

Beaufort Sea Barrier Islands

- (1) the state's expectation of future revenue from the land,
 - a. The barrier islands off the Beaufort Sea coast of northern Alaska between the Colville and Canning Rivers and their mineral resources are of clear economic value to the state. They have been included in oil and gas lease sales and units for decades, and have very high potential for economically recoverable resources, particularly in and near the Oooguruk, Nikaitchuq, Milne Point, Prudhoe Bay, and Point Thomson units. These lands are part of Alaska's most prolific and well established petroleum province and are adjacent to the Barrow Arch rift margin, the regional subsurface structure that controls the location of most of northern Alaska's producible hydrocarbon accumulations. Discovered resources occur in the vicinity of the barrier islands within the Ellesmerian (Mississippian to Triassic), Beaufortian (Jurassic to Cretaceous), and Brookian (Cretaceous to Tertiary) sequences. The U.S. Geological Survey assesses significant undiscovered, technically recoverable oil and gas in eleven stratigraphically and structurally defined plays in the Barrow Arch region of the central North Slope. Most of the undiscovered accumulations are predicted to be in the 10-100 million barrel technically recoverable range, and will require highly cost-efficient development to become economically recoverable. The surface and subsurface resources of the barrier islands may be instrumental in achieving those cost efficiencies.
 - b. Through 26 lease sales from December 1979 to November 2014, a total of 878 tracts have been leased encompassing 2,775,138 acres. The lease sales have provided \$747.5 million in rents and bonus bids. Industry showed significant interest in leasing tracts in 1979 (62), 1984 (66), 1997 (162), 2006 (62), 2011 (77). In the recent fall 2014 Areawide Lease Sale, 42 tracts provided almost \$5 million to the state in leases and bonus bids.
 - c. The Jones, Flaxman and Maguire Islands are in active units with development and offer future potential revenues as the units of Oooguruk, Nikaitchuq and Point Thomson further development over time.
 - d. The lower Midway Islands and Tigvariak Island are held with active state leases that are leased with industry interest for future exploration and development.
- (2) the extent to which plans and programs remain dependent on those funds,
 - a. The barrier islands proposed for municipal entitlement are in the Beaufort Sea Areawide Lease Sale area with both 12.5% and 16.667% royalty rate. When leased, rents and bonus bids from will provide revenue to the state. When developed, property taxes will provide additional revenue to the state. When brought into production, the production tax and royalties received will significantly increase the revenues to the state over a longer period of time. These revenues will be directed for deposit in the Permanent Fund, Constitutional Budget Reserve, the School Fund, and the General Fund with support to statewide programs including investment in future oil and gas programs.
- (3) the extent to which continued state ownership of the surface estate would facilitate state regulatory authority of the oil field and tend to protect state revenues,

- a. The regulation of these barrier islands, in conjunction with the surrounding state submerged lands, provides consistency for the state's oil and gas regulatory authority over the leased and unleased lands of the Beaufort Sea Areawide Sale area. This will continue to allow for exploration and potential development consistent with lease stipulations as established in the Best Interest Finding and as established in statute and regulation. All state revenues associated with rents and bonus bids, property taxes, and royalty would be protected with continued state ownership.
- (4) the extent to which state ownership would lessen the likelihood of conflicts between mineral lessees and the surface estate owner, and
- a. North Slope Borough Municipal Code 19.70.040 (Offshore Development Policies) provides specific direction on offshore development for oil and gas. As the barrier islands proposed are in the offshore Beaufort Sea, retaining state ownership would enable the state to balance the North Slope Boroughs policy requirements with the best interest finding and lease terms and conditions, thus lessen the likelihood of conflicts between the state lessees and the North Slope Borough.
 - b. With state ownership, consistency of plan approval would also be sustained, thus minimizing the likelihood of conflicts for development on state submerged lands immediately adjacent to barrier islands if the state ownership was not retained.
- (5) the extent to which the placement of facilities necessary for the efficient operation of the oil field could be affected by conveyance or retention of the land.
- a. Establishing two different surface estates with the North Slope Borough having the surface estate on the barrier islands and the state retaining submerged lands estate surrounding the barrier islands, the extent to placement of fields necessary for efficient operations would be complicated by decisions affecting the different surface estate owners and their policies versus statutes and regulations. This is particularly true when the barrier islands are currently in state established units with unit agreements and approved plans of operations and plans of development.

NSB Municipal Entitlement - Nuiqsut Area

- (1) the state's expectation of future revenue from the land,
 - a. This proposed Municipal Entitlement for surface estate is overlaying the subsurface estate with known geological oil and gas potential, as determined for the resource potential north of the Alaska North Slope Royalty Line as established in the terms and conditions of the annual North Slope Areawide Lease Sale.
 - b. The state can expect future revenues from this land. In November 2014 North Slope Areawide Lease sale, these 4 tracts were successfully competitively bid by 70 & 148, LLC with rent and bonus bid revenue of \$1,110,476.80, as follows.
 - i. 392947 - \$142,771.20
 - ii. 392948 - \$81,587.20
 - iii. 392950 - \$443,059.20
 - iv. 392951 - \$443,059.20
 - v. Other leases, both adjacent to or in the immediate vicinity and available, were competitively bid for >\$80,000 each by 70 & 148, LLC.
 - c. Given the level of investment in the 4 lease tracts within the NSB municipal entitlement and other leases surrounding or in the immediate vicinity, it is safe to presume that there will be oil and gas development on these lands, leading to future revenues for the state.
 - d. Within 5 miles of the proposed selection, there are presently 12 oil or gas well surface locations, two pipelines and one primary road. With this level of drilling and close proximity of infrastructure, combined with the high level of industry interest, the state can reasonably expect future revenues with expanded infrastructure for development, production and transportation.
 - e. Details for the above points are included in the attached map titled "Land Status in the Vicinity of Municipal Entitlement Selection ADL 414826" of December 2014.
- (2) the extent to which plans and programs remain dependent on those funds,
 - a. In addition to the rents and bonus bids received and for continued deposit to the state, development will provide additional property taxes. The area proposed for municipal entitlement requires a 16.667% royalty rate when in production in addition to production tax. Royalties received will be deposited in the Permanent Fund, Constitutional Budget Reserve, the School Fund, and the General Fund with support to statewide programs including investment in future oil and gas programs.
- (3) the extent to which continued state ownership of the surface estate would facilitate state regulatory authority of the oil field and tend to protect state revenues,
 - a. The entire area's surface estate is currently under state ownership. Selections to the north and east at the ASTAC site have been previously rejected at the ASTAC site or modified for the Kuparuk Mine Site F specific to access to surface gravel east of the access road, thus retaining the oil and gas land classification and state ownership of the surface estate. A comparable decision as the ASTAC site would be consistent in facilitating state regulatory authority over these leases with high prospectivity. This

would establish this as oil and gas lands, provide assurances to the lessee, and protect the potential future state revenues.

- (4) the extent to which state ownership would lessen the likelihood of conflicts between mineral lessees and the surface estate owner, and
 - a. Recognizing that all lands in this area are currently leased or withdrawn due to litigation, changing the surface ownership from the state to the North Slope Borough by the proposed municipal entitlement would actually increase the likelihood of conflicts between the surface estate owner and the lessees. Currently, the area is functioning under the terms of the state lease and is in the vicinity of the currently established Kuparuk River Unit and the Southern Miluveach Unit and the proposed Tapqaq unit. where current state approved unit agreements are in place. There is currently no surface estate issues associated with these leases and the unit agreements in the vicinity of this selection.
- (5) the extent to which the placement of facilities necessary for the efficient operation of the oil field could be affected by conveyance or retention of the land.
 - a. In consideration of the North Slope Borough's Code Chapter 19.70 "Borough Policies", conveyance would bring the land into more detailed review by the North Slope Borough and the Village of Nuiqsut for compliance with
 - i. Village Policies (19.70.020) and associated Comprehensive Development Plans of the affected village of the area (i.e. Nuiqsut);
 - ii. Economic Development Policies (19.70.030) as pertaining to beneficial impacts from development and uses, including preferential selection of work by local private businesses or regional or village corporations.