

State of Alaska
Department of Natural Resources
Division of Mining, Land & Water
Northern Regional Office

Lease Extension Decision
ADL 400085 Crowley Marine Services, Inc.
Other Competitive Lease

Decision to Extend Lease

Crowley Marine Services, Inc. (Crowley) has applied to the Department of Natural Resources (DNR), Division of Mining, Land & Water (DMLW), to renew a current long-term lease on Tracts 59 and 60 of ASLS 76-227 in Deadhorse, Alaska. The leases will expire February 13, 2018. A complete application was provided to DMLW on November 2, 2017. DMLW has made the decision to extend the lease for a maximum of two years pursuant to AS 38.05.070(f)(2). The lease extension will allow DMLW appropriate time to consider the application for renewal and complete the renewal decision process.

Scope of Decision

The scope of this decision is to determine if it is in the State's best interest to extend the lease for ADL 400085 to Crowley for general oil field support services that support the North Slope oil and gas operators.

Authority

This lease extension is being adjudicated pursuant to AS 38.05.070, leasing of land other than for the extraction of natural resources; AS 38.05.070(g), the director shall provide public notice; and AS 38.05.070(f), a lease may be extended once for a period up to two years.

Administrative Record

The current case file, ADL 400085, comprises the administrative record for this case.

Location and Legal Description

Tracts 59 and 60 of Alaska State Land Survey (ASLS) 76-227, Survey of North Slope Lease Tracts, Deadhorse, Alaska within Sections 8, 17, 18, 19, and 20, Township 10 North, Range 15 East, Umiat Meridian, containing 15.70 acres, more or less.

Title

The State received patent, #50-74-0092, on March 27, 1974.

Adjacent Landowners, Native Corporations or Borough

The lease tracts are within the North Slope Borough, though no borough lands are impacted. The lease tracts are within the Arctic Slope Regional Corporation boundaries, though no corporation lands are impacted.

Third Party Interests

Surface Activity:

- ADL 400085A, sublease to Stallion Rockies Ltd. for the entirety of Tracts 59 and 60.
- ADL 400085B, sublease to Colville. An 80'x10' (800 square feet) portion of Tract 59, ASLS 76-227, located along the north boundary line of Tract 59, identified in Attachment "A" (see file)

(Crowley Tract 59 and 60 Topographical Survey), known as the "Colville Building and Tank Encroachment" located within Section 17, Township 10 North, Range 15 East, Umiat Meridian.

- ADL 63237, Public Easement, Utility, Issued, Arctic Slope Telephone Assoc. Inc
- ADL 64036, Public Easement, Utility, Issued, USDOT FAA AK Region
- ADL 413263, Public Easement, Utility, Issued, Norgasco Inc.
- ADL 418572, Private Easement, Upland Fiber Optic Right-of-Way, Issued, GCI Fiber Communication Company Inc.

Subsurface Activity:

- ADL 28330, Oil & Gas Lease Competitive, Issued, BP Exploration (Alaska) Inc. A portion of Drill Site 12 encumbers the surface of the lease tract within Sections 18 and 19.

See Title Reports RPT #10224 (ADL 400085) for more information. There are no other known third party interests identified at this site. Identified third-party interests do not conflict with the lease extension.

Planning and Classification

This site is within the North Slope Borough, which is the zoning authority. This site is zoned Resource Development and does not preclude this extension.

The site is classified Settlement under the Deadhorse Lease Tracts Site Specific Plan (SSP) CL NC-04-003, dated January 30, 2006. The SSP notes that an Oil and Gas Lease (ADL 28330) covers the area. Development of the surface estate is not prohibited, but the subsurface is the dominant estate (SSP, p. 10).

The General Management Intent for the Deadhorse Lease Tracts is to support oil and gas development and to ensure continued access to develop the underlying mineral estate (SSP, p. 19). Tracts improved under the SSP, including Tracts 59 and 60, are to be managed to support oil and gas operations (SSP, p. 19).

The site is subject to ADL 50666, North Slope Area Special Use Land and AS 19.40.210, James Dalton Highway.

This site has not been closed to mineral entry.

The extension is consistent with the classification and management intent of the area.

Access

Industrial roads (Spine Road and Sag River Road) connect to the Dalton Highway providing direct physical and legal access to the tracts and do not require an authorization.

Hazardous Materials and Potential Contaminants

There is known contamination within Tracts 59 and 60. An environmental assessment performed in 1990 indicated that portions of the gravel pad had been impacted by diesel-range hydrocarbons. In 1992, approximately 3400 cubic yards (cy) of impacted material with total petroleum hydrocarbon concentrations up to 11,000 parts per million (ppm) were excavated and placed in a bio (soil) cell. Also in 1992, a battery storage area was sampled and excavated during the remediation efforts. In August 2007, the bio cell was dismantled. The soils contained in the cell were spread into land farm cells and sampled. Analytical results indicated that the diesel range organics (DRO) concentrations were below Alaska Department of Conservation (ADEC) cleanup levels. With ADEC approval, the soils were integrated into the gravel pad in September 2007.

The tracts have been used for maintenance and storage of construction and oil field equipment. On site structures have included a 60 x 140 ft steel frame building, 5000 gallon above ground storage tank (AST), and a sump placed into the gravel pad 1 ft below the gravel surface. The building, AST, and sump have been removed from the site.

A Phase II Environmental Assessment was conducted in 2007 when a request to sublease a large portion of the Tracts to Ice Services, Inc. was submitted to the DNR. Twelve test pits were excavated and one sample was taken from each pit from the interval with the highest field screening results. Detailed information on the site contamination can be found in the ADEC hazardous waste file (File No. 300.23.018), the "Tract 59 Limited Phase II Environmental Assessment Report" dated December 6, 2007 (See File) and the "Crowley Marine Services, Inc. Tracts 59 & 60 Record of Decision" letter dated March 20, 2008 (See File). The ADEC Record of Decision concluded that the majority of contamination removed from the site and that the contamination that remained did not pose an unacceptable risk to human health or the environment. The site was conditionally closed with the following conditions: 1) a Notice of Environmental Contamination was recorded in the ADEC database, and 2) any proposal to transport soil or groundwater off site requires ADEC approval in accordance with 18 AAC 75.370(b). Full site closure may be achieved in the future when soil sampling confirms that all soil on site meets the most stringent ADEC clean up levels.

DNR has initiated a potentially hazardous site file (ADL 420703) to track contamination associated with Tracts 59 and 60.

Performance Guaranty

To incentivize performance of the conditions of the lease and to provide a mechanism for the State to ensure that the lessee shares in financial burden in the event of noncompliance for site cleanup, restoration and any associated costs after termination or expiration of the leases, a performance guaranty will be required. Crowley currently holds a bond in the amount of \$25,000. The existing bond will need to be held for the term of the lease extension.

Insurance

To protect the State from liability associated with the use of the site, Crowley provided and will maintain a comprehensive general liability insurance policy with the State of Alaska named as an additional insured party. To correspond with the current amount of insurance required by DMLW for similar cases, the insurance requirement for the lease is no less than \$1,000,000 per occurrence and \$2,000,000 per annual aggregate. The insurance requirement may be adjusted periodically.

Appraisal

Crowley obtained an appraisal for the lease tracts prior to submitting an application for lease renewal. The appraisal, conducted by Black-Smith, Bethan & Carlson, LLC with an effective date of June 28, 2017, reports an annual market rent of the 11.74-acre parcel to be \$105,660. This is an increase from the current annual market rent of \$102,400 to \$105,660. Annual rent will be set at \$105,660 at the start of the extension.

Agency Review

Separate, prior agency review was not deemed necessary for this lease extension decision and was therefore, not conducted.

Agencies will be notified concurrent with the public review following issuance of the extension decision. Review will be sent to the following agencies: DNR DMLW Water Section, DNR Division of Oil and Gas, DNR Office of Project Management and Permitting, DNR State Historic Preservation Office, DOG State Pipeline Coordinators Section, Alaska Department of Fish and Game (ADFG), DEC Spill

Prevention and Response, DEC Division of Water, US Army Corp of Engineers, and the US Fish and Wildlife Service.

Public Review

Pursuant to AS 38.05.070(g) the department shall provide public notice of the extension decision. Public notice describing this proposed action will be posted on the Alaska Online Public Notice System for 30 days. Public notice will also be provided to the North Slope Borough.

Background

ADL 400085 was issued to Mukluk Freight Lines on February 14, 1978. The customer was amended in 1990 when Mukluk Freight Lines merged with Puget Sound Tug & Barge Company. In 1995, Puget Sound Tug & Barge merged with Crowley Marine Services, Inc. and the lease customer was again amended. The Tracts have been used for equipment storage, camp facilities, and materials storage since 1978.

The original lease provisions restricted compensation increases. The rental rate remained the same for the first 25 years after that, rent increases were restricted to 50-percent of the previous annual rental. The annual rental established in 1978 was \$1,500. This increased to \$2,250 in 2003. In 2008, the sublease to Stallion Rockies, Ltd. resulted in a substantial change to the lease terms and compensation. The law which restricted rental increase to 50-percent of the previous annual rental was repealed in 1992. The annual rental was increased to current fair market value and sublease terms were added stating that the State would be compensated for any subleases at no less than 25-percent of all compensation paid annually to the lessee by the sublessee. As a result, Crowley appealed the Final Finding and Decision to the Commissioner in July 2009. Crowley later withdrew its appeal in January 2010.

The sublease to Colville, Inc. was approved in the lease decision for a new lease to Colville, Inc. for the adjacent Tract 57 under ADL 400100.

In addition to the previously documented contamination issues, in 2009 Crowley was issued a default notice (See File) for gravel and debris in the tundra from snow removal activities. The notice detailed that the debris and gravel violated stipulation 4 of the lease agreement and required Crowley and its sublessee, Stallion Rockies, Ltd. to remedy the situation. Crowley was asked to provide an updated development plan that included a snow storage plan and to investigate water ponding issues on the lease tract. Subsequent correspondence indicated that the gravel and debris were picked up.

Lease Discussion

Crowley leases Tracts 59 and 60 for general oil field support including camp facilities, materials storage, and rig storage. Currently, the Tracts are wholly subleased to Colville, Inc. for a building encroachment and Stallion Rockies, Ltd. for camp facilities. Crowley applied to renew its lease with the State in August 2017. The initial application was incomplete. A complete application was submitted in November 2017. For a lease to be eligible for renewal, the lease must not be expired.

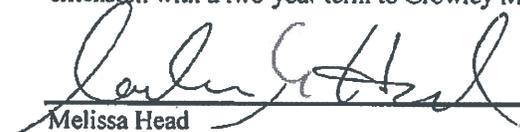
Per AS 38.05.070(f), a one-time lease extension for a period of up to two years may be approved if it is determined to be in the best interest of the state and the extension is necessary to prolong the lease while the department considers certain applications, including an application for lease renewal or an application to issue a new lease at the same site due to substantial change in purpose or operation of the lease. Crowley has applied for a renewal of a long-term lease, but contamination concerns are documented at the site. Due to time constraints, the DMLW requires additional time to review the lease renewal application and adjudicate the decision. The extension of the lease to Crowley will provide Crowley with the ability to continue operations at the site; during this two-year extension, the DMLW will adjudicate the renewal application.

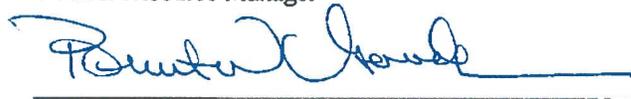
Recommendation

It has been determined that the lease extension for a limited term of two years is in the best interest of the State. It will allow the lessee and the lessor to continue a lease agreement without a gap between authorizations resulting in a time period of unauthorized use.

Issuance of the lease for a limited term will allow for continued use while DMLW considers the nature of contamination at the site and adjudicates the request for a long-term lease renewal.

In consideration of all the information and facts listed above, it is my recommendation that a lease extension with a limited term, is consistent with the overall classification and management intent for this land and would be a benefit to the State of Alaska. It is therefore recommended that DNR grant a lease extension with a two-year term to Crowley Marine Services, Inc.


Melissa Head
Natural Resource Manager
February 6, 2018
Date


Brent Goodrum
Director, Division of Mining, Land, and Water
7 FEB 2018
Date

Decision

The casefile has been found to be complete and the requirements of all applicable statutes have been satisfied. I find that it is in the interest of the State to proceed with the lease extension pursuant to AS 38.05.070(f) and issuance of the lease pursuant to AS 38.05.070.


Andrew T. Mack
Commissioner, Department of Natural Resources
2/2/18
Date

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040(c) and (d) and may be mailed or delivered to the Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to dnr.appeals@alaska.gov.

If no appeal is filed by that date, this decision goes into effect as a final order and decision on the 31st calendar day after the date of issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

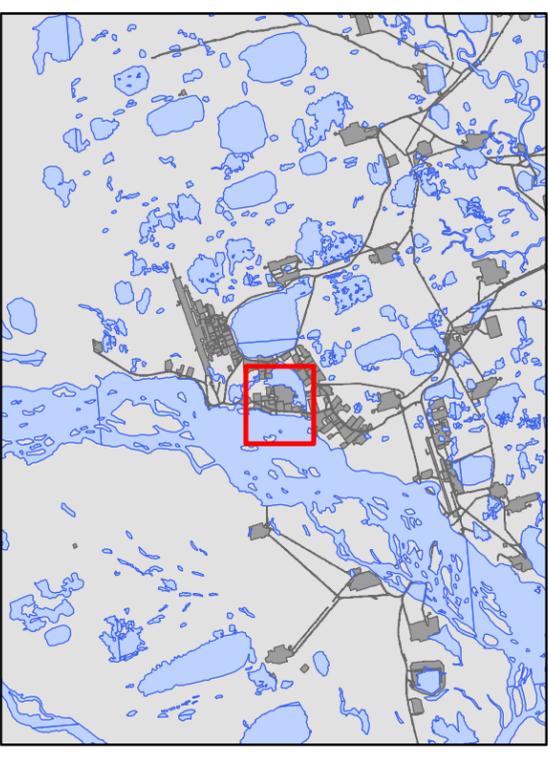
Attachments

- Attachment A – Location Map
- Attachment B – Lease Extension Instrument

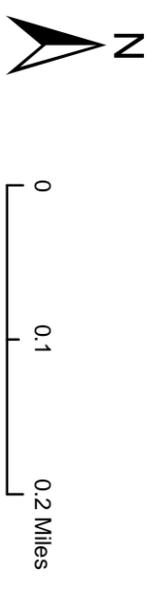
Deadhorse Lease Tracts 59 & 60 (ADL 400085)



Attachment A



Date: 12/27/2017
Author: B. Baird
Service Layer Credits: Source: E
DigitalGlobe, GeoEye, Earthstar Geographics,
CNES/Airbus DS, USDA, USGS, AeroGRID,
IGN, and the GIS User Community



Attachment B

**State of Alaska
Department of Natural Resources
Division of Mining, Land and Water
Northern Regional Office**

Extension to Lease Agreement

ADL 400085

Crowley Marine Services, Inc., Deadhorse Lease Tracts 59 & 60

This Extension to Lease Agreement is between the State of Alaska, Department of Natural Resources, by and through the Director of Division of Mining, Land & Water (“Lessor”), whose address is 3700 Airport Way, Fairbanks, Alaska 99709-4699 and Crowley Marine Services, Inc. 201 Arctic Slope Avenue, Anchorage, Alaska 99518, who agree as follows:

This extension of lease is made with reference to the following facts and objective:

Lessor (Mukluk Freight Lines, Inc.) entered into a Lease Agreement dated February 14, 1978 under ADL 400085. The Lease Agreement was recorded in the Barrow Recording District as document number:1998-000455-0. The Lessor merged with Puget Sound Tug & Barge which then merged with Crowley Marine Services, Inc. The lease was amended to reflect the new name on May 2, 1995.

Page 1 of the original lease identifies the expiration date of the lease as “ending at 12 o’clock midnight on the 13th day of February 2018, unless sooner terminated as hereinafter provided”.

The term of this Lease Agreement is hereby extended for two years. The new expiration date for the Lease Agreement is February 13, 2020.

All other terms and conditions of the lease agreement, including subsequent amendments and assignments, remain as originally written.

