

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

Lease Extension Decision
ADL 400091 – Stallion Rockies, Ltd.
Other Competitive Lease

Decision to Extend Lease

Stallion Rockies, Ltd. (Stallion), a subsidiary of Stallion Oilfield Holdings, Inc., has applied to the Department of Natural Resources (DNR), Division of Mining, Land & Water (DMLW), to renew a current long-term lease in Deadhorse, Alaska. The lease will expire February 13, 2018. DMLW has made the decision to extend the lease for a maximum of two years pursuant to AS 38.05.070(f)(2). This will allow DMLW time to consider the application to renew the lease.

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 a period of two years to allow additional time to consider the application for renewal.

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 400091, comprises the administrative record for this case.

Location and Legal Description

Tract 52 (ADL 400091) of Alaska State Land Survey 76-227, Survey of North Slope Lease Tracts, Deadhorse, Alaska; within Section 17, Township 10 North, Range 15 East, Umiat Meridian, encompassing 5.27 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 63237, Public Easement, Utility, Issued, Arctic Slope Telephone Assoc., Inc.
- ADL 400161, Private Easement, Utility, Issued, TDX North Slope Generating, Inc.
- ADL 413263, Public Easement, Utility, Issued, Norgasco, Inc.

Subsurface Activity:

- ADL 28330, Oil & Gas Lease Competitive, Issued, BP Exploration (Alaska) Inc.

See Title Report RPT #10226 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 Tract 52, are to be managed to support oil and gas operations (SSP, p. 19).

The site is subject to ADL 50666, North Slope Area Special Land Use and AS 19.40.010, 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

An industrial road (Sag River Road), which connects to the Dalton Highway via a primary industrial road within the Deadhorse area, provides direct physical and legal access to the tract and does not require an authorization.

Hazardous Materials and Potential Contaminants

There is known contamination within the lease tract. Background on site contamination can be found in the “Rowan Deadhorse Yard Phase II Environmental Investigation and Remediation Activities” report (See File) and the “Stallion Deadhorse Yard Area of Concern #4 Remediation Activities and Closure Report” (See File). The Alaska Department of Environmental Conservation (ADEC) case status is listed as cleanup complete with institutional controls under Hazard ID 4454 and the DMLW is tracking the contamination via case file ADL 420403. To summarize actions taken, 14 areas of concern (AOC), as identified by DMLW in a 2007 Phase I Environmental Audit, were screened with a photoionization detector (PID). AOC’s that warranted investigation per the PID screening were excavated and sampled, as necessary, for the Phase II Environmental Audit. Gravel and underlying tundra with contaminant levels above ADEC standards were removed to the greatest extent possible in 2007. Because the ADEC and DMLW believed there was minimal risk of contaminant migration, contaminated material adjacent to two existing buildings (the Old Shop and Maintenance Shop buildings) was permitted to stay in place until structure removal. The Old Shop structure was removed in the summer of 2008. All related contaminated material was excavated in 2009, as reported in the 2010 report available in the file. Contaminated material located in the vicinity of the east edge of the Maintenance Shop remains in place.

DMLW conducted a lease tract inspection on August 22, 2017 and found no contaminant areas of concern. Similarly, a DMLW and ADEC co-inspection, conducted September 14, 2017, found no contaminant areas of concern.

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, two separate but related performance guaranties have been required in amounts of \$100,000 and \$380,000. The \$100,000 performance guaranty was required under a site remediation agreement, effective April 7, 2008, to cover the contamination left in place and can be released with ADEC and DMLW-approved final cleanup of the contaminated material adjacent to the Maintenance Shop building. The \$380,000 performance guaranty was established when the lease was assigned from Rowan Companies, Inc. to Stallion in 2008 (see Background). The bonds have been provided to DMLW and will remain in place for the term of the lease extension.

Insurance

To protect the State from liability associated with the use of the site, Stallion provided and will maintain a comprehensive generally 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

Per terms of the current lease agreement and with the requirements of AS 38.05.105, periodic rent adjustments, reappraisals of lease sites are conducted to adjust compensation rates to the state. The compensation for Tract 52 was increased during the 2008 reappraisal to \$40,600 per year. Market checks were conducted in 2013 and 2017 by the DNR Appraisal Section and found that no new appraisals were necessary; the annual rent remains at \$40,600. Stallion is paying this compensation annually, consistent with conditions of the existing lease.

Agency Review

Agency review was conducted from December 6 through December 20, 2017. The review requested comments on the proposed two-year lease extension. Review was sent to the following agencies: DNR DMLW Water Section, DNR Division of Oil and Gas (DOG), DNR Office of Project Management and Permitting, DNR State Historic Preservation Office, DNR DOG State Pipeline Coordinators Section, Alaska Department of Fish and Game (ADF&G), ADEC Spill Prevention and Response, ADEC Division of Water, US Army Corp of Engineers, and the US Fish and Wildlife Service.

ADF&G indicated no objection to the two-year extension of the existing lease.

The ADEC Division of Water provided comment indicating that the lease site is within a Drinking Water Protection Area for a public water system source and provided the document "Recommendations for General Construction Projects" as guidelines for operating within or near an established public water source. A copy of the recommendations will be provided to the lessee. Stallion responded to the comment stating, "We will follow the State of Alaska recommendations."

No other comments were received.

Public Review

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

Background

In December 2017, Stallion applied to renew the lease for Tract 52 (ADL 400091). This lease was first established as a Lease Agreement between DNR and Polar Oil Field Services, Inc. on February 14, 1978. The lease was assigned to Rowan Companies, Inc. (Rowan), effective February 15, 1978. The lease was then assigned from Rowan to Stallion, effective March 1, 2008.

DMLW issued a Notice of Default to Rowan in 1989 for the presence of approximately one dozen drums with hydrocarbons and/or chemicals and four fuel tanks on pad without a lined revetment. There are no records in the file that indicate that this issue was addressed; however, the lack of further default notifications suggests that the containers were placed within proper containment. Lease tract inspections were conducted consistently between 1988 and 2017, with inspection reports missing for 2004, 2015, and 2016. Minor hydrocarbon staining and drums with hydrocarbon product and no secondary containment were the primary issues identified. Phase I and II Environmental Audits were conducted in 2007 and 2009, as noted in the prior Hazardous Materials and Potential Contaminants section, as a condition of authorizing lease assignment to Stallion.

DMLW approved a Development Plan Amendment in 2008 to allow for expansion of the gravel pad by 0.4 acres and fill all useable space within the lease tract.

DMLW issued a Notice of Default to Stallion in 2009 for “gravel and debris [that] had been pushed off onto the tundra during snow clearing the previous winter.” DMLW issued a letter to Stallion 3 weeks later, noting that requirements of the Notice of Default had been fulfilled.

In the time since lease assignment to Stallion, the lease tract has been used as employee camp space and still contains the Maintenance Shop for heated vehicle storage and maintenance needs. Prior noted material contamination remains in place adjacent to the east side of the shop and potentially under the shop slab.

Lease Discussion

The primary use of the lease tract by Stallion is for employee camp housing and storage. There is also a maintenance shop that is used to provide heated equipment storage and maintenance in support of camp operations. The lease remediation and reclamation plan acknowledges lessee responsibility for complying with AS 38.05.090, removal or reversion of improvements upon termination of leases, upon relinquishment of the lease tract

The development plan submitted by Stallion with the lease renewal application does not include any changes to the current development plan, however aerial imagery suggests that the gravel pad extends to the north, outside of the lease tract boundary, and encroaches on Tract 51, which is adjudicated under ADL 64457.

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. Stallion had applied for a renewal of their current lease, but potential encroachment of lease infrastructure outside the boundaries of the lease tract has been identified.

The extension of the lease to Stallion will provide Stallion with the ability to continue operations on Tract 52, while DNR adjudicates the lease renewal application. Resolution of the potential pad encroachment will need to be accomplished to DNR satisfaction prior to any future long-term lease renewal or approval; extension of the existing lease will allow Stallion time to work with DNR on encroachment resolution as renewal is being considered.

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 potential future 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 lease renewal and addresses potential encroachment.

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 Stallion Rockies, Ltd.



Becky Baird
Natural Resource Specialist



Date



Brent Goodrum
Director Division of Mining, Land and Water



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)(2) and issuance of the lease pursuant to AS 38.05.070.



Andy T. Mack
Commissioner Department of Natural Resources



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

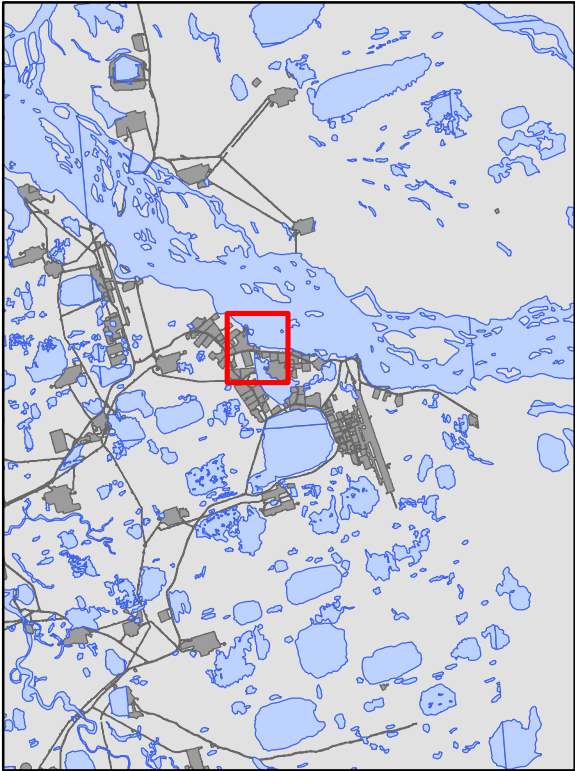
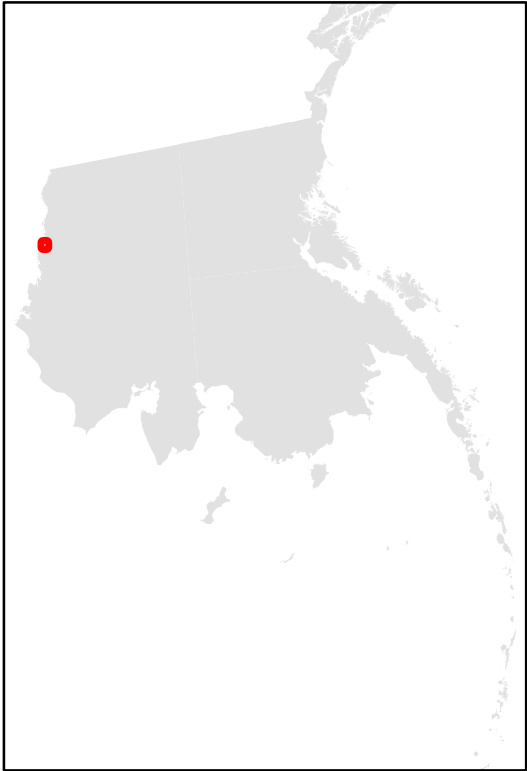
Attachment A – Location Map

Attachment B – Lease Extension Instrument

Deadhorse Lease Tract 52 (ADL 400091)



Attachment A. Location Map.



Date: 11/9/2017

Author: B. Baird

Service Layer Credits: Source: E
DigitalGlobe, GeoEye, Earthstar Geographics,
CNES/Airbus DS, USDA, USGS, AeroGRID,
IGN, and the GIS User Community



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

Extension to Lease Agreement

ADL 400091
Stallion Rockies Limited. Deadhorse Lease Tract 52

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 Stallion Rockies Limited 950 Corbindale Road, Houston, TX 77024, who agree as follows:

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

The Lessor (Rowan Companies, Inc.) entered into a Lease Agreement dated February 14, 1978 under ADL 400091. The Lease Agreement was recorded in the Barrow Recording District as document number:1979-000034-0. The Lessor assigned this Lease Agreement to Stallion Rockies Ltd. on March 1, 2008.

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.

Lessee: _____ Date _____

Authorized Signer
Stallion Rockies Limited

State of Alaska, DNR _____ Date _____
Division of Mining, Land and Water

STATE OF _____)
_____)ss.
_____ Judicial District)

THIS IS TO CERTIFY that on this ____ day of _____, 20____, before me personally appeared _____, to me known and known to me to be the person named in and who executed the Lease and acknowledged voluntarily signing the same.

Notary Public in and for the State of _____
My Commission Expires: _____

STATE OF ALASKA)
_____)ss.
_____ Judicial District)

THIS IS TO CERTIFY that on this ____ day of _____, 20____, before me appeared _____ of the Division of Mining, Land and Water, Department of Natural Resources of the State of Alaska, who executed the foregoing Lease Amendment and acknowledged voluntarily signing the same.

Notary Public in and for the State of Alaska
My Commission Expires: _____

Recorder's Office: Return the recorded document to:

DNR-Lands Section
Attn: Becky Baird
3700 Airport Way
Fairbanks, Alaska 99709-4699

No Fee State Business