



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Natural Resources
OFFICE OF PROJECT MANAGEMENT AND PERMITTING

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Matt Frye, Chief
Resource Evaluation Division, Office of Strategic Resources, Bureau of Ocean Energy Management
45600 Woodland Road
Sterling, Virginia 20166-9216

Submitted via Federal ERulemaking Portal at: <http://www.regulations.gov>

Re: Comments on the proposed modifications to the bid adequacy procedures for offshore oil and gas lease sales, BOEM-2023-0008

Dear Mr. Frye,

Thank you for the opportunity to provide comments on the Bureau of Ocean Energy Management (BOEM)'s bid adequacy procedures. The Division of Oil and Gas (DOG) is responsible for managing development of the State's oil and gas resources for the benefit of Alaskans, and thus is very well versed in productively managing public resources for public benefits, and specifically in evaluating the appropriate commercial terms and processes under which to offer such resources for development. We believe these same kinds of processes can be applied on federal lands and waters in Alaska for the public and national benefit. Federal acreage within the State offers abundant oil and gas resources that can be explored safely and responsibly under existing regulations. In particular, Federal waters in the Cook Inlet may provide a resource to help the region's imminent natural gas needs in Southcentral Alaska, and federal waters off the North Slope may contain significant resources as have been found onshore in one of North America's most prospective hydrocarbon basins.

Summary of DOG's Understanding of BOEM's Proposed Changes:

BOEM's new bid adequacy procedures appear to simplify bid adequacy review by eliminating some steps and simplifying calculations compared to the existing process that was adopted in 2016. In Phase 1 of bid evaluations, there are no longer tract classifications of Drainage and Development or Confirmed and Wildcat. Instead, a Geological and Geophysical Evaluation takes place in Phase 2 to understand the oil and gas potential of tracts. The ADV (Adjusted Delayed Value) of tracts is no longer considered but bids are evaluated and accepted if they are higher than the Lower Bound Confidence Interval (LBCI) which statistically evaluates the fair market value of a tract. These updates are unlikely to materially change the process, and thus, the State provides little comment. A side-by-side comparison of the two processes are on the next page with the changes in the current process highlighted in yellow on the left. To the degree these changes represent simplification of the process, the Division of Oil and Gas is supportive of a new, more clear and transparent methodology.

We also encourage BOEM to consider the following suggestions / observations for this and future revisions of the federal offshore lease sale process:

- 1.) We understand that the vast majority of activity and bidding that BOEM manages occurs in the Gulf of Mexico, where there is robust and longstanding leasing and development. We would primarily defer to States adjacent to these activities for their positions on the merits of

existing or proposed BOEM processes in those regions, and to the degree they raise alternate or contrary points to these comments, the State of Alaska does not intend to apply these comments to those areas but instead to primarily focus them on the Alaska OCS areas. In Alaska, recent OCS leasing activity has been very limited, and has been subject to a number of restrictive federal actions. In this context, the State believes that bids should be evaluated and accepted in light of the limited current activity, and thus limited public benefit, of activity in the Alaska OCS.

- 2.) BOEM's bid evaluation techniques were implemented in 2016 to maximize revenue from oil and gas lease sales by ensuring fair market value is received and not just accepting the highest bid on a tract. However, it can be argued that these changes have served to limit the number of new leases awarded and to limit new exploration activity. A simpler approach to leasing in Alaska – both in the Cook Inlet region and in the OCS areas off the North Slope – without the statistical hurdles for fair market value may entice more bidders, more exploration, and ultimately more development on land that has seen little activity in recent years.
- 3.) BOEM's current process could, hypothetically, result in a situation where it accepts the highest bid on what have been determined to be non-viable tracts while rejecting bids on viable tracts (*non-viable tracts are those tracts considered by BOEM not to have the potential capability of being explored, developed, and produced profitably under economic conditions present at the time of the lease sale*). Consequently, tracts that have a high probability for development may not be leased because the tract did not receive a bid of sufficient market value. As described in point 4 below, additional transparency by BOEM as to what acceptable minimum bids are will help the private sector assess the commercial viability of a bidding strategy relative to what BOEM will accept.
- 4.) BOEM could ensure it is receiving fair market value for viable tracts by raising the minimum bid on tracts determined to have higher value rather than evaluating bids once they are received. This would allow operators to know BOEM's expectations are prior to bidding. This will also ensure an interested company does not under bid and that the tract is successfully leased.
- 5.) BOEM should share its opinion on the "tract viability" of each lease and how it is determined prior to a lease sale.
- 6.) In the Phase 1 analysis, the Regional Director (RD) can reject a bid if it is determined there are unusual bidding patterns. More information is needed as to what constitutes an unusual bidding pattern.

Sincerely,



Ashlee Adoko

Executive Director, Office of Project Management and Permitting

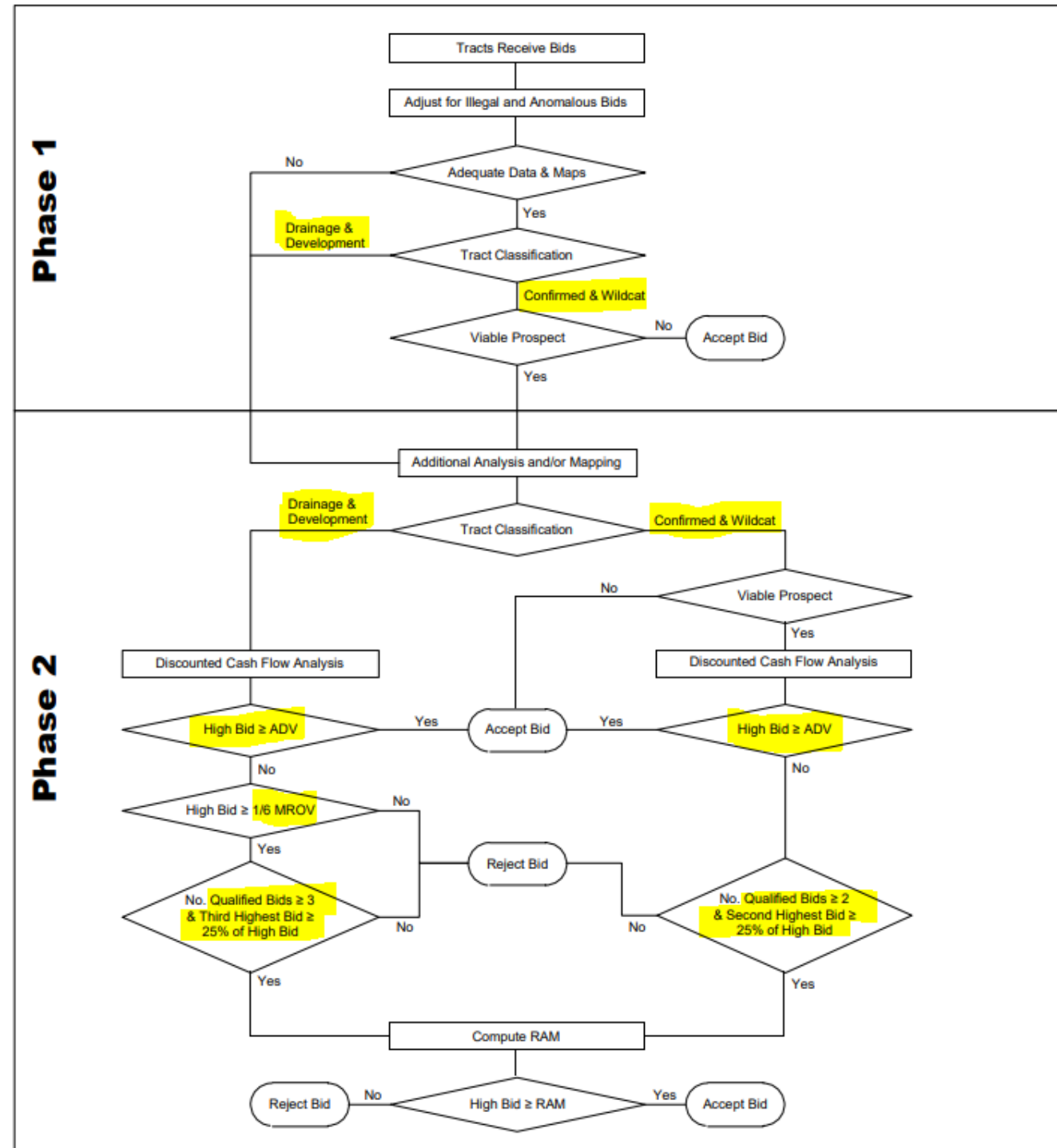
Enc: Diagrams of Current Leasing Process and Proposed New Leasing Processes

Cc: John Boyle, Commissioner, Alaska Department of Natural Resources (ADNR)
John Crowther, Deputy Commissioner, ADNR
Derek Nottingham, Director, DOG
Haley Paine, Deputy Director, DOG
Jhonny Meza, Commercial Analyst, DOG

Enclosure:

Diagrams of Current Leasing Process and Proposed New Leasing Processes

Current Leasing Process:



Proposed New Leasing Process:

