOVERNOR

DIVISION OF OIL AND GAS

P.O. BOX 7034
ANCHORAGE, ALASKA 99510-7034

March 1, 1988

CALL FOR NOMINATIONS,
Proposed Oil and Gas Lease Sale 69A, North Slope

The Department of Natural Resources, Division of Oil and Gas, is considering adding an exempt acreage sale to the state's oil and gas leasing program. The new sale, proposed Oil and Gas Lease Sale 69A, North Slope, would be held in September 1988. The lands being considered for inclusion in the proposed sale were previously offered for leasing in Kuparuk Uplands Sales 48 or 54 or Prudhoe Bay Uplands Sale 51.

To help determine industry interest and delineate the proposed sale area, the Department of Natural Resources, Division of Oil and Gas, is requesting nominations for proposed Sale 69A. Industry is invited to nominate state-owned North Slope lands, as outlined on the attached map, for possible oil and gas leasing. Areas nominated should be defined as specifically as possible. If requested, the identity of individuals or companies making nominations will be held confidential. Nominations must be received by March 31, 1988. The department realizes that this offers relatively short notice for this sale. The sale may not be held unless significant and specific interest is received.

Proposed Sale 69A is an "exempt" acreage sale allowed under AS 38.05.180(d). This provision of the leasing statute allows the leasing of lands not on the five-year oil and gas leasing program if the lands were previously subject to valid state or federal oil and gas leases or are contiguous to land already under lease. As an "exempt" acreage sale, Sale 69A may also be subject to the provisions of AS 38.05.035(e)(7). This statute allows the department to hold an exempt acreage sale without issuing a best interest finding if one has been issued for the sale area within 36 months of the sale date. Written findings for previous oil and gas lease sales in these areas were issued within 36 months of Sale 69A's proposed sale date. However, this statute requires a best interest finding if the commissioner of Natural Resources determines that new information received justifies revision to the earlier findings.

Following analysis of industry nominations for Sale 69A and delineation of the proposed sale area, the Division of Oil and Gas will issue a call for comments requesting socioeconomic and environmental information for the proposed sale area. If no new information is received which justifies revision of the earlier findings, the proposed sale will be scheduled for September 1988. If new information is received and if the commissioner of Natural Resources determines that revision of the earlier findings is warranted, then holding the proposed sale during September 1988 may not feasible.

The area's petroleum potential is considered moderate.

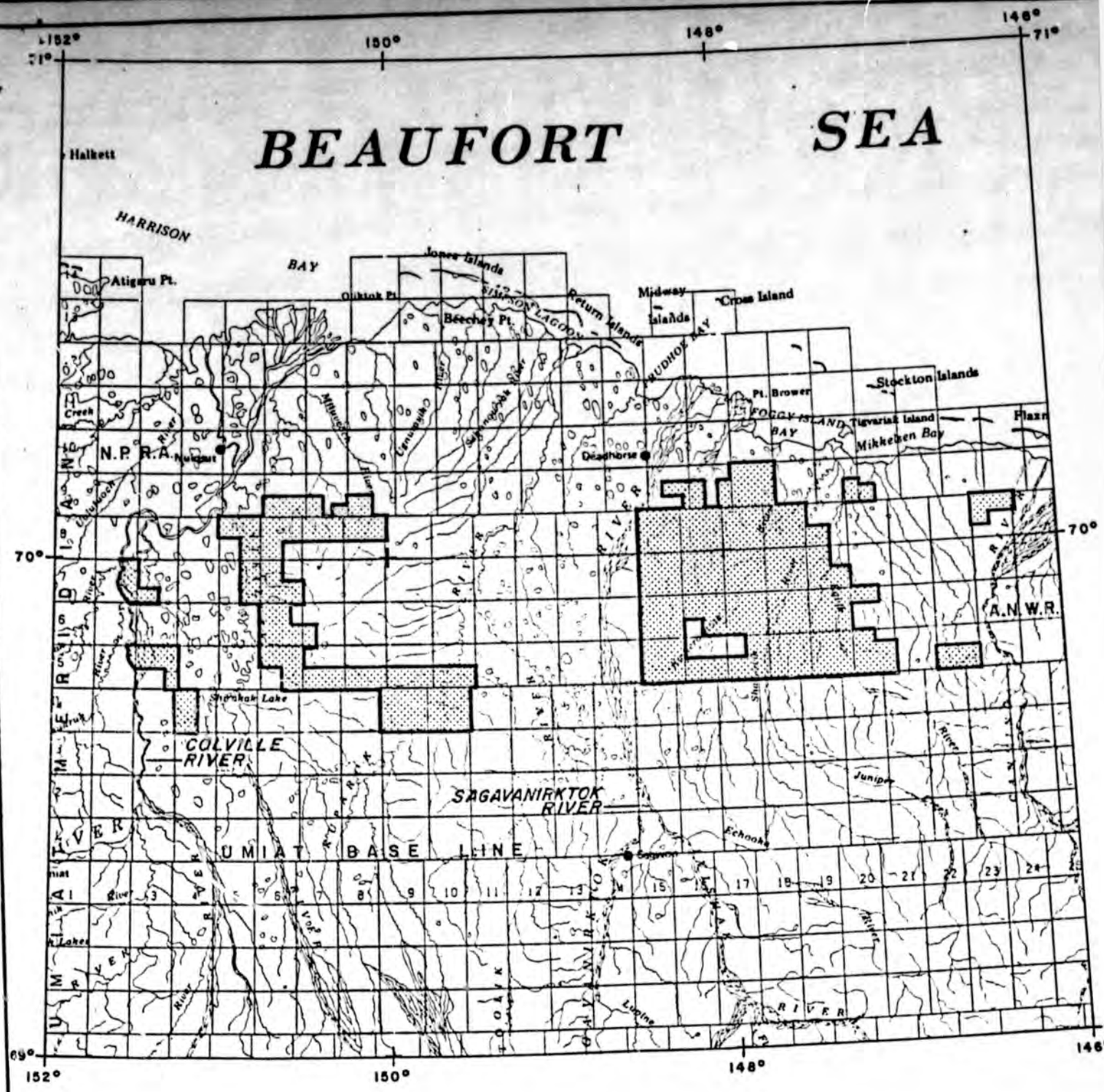
Information submitted in response to this call will be used to help determine the areas offered in proposed Sale 69A. No decision has been made on whether or not the state will hold the sale.

Please submit nominations by March 31, 1988 to:

Pamela Rogers, Leasing Manager
Division of Oil and Gas
P.O. Box 107034
Anchorage, AK 99510-7034.

Attachment

1245C



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL & GAS

PROPOSED OIL AND GAS LEASE SALE 69A
NORTH SLOPE

SCALE 1:1,267,200 1" = 20 Mi.

MILES 10 0 10 20 30 40 50 MILES

DIRECTOR, DIV. OF OIL & GAS JIM EASON (for Pamela L. Rogers)	DRAWN BY O.D.S.	DATE APPROVED 3/1/88
LEASING MANAGER, PAMELA ROGERS	CHECKED BY: JMJ	BASE MAP: COPYRIGHT ARCTIC ENVIRONMENTAL INFORMATION & DATA CENTER, 1978 ALL RIGHTS RESERVED, INCLUDING REPRODUCTION IN WHOLE OR IN PART IN ANY FORM UNIVERSAL TRANSVERSE MERCATOR PROJECTION ON SIX DEGREE BANDS

NOTE: NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL, ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.

PROPOSED SALE AREA

Sec. 38.05.180. Oil and gas leasing. (a) The legislature finds that

(1) the people of Alaska have an interest in the development of the state's oil and gas resources to

(A) maximize the economic and physical recovery of the resources;

(B) maximize competition among parties seeking to explore and develop the resources;

(C) maximize use of Alaska's human resources in the development of the resources;

(2) it is in the best interests of the state to encourage an assessment of its oil and gas resources and to allow the maximum flexibility in the methods of issuing leases to

(A) recognize the many varied geographical regions of the state and the different costs of exploring for oil and gas in these regions;

(B) minimize the adverse impact of exploration, development, production, and transportation activity.

(b) The commissioner shall annually prepare and submit to the legislature, between the first and the fifteenth day of each regular legislative session, a five-year proposed oil and gas leasing program consisting of a schedule of proposed lease sales and specifying as precisely as practicable the location of tracts proposed to be offered for oil and gas leasing during the calendar year in which the proposed program is submitted to the legislature and the following four calendar years.

(c) Except as provided in (d) and (w) of this section, an oil and gas lease sale may not be held unless it was included in the proposed leasing programs submitted to the legislature during the two calendar years preceding the year in which the sale is held. A lease sale shall be held during the calendar quarter for which it is scheduled in the proposed oil and gas leasing program but may be delayed by the commissioner for not more than 90 days after the last day of the calendar quarter for which it was scheduled if the commissioner determines that a delay is in the best interest of the state. A lease sale which is not held during the calendar quarter for which it was scheduled in the oil and gas leasing program, or in the following 90-day period authorized by this subsection, may be held only if rescheduled as provided in (b) of this section. A lease sale may not be held before the date it is scheduled in the proposed oil and gas leasing program.

(d) The commissioner may issue oil and gas leases in an area that has not been included in a leasing program submitted, in accordance with (b) of this section, to the legislature if

(1) the land to be leased was previously subject to a valid state or federal oil and gas lease; or

(2) the land to be leased is contiguous to land already under state, federal or private lease and the commissioner makes a written finding, after hearing, that leasing of the land would result in a substan-

tial probability of early evaluation and development of the land to be leased; or

(3) the land to be leased is adjacent to land owned or controlled by another party on which a discovery of commercial quantities of oil or gas has been made, and the commissioner finds, after hearing, that there is a reasonable probability that the land to be leased contains oil or gas in communication with the oil or gas discovered on the land of the other party; or

(4) the land to be leased is adjacent to land included in the federal five-year Outer Continental Shelf leasing program under 43 U.S.C. § 1344, and the commissioner makes a written finding, after hearing, that coordinated or simultaneous leasing with the federal government is in the public interest.

(e) Simultaneously with submission of the leasing program required under (b) of this section, the commissioner shall submit to the legislature 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.

(f) The commissioner may issue oil and gas leases on state land to the highest responsible qualified bidder determined by competitive bidding under regulations adopted by the commissioner. Bidding may be by sealed bid or according to any other bidding procedure the commissioner determines is in the best interests of the state. Whenever, under any of the leasing methods listed in this subsection, a royalty share is reserved to the state, it shall be delivered in pipeline quality and free of all lease or unit expenses, including but not limited to separation, cleaning, dehydration, gathering, salt water disposal, and preparation for transportation off the lease or unit area. Following a pre-sale analysis, the commissioner may choose at least one of the following leasing methods:

(1) a cash bonus bid with a fixed royalty share reserved to the state of not less than 12 1/2 per cent 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 1/2 per cent 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 per cent 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 1/2 per cent 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 ½ per cent 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 ½ per cent 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 ½ per cent in amount or value of the production removed or sold from the lease.

(g) The share of the net profit derived from a lease reserved to the state under (f) of this section is royalty sale proceeds for the purposes of the Alaska permanent fund under AS 37.13.010.

(h) The commissioner may include terms in any oil and gas lease imposing a minimum work commitment on the lessee. These terms shall be made public before the sale, and may include appropriate penalty provisions to take effect in the event the lessee does not fulfill the minimum work commitment. If it is demonstrated that a lease has been proven unproductive by actions of adjacent lease holders, the commissioner may set aside a work commitment. The commissioner may waive for a period not to exceed one two-year period any term of a minimum work commitment if the commissioner makes a written finding either that conditions preventing drilling or exploration were beyond the lessee's reasonable ability to foresee or control or that the lessee has demonstrated through good faith efforts an intent and ability to drill or develop the lease during the term of the waiver.

(i) The commissioner may provide for the establishment of an exploration incentive credit system under which a lessee of state land drilling an exploratory well on that land may earn credits based upon the footage drilled and the region in which the well is situated. The commissioner may also provide for credits to be earned by persons performing geophysical work on state land, if that work is performed during the two seasons immediately preceding an announced lease sale and on land included within the sale area and the geophysical information is made public following the sale. Credits may not exceed 50 percent of the cost of the drilling or geophysical work. Credits may be used during a limited period established by the commissioner and may be assigned during that period. Credits may be applied against (1) oil and gas royalty and rental payments payable to the state or (2) taxes payable under AS 43.55. A credit may not exceed 50 percent of the payment toward which it is being applied. Amounts due the

Alaska permanent fund (AS 37.13.010) shall be calculated before the application of credits under this subsection.

(j) To prolong the economic life of an oil and gas field, the commissioner shall adopt regulations for all bidding methods to allow reduction of royalty on leases within the field to compensate for increasing costs in the later stages of production decline. The commissioner may not grant a reduction of royalty until two years' initial production from the field has occurred and each lessee requesting the reduction has made a clear showing that the revenue from all hydrocarbons produced from the field is insufficient to produce a reasonable rate of return with respect to that lessee's total investment in the field.

(k) The commissioner shall define all terms and adopt all regulations necessary for a reasonable understanding and evaluation of a particular bidding method before the public announcement of the terms of proposed sale employing that method.

(*l*) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade current royalty production from a field for a like amount, kind, and quality of future production, on the condition that the state receives back its stored or traded royalty share during the first half of the estimated field life or no later than 15 years after start of production, whichever is sooner.

(m) An oil and gas lease must cover a reasonably compact area not exceeding 5,760 acres, and may be for a maximum period of 10 years, except that the commissioner may issue a lease for a period not less than five years upon a finding that it is in the best interests of the state. An oil and gas lease shall be automatically extended if and for so long thereafter as oil or gas is produced in paying quantities from the lease or if the lease is committed to a unit approved by the commissioner. A lease issued under this section covering land on which there is a well capable of producing oil or gas in paying quantities does not expire because the lessee fails to produce oil or gas unless the lessee is allowed reasonable time to place the well on a producing status. Upon extension, the commissioner may increase lease rentals so long as the increased rental rate does not exceed 150 per cent of the rate for the preceding year. If drilling has commenced on the expiration date of the primary term of the lease and is continued with reasonable diligence, including such operations as redrilling, sidetracking, or other means necessary to reach the originally proposed bottom hole location, the lease continues in effect until 90 days after drilling has ceased and for so long thereafter as oil or gas is produced in paying quantities. An oil and gas lease issued under this section which is subject to termination by reason of cessation of production

does not terminate if, within 60 days after production ceases, reworking or drilling operations are commenced on the land under lease and are thereafter conducted with reasonable diligence during the period of nonproduction.

(n) The commissioner may establish by regulation that after a well has been plugged and abandoned, the rental rate which was in effect during the year of abandonment is maintained for the remainder of the term. Rental is payable in advance and continues until income to the state from royalty or net profit share exceeds rental income to the state for that year. Oil and gas leases shall provide for payment to the state of rental on the following basis:

(1) for the first year, $1.00 per acre;

(2) for the second year, $1.50 per acre;

(3) for the third year, $2.00 per acre;

(4) for the fourth year, $2.50 per acre;

(5) for the fifth and following years, $3.00 per acre.

(o) Upon timely application as provided by regulation, the state may issue to the holder of a federal or private lease, a state shoreland lease covering land within the exterior boundaries of the federal or private lease which has been excluded on the basis of navigability or which is later administratively or judicially determined to be shoreland. The term of such a state shoreland lease shall be the same as the term of the federal or private lease.

(p) To conserve the natural resources of all or a part of an oil or gas pool, field, or like area, the lessees and their representatives may unite with each other, or jointly or separately with others, in collectively adopting or operating under a cooperative or a unit plan of development or operation of the pool, field, or like area, or a part of it, when determined and certified by the commissioner to be necessary or advisable in the public interest. The commissioner may, with the consent of the holders of leases involved, establish, change, or revoke drilling, producing, and royalty requirements of the leases and adopt regulations with reference to the leases, with like consent on the part of the lessees, in connection with the institution and operation of a cooperative or unit plan as the commissioner determines necessary or proper to secure the proper protection of the public interest. The commissioner may require oil and gas leases issued under this section to contain a provision requiring the lessee to operate under a reasonable cooperative or unit plan, and may prescribe a plan under which the lessee must operate. The plan must adequately protect all parties in interest, including the state.

(q) A plan authorized by (p) of this section, which includes land owned by the state, may contain a provision vesting the commissioner, or a person, committee, or state agency, with authority to modify from time to time the rate of prospecting and development and the quantity and rate of production under the plan. All leases operated under a

plan approved or prescribed by the commissioner are excepted in determining holdings or control under AS 38.05.140. The provisions of this section concerning cooperative or unit plans are in addition to and do not affect AS 21.05.

(r) Producing acreage on a known geologic structure of a producing oil or gas field is excluded from chargeability as against the acreage limitation provisions of AS 38.05.140.

(s) When separate tracts cannot be individually developed and operated in conformity with an established well-spacing or development program, a lease, or a portion of a lease, may be pooled with other land, whether or not owned by the state, under a communization or drilling agreement providing for an apportionment of production or royalties among the separate tracts of land comprising the drilling or spacing unit when determined by the commissioner to be in the public interest. Operations or production under the agreement are considered as operations or production as to each lease committed to the agreement.

(t) The commissioner may prescribe conditions and approve, on conditions, drilling, or development contracts made by one or more lessees of oil or gas leases, with one or more persons, when, in the discretion of the commissioner, the conservation of natural resources or the public convenience or necessity requires it or the interests of the state are best served. All leases operated under approved drilling or development contracts and interests under them, are excepted in determining holding or control under AS 38.05.140.

(u) To avoid waste or to promote conservation of natural resources, the commissioner may authorize the subsurface storage of oil or gas whether or not produced from state land, in land leased or subject to lease under this section. This authorization may provide for the payment of a storage fee or rental on the stored oil or gas, or, instead of the fee or rental, for a royalty other than that prescribed in the lease when the stored oil or gas is produced in conjunction with oil or gas not previously produced. A lease on which storage is so authorized shall be extended at least for the period of storage and so long thereafter as oil or gas not previously produced is produced in paying quantities.

(v) *[Repealed, § 36 ch 94 SLA 1980.]*

(w) Notwithstanding any other provisions of this section, land which has been offered for lease within the previous five years and which received no bids at competitive sale or for which no bid was accepted may be, at the discretion of the commissioner, immediately offered for lease, under regulations adopted by the commissioner, upon terms appearing most advantageous to the state; however, noncompetitive leasing is prohibited. The commissioner shall establish a royalty determined to be in the public interest but not less than 12 1/2 percent. A lease must provide for payment to the state or rental but

need not adhere to the rental schedule in (n) of this section nor to the 5,760-acres-per-lease limitation in (m) of this section. The lease term may not exceed five years except as provided in (m) and (o) of this section.

(x) A lessee conducting or permitting any exploration for, or development or production of, oil or gas on state land shall provide the commissioner access to all noninterpretive data obtained from that lease and shall provide copies of that data, as the commissioner may request. The confidentiality provisions of AS 38.05.035 apply to the information obtained under this subsection.

(y) A noncompetitive lease existing at October 10, 1978 shall be extended for a period of two years and so long thereafter as oil and gas is produced in paying quantities. A noncompetitive lease extended under this subsection is subject to the regulations in force at the expiration of the initial five-year term of the lease. No extension may be granted, however, unless within a period of 90 days before the expiration date an application for extension is filed by the record title holder or an assignee whose assignment has been filed for approval, or an operator whose operating agreement has been filed for approval.

(z) No leases may be issued under this section without the inclusion of the following language: "The landowners' royalty share of the unit production allocated to each separately owned tract shall be regarded as royalty to be distributed to and among, or the proceeds of it paid to, the landowners, free and clear of all unit expense and free of any lien for it." Leases issued in violation of this subsection shall, for all purposes, be construed as containing the language required by this subsection.

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production sold by the lessee under the contract unless the commissioner makes a written finding, based on clear and convincing evidence, that

(1) the contract price is unreasonably low;

(2) the prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers;

(3) the lessee and the utility are related in management, ownership, or other aspect; and

(4) the contract price is not in the best interest of the state.

(bb) In (aa) of this section

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05; provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipe-

line, then the gas utility qualifies as a "gas or electric utility" within the meaning of this paragraph only if it is bound or agrees to be bound by the covenants set out in AS 38.35.120;

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the gas or electric utility under the contract;

(3) "state's royalty share of gas production" does not include the state's royalty share of gas production from land patented to the state under

(A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health Enabling Act);

(B) 38 Stat. 1214 (Act of March 4, 1915); or

(C) 43 U.S.C. 1635 in settlement of the claims of the state under 38 Stat. 1214. (§ 3(7) art VIII ch 169 SLA 1959; am § 18 ch 61 SLA 1960; am § 1 ch 124 SLA 1962; am §§ 4 — 7 ch 30 SLA 1964; am § 20 ch 70 SLA 1964; am § 2 ch 91 SLA 1967; am § 1 ch 65 SLA 1969; am § 1 ch 86 SLA 1970; am § 1 ch 155 SLA 1978; am § 16 ch 160 SLA 1978; am §§ 3, 4 ch 65 SLA 1979; am § 6 ch 18 SLA 1980; am § 36 ch 94 SLA 1980; am §§ 1 — 5 ch 111 SLA 1980; am §§ 11, 12 ch 161 SLA 1984; am § 1 ch 89 SLA 1985; am § 2 ch 55 SLA 1986)

Cross references. — For legislative findings in connection with the 1986 amendment to this section, see § 1, ch. 55, SLA 1986, in the Temporary and Special Acts.

Effect of amendments. — The 1985 amendment in subsection (h) substituted "If it is" for "Should it be" at the beginning of the third sentence and added the last sentence.

The 1986 amendment added subsections (aa) and (bb).

Editor's notes. — Section 5, ch. 55, SLA 1986 provides that subsection (aa) of this section "applies to agreements to establish for a lease issued under AS 38.05.180 the in-value royalties on gas production that is sold under a contract entered into on or after May 30, 1986, between the state's lessee and a gas or electric utility."

Sec. 38.05.183. Sale of royalty. (a) The sale, exchange or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182, or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, shall be by competitive bid and the sale, exchange or other disposal made to the highest responsible bidder, except that competitive bidding is not required when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board under AS 38.06.050, determines that the best interest of the state does not require it or that no competition exists.

(b) When competitive bids are required, the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board, may reject all bids on a determination that because of the amount of the bids, the lack of responsibility on the part of the bidders, or for reasons consistent with the criteria set out in AS 38.06.070, the acceptance of the bids would not be in the best interest of the state.

FIVE-YEAR OIL AND GAS LEASING PROGRAM

JANUARY 1988

AS 38.05.180

Alaska Department of

NATURAL RESOURCES

DIVISION OF OIL & GAS

FIVE-YEAR OIL & GAS LEASING PROGRAM

ALASKA DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL & GAS

Proposed Area & Date	1987												1988												1989												1990												1991												1992								
	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	J	F	M	A	M	J	J	A	S
54 Kuparuk Upl. 1·88			P		M	F		S																																																												
55 Demarcation Pt. 6·88								P		M	F		S																																																								
66A N.S. Exempt* 6·88	N		C[1]				C[2]	A	P		F		S																																																								
52 Beaufort Sea 1·89			C[3]												P		M	F		S																																																		
56 Alaska Peninsula 6·89						L		C[3]												P		M	F		S																																												
67A Cook Inlet Exempt* 6·89	N		C[1]				L	A		C[2]										P		M	F		S																																											
59 Cook Inlet 1·90					C[2]								L		C[3]											P		M	F		S																																			
57 N.S. Foothills 6·90			C[2]															L		C[3]												P		M	F		S																												
64 Kavik 1·91					C[2]																		L		C[3]										P		M	F		S																							
65 Beaufort Sea 6·91								C[2]																					L									P		M	F		S																					
61 White Hills 1·92	N		C[1]					A							C[2]														L		C[3]																																	
68 Beaufort Sea 6·92	N		C[1]					A												C[2]																				L		C[3]																			P		M	F		S			

N = Nominations Requested
A = Proposed Sale Area Added to 5-Year Leasing Schedule
C = Call for Comments:
New Sales and 5-Year Schedule Revisions [1]
Request for General Information [2]
Request for Socioeconomic and Environmental Information [3]

L = Preliminary Land Status Check
P = Preliminary Finding/Preliminary Notice [AS 38.05.945(a)(3)]
M = Public Meetings or Tele conference

F = Final Finding/Final Notice of Sale and Terms [AS 38.05.945(a)(4)] and Alaska Coastal Management = Program Consistency Determination, if Required
S = Sale
* = A Best Interest Finding May not be Required [AS 38.05.035(e)(7)]

Proven and Probable Oil Reserves on Currently Leased State Lands
North Slope, Alaska [1]

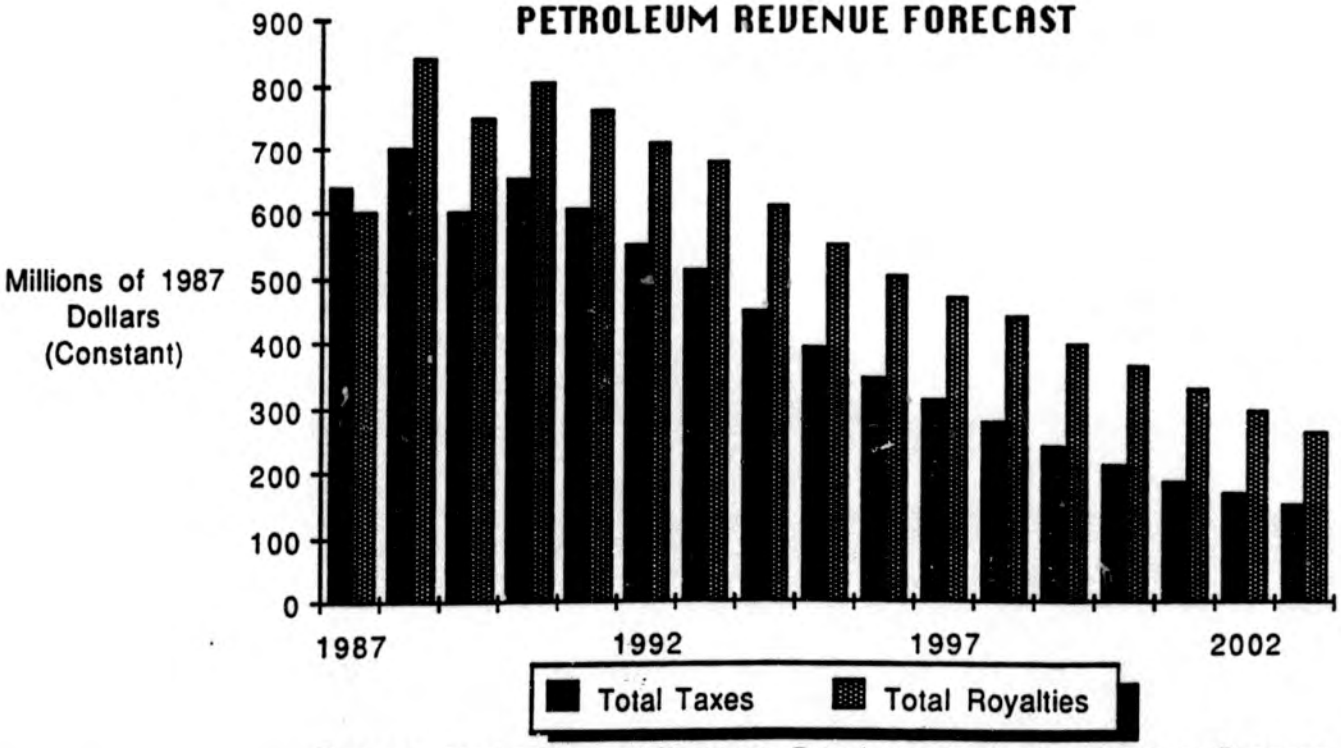
AREA	Range of Reserves (millions of barrels) low	most probable	high
Prudhoe Bay Unit	4100	4800	6000
Kuparuk River Unit	600	900	1100
Milne Point Area	0	60	95
Gwydyr Bay Area	0	0	10
Shallow Cretaceous Sands	0	1500	3000
Prudhoe Bay Lisburne Reservoir	280	380	580
Endicott	270	370	445
Point Thomson Area and Flaxman Island Area [2]	0	0	350
Beaufort Sea	0	0	300
Totals	5250	8010	11880
Totals (minus Prudhoe Bay)	1150	3210	5880

[1] As of 1/88, estimates by W. Van Dyke, Department of Natural Resources Division of Oil & Gas.

[2] Oil and gas condensate.

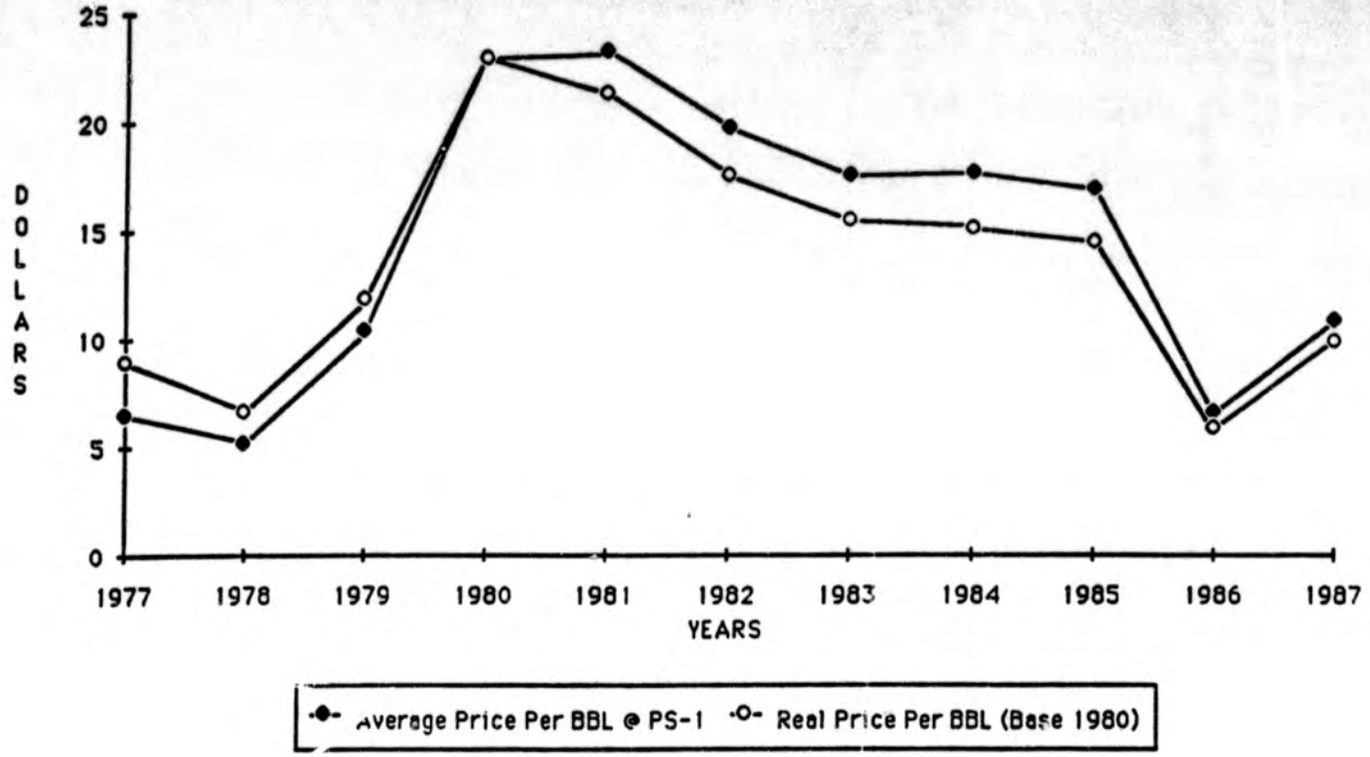
Constant Dollar
Petroleum Production Revenue Forecast
(Values in Millions of 1987 Dollars)

Fiscal Year	Total Severance and Conservation Taxes	Total Royalties	Total Petroleum Revenues
1987	642.86	604.06	1246.92
1988	700.81	843.40	1544.22
1989	604.13	748.08	1352.21
1990	655.63	803.20	1458.83
1991	606.79	760.50	1367.29
1992	551.96	710.97	1262.93
1993	512.47	679.20	1191.67
1994	451.00	613.87	1064.87
1995	394.82	552.95	947.77
1996	349.44	507.44	856.88
1997	315.59	473.25	788.85
1998	278.82	440.27	719.08
1999	241.53	399.50	641.03
2000	213.35	363.64	576.99
2001	187.45	331.06	518.51
2002	168.26	296.55	464.81
2003	149.86	264.10	413.96

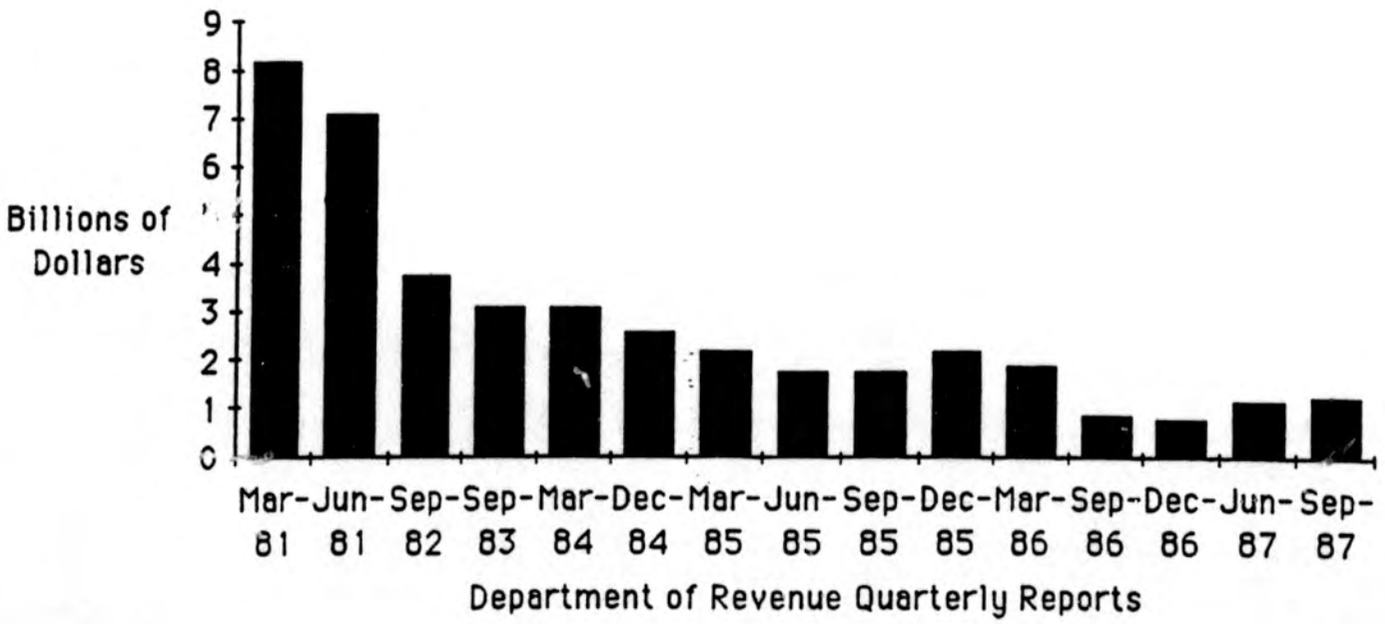


Source: Alaska Dept. of Revenue, Petroleum Production Revenue Forecast, Quarterly Report, Sept. 1987

Average Price Per Barrel at Pump Station No. 1



State Revenue Forecasts for Fiscal '87



North Slope Petroleum Development Summary (as of October 1987)

FIELD NAME	Prudhoe Bay	Lisburne	Kuparuk	Milne Point	Endicott
Discovery Date	12/67	12/67	4/69	10/69	3/78
Size of Oil Pool (sq. mi.)	400	125	400	45	40
Production Start-up Date	6/77	12/86	12/81	11/85	10/87
Production to Date (mill. bbls)	4,918	5	292	5 (1)	(2)
1986 Average Production Rate (barrels/day)	1,554,000	40,000	257,000	12,900	100,000
Remaining Reserves:					
million barrels	4,672	395	1,308	55	375
billion cubic feet	26,000	625	565	0	730
Existing Wells	828	37	505	29	4 (3)
Drill Sites/Pads	38	5	34	4	2
Production Centers	6	1	3	1	1
Base Camps	2	1	1	1	1
Construction Camps	2	0	1	1	1
Power Plants	1	1	1	1	1
Topping Plants	1	0	1	0	0
Gas Compression Plants	1	1	1	1	1
Sea Water Treatment Plants	1	0	1	0	1
Enhanced Oil Recovery Plants	1	0	1	0	0
Docks	1	0	1	0	1
Causeways	1	0	0	0	1
Water Injection Centers	2	0	(4)	(4)	0
Associated Support and Industrial Sites	1	0	1	0	0
Airports and Company Operated Airstrips	2	0	1	0	0
Pipelines (miles)	63 (5)	(5)	418	15	28
Roads (miles)	218 (5)	(5)	94	19	15
Acreage Filled (acres)	5374 (5)	(5)	1409	54	198
River Crossings (number)	3 (5)	(5)	5	1	1

(1) Field shut in January 1987
(2) Production commenced October 1987
(3) 80-100 wells planned
(4) Water injection system included in production centers
(5) Lisburne numbers included with Prudhoe Bay

Standard Alaska Production Company has recently applied for discovery royalty for a new field, Niakuk, located offshore between the Lisburne and Endicott fields. Standard currently is considering various development plans. No estimate of reserves is available at this time.

Camp Lonely, located 80 miles west of Oliktok Point and the Kuparuk field, has served as a staging area for western Beaufort Sea activities. The camp was constructed by the federal government for exploration activities in the National Petroleum Reserve Alaska. The Cook Inlet Region, Incorporated (CIRI) bought the camp in 1982. CIRI plans to operate the facility as a joint venture with Arctic Slope Regional Corporation. Infrastructure includes a 100 person camp, offices, carpentry shop, communications shop, sewage treatment plant, generating system, vehicle maintenance shop, a large tank farm, and warm and cold storage warehouses. Inventory on hand consists of drill pipe, casing and drilling mud.

In addition to these areas, future development is possible from the West Sak Reservoir in the Prudhoe Bay Unit, Seal Island, Tern Island, Sandpiper Island, Colville Delta, Flaxman Island/Point Thomson, Heml Springs Unit, ARCO Alaska's K-10 and Bullen Point Staging Area.

EXPLORATION INCENTIVE CREDITS
Report Month: October 1987

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
343109	G-2 Well	Exxon	10/5/83	$6,197,625.00
		Standard Alaska	12/27/83	$4,152,408.75
		BPAE	10/5/83	$2,045,216.25
344010	Leffingwell	Arco	10/2/84	$3,706,000.00
		Union	10/2/84	$3,706,000.00
344033	J-1 Well	Exxon	10/31/84	$5,119,500.00
355005	Long Island Well	Exxon	11/14/84	$1,378,076.00
		Standard Alaska	11/14/84	$1,378,076.00
345126	Totek Hills	Arco Alaska	8/02/85	$715,530.81
355037	Colville Delta #1	Texaco	07/09/86	$637,500.00
		Amerada Hess	07/09/86	$888,594.00
		Diamond Shamrock(A)	07/09/86	$100,128.00
		Mobil	02/05/87	$432,511.00
		Placid Oil (C)	07/09/86	$314,679.00
		Union Texas (B)	07/09/86	$475,631.00
		Rosewood Resources	07/09/86	$12,662.00
		Hunt Pet Co.	07/09/86	$1[illegible],213.00
364478	Colville Delta Area AHC 25-13-6 #1 well	Amerada Hess	10/12/87	$677,853.00
		Union Texas	10/12/87	$508,390.00
		Texaco	10/12/87	$225,951.00
		Maxus Expl.	10/12/87	$225,951.00
		Placid Oil	10/12/87	$129,115.00
		Rosewood Res.	10/12/87	$21,360.00
		Hunt Pet Co.	10/12/87	$18,987.00
355038	Colville Delta #2	Amerada Hess	10/28/87	$757,731.46
		Union Texas	10/28/87	$205,106.95
		Texaco	10/28/87	$273,475.93
		Maxus Expl.	10/28/87	$273,475.93
		Placid Oil	10/28/87	$423,982.26
		Rosewood Res.	10/28/87	$77,561.49
		Hunt Pet Co.	10/28/87	$68,943.50
355039	Colville Delta #3	Amerada Hess	10/28/87	$364,048.13
		Union Texas	10/28/87	$91,012.03
		Texaco	10/28/87	$364,048.13
		Maxus Expl.	10/28/87	$364,048.13
		Placid Oil	10/28/87	$178,918.37
		Rosewood Res.	10/28/87	$34,416.31
		Hunt Pet Co.	10/28/87	$30,592.28
GRAND TOTAL				$36,575,980.71

(A) Assigned $432,511 of EIC to Mobil Oil Corp. effective 02/05/87
(B) Assigned entire EIC to BP Alaska effective 02/03/87
(C) Assigned entire EIC to Texaco Inc. effective 03/31/87

Source: Alaska Department of Natural Resources, Division of Oil and Gas

SUMMARY OF PAST COMPETITIVE LEASE SALES

Sale No.	Acres Offered	Percent Leased	Acres Leased	Average $/Acre	Tracts Offered	Tracts Leased	Bonus Received
1.	88,055.00	87.66	77,191.00	52.08	37	31	$4,020,342.43
2.	17,567.51	93.96	16,505.57	24.70	27	26	407,654.54
3.	73,047.70	31.30	22,866.70	1.55	26	9	35,325.31
4.	400.00	100.00	400.00	679.04	3	3	271,614.40
5.	97,876.00	98.06	95,980.00	74.71	102	99	7,170,464.88
6.	13,257.00	100.00	13,257.00	8.35	5	6	110,671.55
7.	255,708.44	73.14	187,025.40	79.47	68	53	14,863,049.33
8.	1,061.70	100.00	1,061.70	4.80	8	8	5,097.00
9.	315,668.93	87.77	264,437.13	59.43	89	76	15,714,112.60
10.	167,583.06	84.43	141,490.51	29.23	200	158	4,136,224.92
11.		CANCELLED					
12.	346,782.40	71.25	247,089.00	12.31	309	207	3,042,680.74
13.	1,194,373.00	60.51	722,659.00	7.66	610	341	5,537,100.94
14.	754,033.00	53.45	403,000.00	15.25	297	159	6,145,472.59
15.	403,042.06	74.87	301,751.28	15.49	293	216	4,674,343.74
16.	184,410.05	72.66	133,987.29	52.55	205	153	7,040,880.17
17.	19,229.70	96.67	18,589.70	7.33	36	35	136,279.67
18.	47,729.00	88.82	42,397.00	34.88	23	19	1,478,777.23
19.	2,560.00	REJECTED 12/9/74					
20.	311,249.89	82.39	256,447.31	73.14	295	220	18,757,340.88
21.	346,623.00	47.59	164,961.00	18.24	308	147	3,009,224.00
22.	111,199.48	54.20	60,272.15	17.29	230	125	1,042,219.90
23.	450,858.47	91.50	412,548.47	2,181.66	179	164	900,041,605.34
24.	196,635.07	47.10	92,617.97	4.92	244	106	455,640.57
25.	325,401.42	54.78	178,244.71	7.43	259	152	1,324,673.40
26.	399,920.96	44.50	177,972.56	8.75	218	105	1,557,848.84
27.	308,400.81	36.93	113,891.71	9.93	210	96	1,130,324.51
28.	166,648.04	58.69	97,803.69	253.77	98	62	24,819,189.91
29.	278,269.43	50.00	127,119.65	8.19	164	82	1,040,909.98
29A.		CANCELLED					
29B.	34,678.04	100.00	34,678.04	4.56	20	20	158,041.78
30.	341,140.18	86.80	296,307.65	1,914.87	71	62	567,391,497.48
31.	196,268.00	100.00	196,268.00	63.12	78	78	12,387,469.60
33.	815,000.00	50.99	429,978.16	10.00	202	103	4,299,781.60
32.	202,836.74	75.15	152,428.22	10.00	78	59	1,524,282.20
35.	601,171.50	21.82	131,190.69	10.00	149	31	1,311,906.90
36.	56,862.41	100.00	56,862.41	573.02	13	13	32,583,451.87
37.	852,603.08	19.80	168,849.00	3.33	217	33	562,943.90
37A.	1,874.60	100.00	1,874.60	52.00	1	1	97,479.20
34.	1,231,517.00	46.44	571,954.00	46.71	261	119	26,713,018.17
38.		CANCELLED					
39.	211,988.08	100.00	211,988.08	99.05	42	42	20,998,100.98
40.	1,044,745.02	42.44	443,354.88	7.17	284	140	3,177,178.26
43&43A.	374,152.89	95.64	357,863.02	94.53	84	81	33,827,377.15
41.	1,437,930.46	19.39	278,938.96	3.03	308	63	843,964.92
46A.	248,584.64	76.45	190,041.54	13.28	65	50	2,523,333.71
45A.	606,385.00	27.19	164,885.00	28.25	113	32	4,657,478.08
47.	192,568.81	94.80	182,559.81	63.79	50	48	11,645,003.26
48.	526,101.00	50.70	266,736.00	9.16	104	54	2,444,341.85
48A.	42,053.00	100.00	42,053.00	12.13	11	11	510,255.16
49.	1 189,099.61	33.21	394,880.74	2.40	260	98	947,171.27
51.	592,142.00	17.99	100,632.00	2.88	119	26	289,624.90
50.	118,147.31	100.00	118,147.31	56.05	35	35	6,621,722.81
	17,797,475.92	52.63	9,165,038.61	189.54	7,108	4,057	1,763,484,494.32

STATE COMPETITIVE SALE AREAS

	SALE	DATE	DESCRIPTION	BIDDING METHOD
1.	Wide Bay; offshore Kenai to Ninilchik; Kachemak Bay	12/10/59	Offshore	Cash Bonus Bid with fixed Royalty
2.	Kenai Peninsula; West Forelands; Nushagak Bay	7/13/60	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
3.	Katalla; Kalifonsky Beach; Herendeen Bay; offsh. Kodiak	12/7/60	Offshore	Cash Bonus Bid with fixed Royalty
4.	Uplands Ninilchik	1/25/61	Uplands	Cash Bonus Bid with fixed Royalty
5.	Tyonek; Controller Bay; Pavlov Bay	5/23/61	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
6.	Controller Bay (Special Sale)	8/4/61	Tidelands	Cash Bonus Bid with fixed Royalty
7.	Icy, Yakutat & Kachemak Bays; So. Kenai Penin.; N. Cook Inlet	12/19/61	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
8.	Big Lake	4/24/62	Uplands	Cash Bonus Bid with fixed Royalty
9.	Tyonek; W. Forelands; Knik Arm/Kalgin Island; Chisik Island; So. Kenai Penin.; Wide Bay	7/11/62	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
10.	Tyonek; Kenai Offshore & Uplands	5/8/63	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
11.	Yakutat Bay	C A N C E L L E D		
12.	S. of Forelands; Knik & Turnagain Arms; Upper Cook Inlet; Kenai Pen.; Tyonek to Katunu River	12/11/63	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
13.	Fire Island; W. Forelands; Trinity Islands; Prudhoe West	12/9/64	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
14.	Prudhoe West to Canning River	7/14/65	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
15.	Fire Island & N. Cook Inlet; Kalgin Island & Redoubt Bay; Knik; S. Kenai Peninsula	9/28/65	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
16.	Kenai Penin. & Knik; Middleton Island; Fire Island, Redoubt Bay; Kalgin Island, Iliamna Mt.; N. Cook Inlet	7/19/66	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
17.	Big Lake; Kenai	11/22/66	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
18.	Katalla; Prudhoe	1/24/67	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
19.	Lower Cook Inlet	3/28/67	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
20.	Big Lake; Knik; Iliamna Mt.; Belukha; N. Cook Inlet; Kalgin Island; Ninilchik	7/25/67	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
21.	Port Heiden & Port Moller	3/26/68	Offshore	Cash Bonus Bid with fixed Royalty
22.	Big Lake; Knik; Belukha; West Forelands; Ninilchik; Kachemak & Kenai	10/29/68	Uplands	Cash Bonus Bid with fixed Royalty

STATE COMPETITIVE SALE AREAS

SALE	DATE	DESCRIPTION	BIDDING METHOD
23. Colville to Canning River	9/10/69	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
24. Big Lake; Knik; Kenai; West Forelands	5/12/71	Uplands	Cash Bonus Bid with fixed Royalty
25. Big Lake; Knik; Belukha; North Cook Inlet	9/26/72	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
26. Cook Inlet (Between Forelands & Turnagain Arm)	12/11/72	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
27. Tuxedni; Ninilchik; Kenai; Kalgin	5/9/73	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
28. Ninilchik; Kachemak Bay; Belukha	12/13/73	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
29. Kalgin & West Forelands; Chisik; Ninilchik N. Cook Inlet; Turnagain; Big Lake	10/23/74	Offshore Uplands	Cash Bonus Bid with fixed Royalty
29A. Point Thomson	CANCELLED		
29B. Copper River Basin	7/24/79	Uplands	Cash Bonus Bid with fixed Royalty
30. Beaufort Sea (Joint Federal & State Sale)	12/12/79	Offshore	Cash Bonus w/fixed Sliding Scale Royalty; Net Profit Share (NPS) Bid w/fixed Royalty and fixed Cash Bonus
31. Prudhoe Uplands	9/16/80	Uplands	Cash Bonus Bid with fixed Royalty and fixed NPS
32. Lower Cook Inlet	8/25/81	Offshore/Uplands	Royalty Bid with fixed Cash Bonus
33. Upper Cook Inlet	5/13/81	Offshore/Uplands	Royalty Bid with fixed Cash Bonus
35. Lower Cook Inlet	2/2/82	Offshore/Uplands	Royalty Bid with fixed Cash Bonus
36. Beaufort Sea	5/26/82	Offshore/Uplands	Cash Bonus Bid with fixed Royalty and fixed NPS
37. Middle Tanana & Copper River Basins	8/24/82	Uplands	Cash Bonus Bid with fixed Royalty and fixed NPS
37A. Chakok River, Exempt	8/24/82	Uplands	Cash Bonus Bid with fixed Royalty
34. Prudhoe Uplands	9/28/82	Uplands	Cash Bonus Bid with fixed Royalty and fixed NPS
38. Norton Basin	CANCELLED		

STATE COMPETITIVE SALE AREAS

SALE	DATE	DESCRIPTION	BIDDING MEYHOD
39. Beaufort Sea	5/17/83	Offshore/Uplands	Cash Bonus Bid with fixed Royalty and fixed NPS
40. Upper Cook Inlet	9/28/83	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
43. Beaufort Sea	5/22/84	Offshore	Cash Bonus Bid with fixed Royalty
43A. Colville River Delta/Prudhoe Bay Uplands	5/22/84	Offshore/Uplands	Cash Bonus Bid with fixed Royalty and fixed NPS
41. Bristol Bay Uplands	9/18/84	Uplands	Cash Bonus Bid with fixed Royalty
46A. Cook Inlet Exempt	2/26/85	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
45A. North Slope Exempt	9/24/85	Uplands	Cash Bonus Bid with fixed Royalty
47. Kuparuk Uplands	9/24/85	Uplands	Cash Bonus Bid with fixed Royalty
48. Kuparuk Uplands	2/25/86	Uplands	Cash Bonus Bid with fixed Royalty
48A. Mikkelson	2/25/86	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
49. Cook Inlet	6/24/86	Offshore/Uplands	Cash Bonus Bid with fixed Royalty
51. Prudhoe Bay Uplands	2/27/87	Uplands	Cash Bonus Bid with fixed Royalty
50. Camden Bay	6/30/87	Offshore	Cash Bonus Bid with fixed Royalty

CURRENT STATE OIL & GAS LEASE INVENTORY
(December 1987)

CATEGORY	NO. OF LEASES	NO. OF ACRES
ACTIVE LEASES	1155	3,843,827
OFFSHORE		1,629,247
ONSHORE		2,214,580
TOTAL PRODUCING LEASES	278	548,719
UNITIZED LEASES	436	957,078
COMPETITIVE LEASES	1125	3,820,104
OFFSHORE		1,629,247
ONSHORE		2,190,857
NONCOMPETITIVE LEASES	12	8,890
OFFSHORE		-0-
ONSHORE		8,890
NET PROFIT SHARE LEASES	141	620,414
OFFSHORE		290,795
ONSHORE		329,620
CONDITIONAL LEASES (1)	84	176,950
OFFSHORE		17,382
ONSHORE		159,567
TRANSFERRED FEDERAL LEASES (2)	15	14,181
OFFSHORE		-0-
ONSHORE		14,180
SHORELAND PREFERENCE LEASES (3)	3	651

(1) State leases issued prior to May 6, 1969 on lands which the state has not yet received patent.

(2) Federal leases which have since been transferred to state ownership.

(3) State leases for the bottoms of navigable waterbodies issued to federal leaseholders whose tracts surround those waterbodies.