

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

Preliminary Finding and Decision  
Alaska Industrial Development and Export Authority  
ADL 421055 Negotiated Lease (AS 38.05.070(d))

**Proposed Action**

Alaska Industrial Development and Export Authority (AIDEA) applied to the Department of Natural Resources (DNR) Division of Mining, Land and Water (DMLW) Northern Regional Office (NRO) to convert its existing lease of an approximately 14-acre pad with an associated pipeline corridor from a Pipeline Right of Way lease, administered by the Division of Oil and Gas State Pipeline Coordinator's Section, to a general commercial/industrial use surface lease administered by the DMLW.

AIDEA requested a 55-year lease and plans to sublease to various entities for oil field support services or industrial uses. The best interests of the State are typically served by limiting the term of commercial use leases to 25 years, and the DMLW proposes to issue a 25-year negotiated lease to AIDEA. However, in no event will the lease term exceed 55 years. The lease will encompass approximately 23 acres, to include the existing pad, pipeline corridor and additional acreage adjacent to and impounded by the pad.

Because the lease application is for a term that exceeds 10 years, it must be adjudicated as a competitive lease unless a solicitation of interest process does not elicit any other parties interested in developing this site. A public notice for solicitation of interest was conducted and DMLW did not receive written interest from any other parties; therefore, DMLW proposes to issue a negotiated lease under AS 38.05.070(d).

The DMLW would issue an Entry Authorization (EA) to AIDEA. Upon issuance of the EA, AIDEA will be eligible to sublease to qualified sublessees, pending DNR approval of individual subleases. Approved sublessees will be allowed to commence construction during the term of the EA. An Alaska State Land Survey (ASLS) must be completed and approved during the term of the EA, prior to the lease issuance.

This document serves as the preliminary State's best interest finding regarding the proposed actions.

**Scope of Review and Proposed Finding**

The scope of this Preliminary Finding and Decision (PD) is to determine if it is in the State's best interest to issue a 25-year, or longer, negotiated lease under AS 38.05.070(d) to AIDEA for an existing gravel pad, pipeline area, and the additional area adjacent to and impounded by the pad. The scope and determination are based on the statutes, regulations and other facts contained in the casefile for ADL 421055.

**Authority**

The proposed lease is being adjudicated pursuant to AS 38.05.070, leasing of land; AS 38.05.075, leasing procedures; AS 38.05.035(b)(1), delegation of the powers and duties of the director; AS 38.05.035(e), written finding; AS 38.05.945, public notice; and 11 AAC 58, leasing of land.

The authority to execute the FFD and the lease has been delegated to the Regional Manager of the NRO of the DMLW.

**Administrative Record**

The current case file, ADL 421055, comprises the administrative record for this case.

**Location**

The proposed lease site is located directly north of the Spine Road approximately 2 ½ miles west of the West Security Checkpoint and approximately ½ mile east of Drill Site 14.

**Legal Description**

The lease site is located within the SW ¼ of Section 3, Township 10 North, Range 14 East, Umiat Meridian, containing approximately 23 acres (see Attachment A).

**Title**

The State received title under general grant GS 1334 on March 27, 1974, under patent 50-74-0092. Standard reservations apply.

**Borough/Municipality**

The site is within the North Slope Borough. No borough lands are involved.

**Regional Corporation**

The site is within the Arctic Slope Regional Corporation boundaries. No corporation lands are involved.

**Adjacent Landowners**

The site is surrounded by state land.

**Third Party Interests**

No encumbrances or third-party interests exist that would prevent the issuance of the lease. The lease is within the Prudhoe Bay Unit, operated by BP Exploration (Alaska) Inc. (BPXA). BPXA is currently active in the area of the proposed lease under an Oil and Gas lease (ADL 28312) with authorized surface activities at Drill Site 14 and Flow Station 3, including two pipe rack assemblies, a gravel pipeline access road and two power lines which will partially encumber the lease tract. A portion of the proposed lease falls within the Endicott Pipeline Right-of-Way lease, ADL 410562, leased to Endicott Pipeline Co. These third parties will have an opportunity to comment on the proposed lease. Oilfield project applicants typically obtain letters of non-objection (LNO) from underlying interest holders to verify and address necessary coordination of concurrent uses. AIDEA will need to provide LNOs from BPXA and Endicott Pipeline Co. prior to the issuance of the EA. With appropriate reservations or mitigation measures, the proposed lease can be authorized as a concurrent use of the surface that is compatible with other authorized uses pursuant to AS 38.05.285.

AIDEA is currently the lessee of a portion of the proposed lease area under ADL 419409. AIDEA will remain as the lessee under ADL 419409 and continue to pay associated fees until DMLW issues an EA for the surface lease. AIDEA must relinquish its rights under ADL 419409 prior to issuance of the proposed lease. AIDEA will remain subject to any outstanding liabilities or obligations under ADL 419409 required to be fulfilled after termination of that lease.

### **Planning and Classification**

The proposed lease site is not located within the boundaries of an area plan. The locations are classified as Resource Management under CL 618. Per 11 AAC 55.200, land classified resource management is land that has a number of important resources but for which a specific resource allocation decision is not possible because of a lack of adequate resource, economic or other relevant information. Leases are allowed under this classification.

This site is located within the North Slope Area Special Use Lands (ADL 50666) and Mineral Closing Order (MCO) 67A01. This Mineral Closing Order closes the land to locatable mineral entry. Neither the Special Use Land designation nor the Mineral Order prevent issuance of a commercial lease. The site is zoned Resource Development by the North Slope Borough.

### **Traditional Use Finding**

The subject lease site is located within the North Slope Borough. A traditional use finding is not required for sites located within an organized borough.

### **Access**

The proposed lease is accessible via the existing North Slope gravel road system and is accessed from the Spine Road which connects to the Dalton Highway in Deadhorse, Alaska. The adjacent section of the Spine Road is authorized under lease operations approvals (LO/NS 69-026) to BP Exploration (Alaska) Inc. (BPXA) related to their subsurface leases.

General access into the oil field is controlled by two BPXA security check points located in the Prudhoe Bay Unit, near Deadhorse. AIDEA will coordinate with BPXA security for access through the security checkpoints and maintain a road use agreement with BPXA for continued access to the site.

### **Water Bodies**

The proposed lease site is located approximately 2 miles southeast of the Putuligayuk River. The project is not expected to have significant impacts on any surrounding water bodies.

### **Hazardous Materials and Potential Contaminants**

AIDEA proposes to sublease the area for an undetermined variety of commercial uses. Due to the broad scope of potential uses, specific hazardous materials and potential contaminants cannot be fully addressed in the PD. Hazardous materials and potential contaminants must be adequately addressed in any proposed sublease, and DMLW will review and address such terms and requirements, including agency review if warranted, prior to approval of any sublease, to ensure adequate protection of the land.

Under the current lease proposal, AIDEA plans to sublease a portion of the lease area to Prudhoe Bay Chemical LLC (PBC) for a methanol production plant. Based on the limited information provided by AIDEA regarding the proposed sublease to PBC, there will be up to 300,000 gallons of methanol storage and power generation on sight. Methanol will be loaded into tanker trucks on the pad. Prior to approval of this or any other sublease more information is required including a development plan that includes a hazardous substances safety plan for the facility.

### **Performance Guaranty**

A performance bond will be required to (1) incentivize performance of the conditions of the lease and (2) provide a mechanism for DMLW 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 lease. The performance guaranty is due prior to issuance of any sublease.

Due to limited information provided by AIDEA regarding the proposed sublease to PBC for a methanol production plant, the initial performance guaranty amount is expected to be no less than \$250,000. This amount assumes that there will be an Alaska Department of Environmental Conservation approved sampling plan, documentation of annual sampling conducted to ensure the secondary containment structures are well maintained and coverage by an approved pollution liability insurance policy (see the Insurance section for more detail).

The performance guaranty amount is subject to change prior to the issuance of the EA and prior to approval of any subleases, including any sublease to PBC that may be approved. A detailed development plan will be required prior to construction for specific projects or approval of any subleases. The risk to the State and necessary bonding will be evaluated based on the nature of the development plans proposed. DMLW will calculate the bond amount using the DMLW performance guaranty matrix and bond amounts for similar authorizations.

### **Insurance**

To protect the State from liability associated with use of the site, AIDEA will be required to provide and 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 will be no less than \$1,000,000 per occurrence and \$2,000,000 per annual aggregate. The insurance requirement may be adjusted periodically.

AIDEA will also be required to obtain pollution liability insurance with minimum coverage limits of \$1,000,000 combined single limit per occurrence, \$2,000,000 per annual aggregate. The insurance requirement may be adjusted periodically.

### **Survey**

An Alaska State Land Survey (ASLS) is required for the lease per AS 38.04.045. Upon issuance of the EA, AIDEA will be eligible to apply to sublease. For the purposes of discussing survey issues in the PD, DMLW assumes that AIDEA will apply for and may ultimately be granted approval for sublease to PBC. This is not, however, a guarantee that AIDEA will be approved to sublease to PBC. Upon approval of a consent to sublease to PBC, PBC may commence construction of the methanol plant. Upon completion of construction of the methanol plant facilities, an Alaska State Land Survey of the entire AIDEA lease boundary and facilities that is acceptable to the standards of the DMLW Survey Section will be required for review by both the DNR Statewide Platting Officer and the North Slope Borough, which is the platting authority.

The survey must be approved prior to the expiration of the EA for early entry construction. The survey must be performed by an Alaskan-registered Land Surveyor under survey instructions issued by the DMLW Survey Section. The applicant is responsible for the costs of the survey and platting actions required by the North Slope Borough. A preliminary as-built survey of the proposed lease site is due prior to the issuance of the EA, to provide the information necessary to conduct and finalize an appraisal of the lease parcel.

### **Appraisal and Lease Compensation**

As per AS 38.05.070(d), after solicitation of competitive interest and subsequent determination that there was only one potential bidder, the director may negotiate a lease directly to the potential bidder (original lease applicant) under terms and conditions determined to be in the State's best



interest. To this end, DMLW believes that the State's best interest is served by receiving compensation not less than the minimum acceptable bid and lease compensation method which would have been established had there been a competitive auction resulting in only one prequalified bidder, as described per AS 38.05.075(f). The department may issue a lease at the approved, appraised market value of the land as determined under AS 38.05.840 or by another form of lease compensation specified from among those set out in AS 38.05.073(m) and designed to maximize the return on the lease to the State. A combination of methods, authorized under AS 38.05.073(m) shall be required to provide reasonable compensation to DMLW on the lease.

A formal appraisal, obtained at the expense of the applicant, will be required to establish annual rental based on fair market value. Additionally, prior approval by and compensation to the State will be required in the event of sublease. Prior to issuance of the EA, AIDEA will also be required to pay DMLW the remaining balance of the regional representative sales price for gravel used to construct the existing pad (see Background and Discussion sections for further information).

In accordance with AS 38.05.105, the annual rent payment or other form of lease compensation is subject to adjustment at five-year intervals.

### **Subleases**

All sublease agreements must be approved by DMLW. The lessee must provide the Consent to Sublease Form, application fee and any additional documentation requested by DMLW. DMLW reserves the right to require an increased annual compensation as a condition of a sublease approval. Said increase shall be determined by negotiation between the lessee and DMLW, but shall not be less than 25% of all compensation paid annually to the lessee by the sublessee. The annual lease rental pertaining to AS 38.05.075 and based on the appraised market value of the lease pertaining to AS 38.05.840 will not be reduced or adjusted as a result of any sublease terms or sublease compensation made to DMLW. Sublease shall be defined to include any lease, rental, storage or accommodation agreement between the lessee and another individual, business or corporation utilizing or benefiting from the lease parcel. Sublessee shall be defined to mean any individual, business or corporation executing an agreement with the lessee. The amount of sublease compensation shall be subject to change at the same time as the lease compensation adjustment and whenever the terms or conditions of the agreement between the lessee and the sublessee change. Approval of a sublease shall also be conditioned upon:

- a) The lessee being in full compliance with the lease conditions and being in good standing with all other authorizations per 11 AAC 96.145;
- b) Submission by the lessee of a draft copy of the agreement(s) which will govern the relationship and compensation provisions between the lessee and the sublessee; failure of the lessee to provide complete, true, and accurate information regarding sublease compensation will, at lessor's discretion, be grounds for termination of the lease;
- c) Submission by the lessee of a proposed plan of operations and development for the subleased area and, if necessary, an amended plan of operation and development for the entire lease area; and
- d) A best interest finding by DMLW and amendments to the lease contract as necessary, if significant changes to the use and development are proposed.

Subleases shall be restricted to those entities which are also eligible to obtain a lease under the same statutory authority for which the lease was issued.

### **Entry Authorization**

Following the Final Finding and Decision (FFD), if the lease is found to be in the best interests of the State, an EA will be issued. Any actual activity or development on site must be approved by DMLW prior to commencement. Upon issuance of the EA, AIDEA will be eligible to apply to sublease, pending DNR approval. Approved sublessees will be allowed to commence construction during the term of EA. An Alaska State Land Survey (ASLS) must be completed and approved during the term of the EA, prior to the lease issuance.

For the purposes of discussing EA issues in the PD, DMLW assumes that AIDEA will apply for a sublease to PBC and may ultimately be granted approval to sublease to PBC. This is not, however, a guarantee that AIDEA will be approved to sublease to PBC. If a sublease to PBC is ultimately approved by DMLW, the EA will allow for construction of a methanol plant by PBC and ASLS survey.

The term of the EA will be 3 years, which will be included within the total length of the 25-year lease (i.e. the lease term of 25 years begins when the EA is signed; the 3 years of EA will not extend the overall length of the authorization beyond 25 years).

Lease compensation, as determined by the appraisal and any applicable sublease compensation, shall be required during the term of the EA.

Anyone interested in reviewing a copy of a standard EA and lease can contact the DMLW and request a copy.

### **Agency Review**

Due to the expedited adjudication process for this lease (see the discussion section for more detail) agency review and public notice will be conducted concurrently. Any comments received will be addressed in the Final Finding and Decision (FFD).

### **Public Review**

Pursuant to AS 38.05.945(b)(3), public notice describing this proposed action will be posted on the Alaska Online Public Notice System for 30 days. Instructions to post the notice will also be sent to the Deadhorse Alaska Airline Terminal.

Pursuant to AS 38.05.945(c)(1), notice will also be given for 30 days to the North Slope Borough. Per 38.05.946, Hearings, the North Slope Borough may hold a hearing within 30 days after receipt of the notice.

As operator of the Prudhoe Bay Unit, notice will be given to BPXA. As operator of the Endicott Pipeline notice will be given to Endicott Pipeline Co.

The public is invited to comment on the proposed lease. Comments should be submitted to DNR, DMLW, Northern Regional Office (NRO), at 3700 Airport Way, Fairbanks, Alaska 99709. Becky Baird can be contacted for further information at 907-451-2732 or at [becky.baird@alaska.gov](mailto:becky.baird@alaska.gov). Additional copies of the PD may be obtained from the NRO. Interested parties have the right to comment during the public notice period and commenters who are aggrieved by the FFD will have the right to appeal it. In order to be able to appeal the FFD, a person must provide written comments during the PD comment period. A copy of the FFD will be sent to any person who comments on the PD and will include an explanation of the appeal process.

## **Background**

On June 8, 2018, AIDEA applied for a competitive lease of state land, which currently is improved by an existing gravel driveway and pad as well as an approximately 1100-foot long area referred to as “the Pipeline Area.” AIDEA is currently leasing a portion of the proposed lease area under a Right-of-Way (ROW) lease administered under AS 38.35 by the Division of Oil and Gas State Pipeline Coordinator’s Section (ADL 419409).

On July 31, 2014, AIDEA was issued the ROW lease to construct a gas transport pipeline and LNG facility. The property rights conveyed by the ROW lease are limited to the right to build a gas transport pipeline and LNG facility as part of the Interior Energy Project (IEP), a state-sponsored project designed to bring low-cost energy to residents and businesses in Interior Alaska. In preparation for the LNG facility, in 2014 AIDEA purchased gravel from a DMLW-owned material source and constructed a gravel pad on the lease site (North Slope pad). Because the purpose of the original site plan was for a specific qualifying public project, the material sale contract was issued to AIDEA, acting as a state agency, at a reduced cost (\$.50/cubic yard) per AS 38.05.555(b)(3) and AS 38.05.810(a). AIDEA was required to commence construction of the LNG facility by August 1, 2017. AIDEA did not meet the ROW lease deadline and was granted an extension to commence construction by August 1, 2018. Subsequent to construction of the North Slope pad, the IEP project plans changed and the LNG facility location changed to a different location in the state. AIDEA now seeks to utilize the pad and site for other purposes.

AIDEA requested to expand the property interests conveyed by the ROW lease to allow subleasing and to include general industrial, commercial, business and oil and gas related uses. While a sublease to PBC for a methanol plant is currently proposed, the PBC project would encompass approximately 1/3 of the current pad space and AIDEA anticipates subleasing the remaining pad space to additional entities for other general commercial uses. These general-purpose property rights, including potential for multiple subleases, are not the type that DNR can convey by a ROW lease pursuant to AS 38.35. Therefore, the request to obtain a more general-purpose lease is being adjudicated by the DMLW under AS 38.05.070.

Per AS 38.05.070(d), solicitation of interest was conducted June 11, 2018 through July 11, 2018 to determine if there was interest from other parties in developing this site for a similar purpose. No interest was expressed. Therefore, DMLW has determined it is in the best interest of the State to proceed with a proposed 25-year negotiated lease to AIDEA under AS 38.05.070(d).

## **Discussion**

AIDEA constructed the gravel pad using gravel obtained under Public and Charitable contract terms, at the reduced rate (administrative base price) of \$0.50/cubic yard of gravel for its originally-proposed public purpose facility-the IGU LNG facility and trucking project. The purpose and use of the lease area is proposed to change substantially to facilitate general commercial and industrial projects (no longer a public purpose facility) and sublease to private companies which do not qualify for public and charitable status under state law. To diversify the potential commercial uses and subleasing opportunities for the pad without the constraints imposed by the ROW lease and public and charitable statutes, DMLW must be compensated for the full price of the gravel, used to construct the pad, at the commercial rate of \$3.00/cubic yard of gravel, the representative sales price for gravel in the DMLW Northern Region. The discounted rate already paid by AIDEA will be applied towards the full commercial price. DMLW reviewed the gravel extraction records reported by AIDEA under the material sale contract ADL 419991. AIDEA extracted 211,700 cubic yards of gravel for construction of the existing gravel pad, the commercial value of which is \$635,100. AIDEA already paid \$103,350 under the discounted public and charitable rate, therefore AIDEA must pay DNR \$531,750 prior to issuance of any lease or EA.

This payment is in addition to the annual lease rent and any other costs or fees. It is a standard requirement and stipulation of a lease that, when placed on the premises by the lessee, fill material, gravel, pavement, including building pads, parking areas, driveways, and similar structures become a part of the realty and property of the state and may not be removed from the premises by the Lessee without prior written approval of the Lessor. Therefore, upon final termination or relinquishment back to DMLW, the gravel pad shall remain on site (unless removal is required or approved by DMLW) with no expectation of reimbursement to lessee.

The ROW lease area includes an 1100-ft. strip of land that may be used to accommodate a pipeline for transferring natural gas to the pad area ("Pipeline Area"). Typically, DMLW would issue a separate easement for a pipeline corridor, but since the ROW lease area is already defined to include the Pipeline Area, which is relatively short, the DMLW lease will include the Pipeline Area. Doing so simplifies and expedites the survey and appraisal processes and is consistent with anticipated potential uses of the lease area.

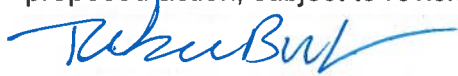
AIDEA intends to sublease approximately 1/3 of the pad to PBC for the construction and operation of a methanol plant. AIDEA states that the PBC methanol project is supportive of the State's interest in expanding energy production on the North Slope. Currently methanol is imported to the North Slope for use as anti-freeze for wells and pipelines. The proposed PBC methanol plant would use natural gas to provide a local source of methanol to North Slope Oil Producers. AIDEA proposed that the remaining pad area may be subleased for processing natural gas, the manufacture of needed chemicals, or general oil field storage or support or other industrial activities.

**Recommendation**

DMLW has completed a review of the information provided by the applicant and an examination of the documents and associated information related to the proposed action.

AIDEA's management and sublease of the proposed lease area for a wide range of commercial industrial activities under general commercial lease terms will provide AIDEA flexibility to recoup some cost on their outlay of investment for pad construction, provide reasonable compensation to DMLW for use of DNR-owned land and gravel resources and will provide opportunities for oil industry and support companies to arrange for existing pad space use, with prior DMLW approval of development plans and subleases. DMLW proposes to issue a 25-year negotiated lease to AIDEA, subject to the requirements noted in this document and standard lease conditions. Anyone interested in reviewing a copy of a standard lease can contact the DMLW and request a copy.

I find the proposed actions may be in the State's best interest and recommend approval of the proposed action, subject to revision after agency review and public notice.



Becky Baird  
Natural Resource Specialist

7/30/18

Date

**Preliminary Decision**

It is the determination of the Division of Mining, Land & Water that it may be in the State's best interest to issue a 25-year negotiated lease to AIDEA, as recommended above. This application shall now proceed to public notice.



Jeanne Proulx  
Northern Regional Manager

7/30/18

Date

**Attachments**

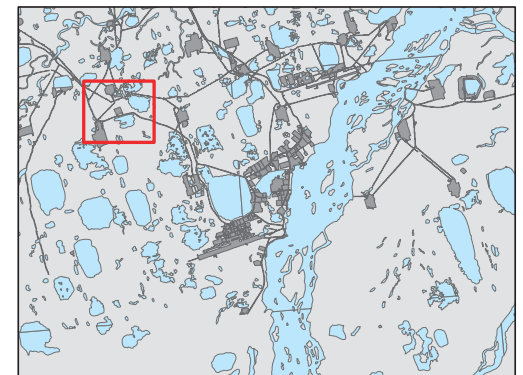
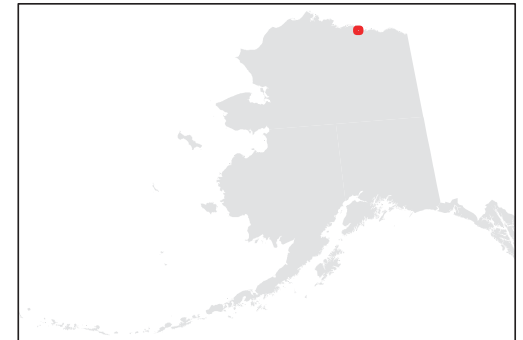
Attachment A – Location Map

Attachment B – Preliminary Development and Operations Plan

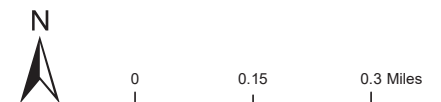
## Attachment A – Location Map

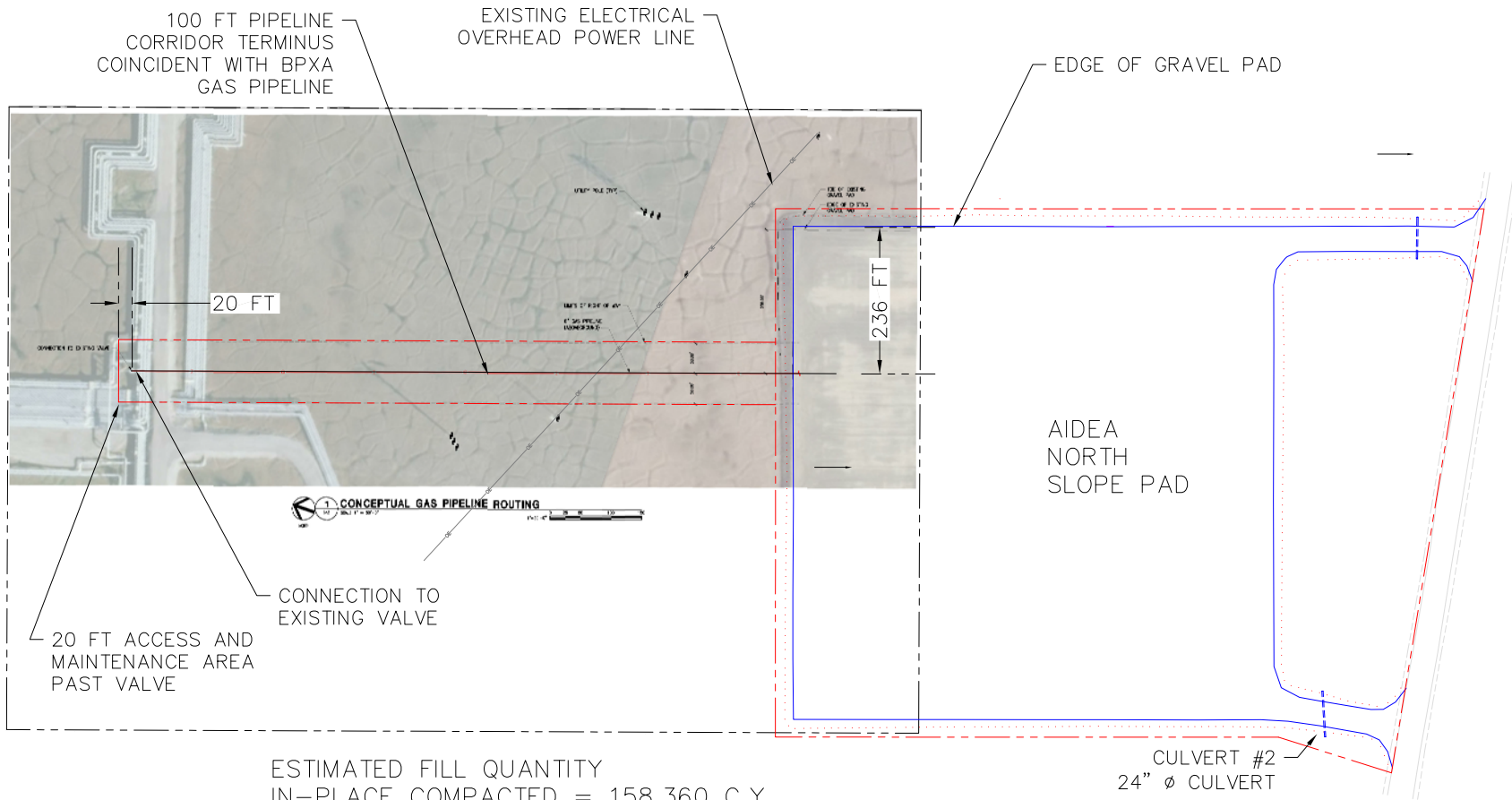


# ADL 421055 - Approximate Location



Date: 7/27/2018  
Author: B. Baird  
Service Layer Credits: Alaska SDI





## AIDEA LEASE AREA

DATE: 06/28/18

REVISION: DRAFT PAD LEASE AREA

CLIENT: AIDEA  
ADDRESS: 813 WEST NORTHERN LIGHTS  
ANCHORAGE, AK 99505

SCALE: NTS

DRAWN BY: NTS  
JOB NUMBER: 2014-2153  
DATE: 06/28/18  
CHECKED BY: FIELD BOOK

AIDEA NORTH SLOPE PAD  
LEASE AREA  
PAD LEASE PLAN

SHEET:

R1.2

AIDEA



## Attachment B – Preliminary Development and Operations Plan

**State Pipeline Coordinator's Section (SPCS) Right-of-Way Leasing Act  
Conversion to a  
38.05.070 General Purpose Lease  
Non-Confidential Information**

**Date of Application:**

June 06, 2018

**Applicant information:**

Alaska Industrial Development and Export Authority (AIDEA) 813 West Northern Lights Blvd. Anchorage, Alaska 99503. AIDEA is a public corporation and political subdivision of the State of Alaska.

**Interests Sought:**

AIDEA is submitting this application for a new 38.05.070 General Purpose Lease for the right-of-way (ROW) currently held under ADL 419409.

The existing rights were leased under AS 38.35.050 Pipeline ROW Lease from the State Pipeline Coordinator's Section (SPCS) for the construction and operation of a Liquid Natural Gas (LNG) facility. During discussions with the Division of Oil and Gas (DOG) and the Division of Mining, Land and Water (DMLW), AIDEA was advised the existing lease is not appropriate to permit the operation of a proposed Methanol facility.

**Preliminary Development Plan**

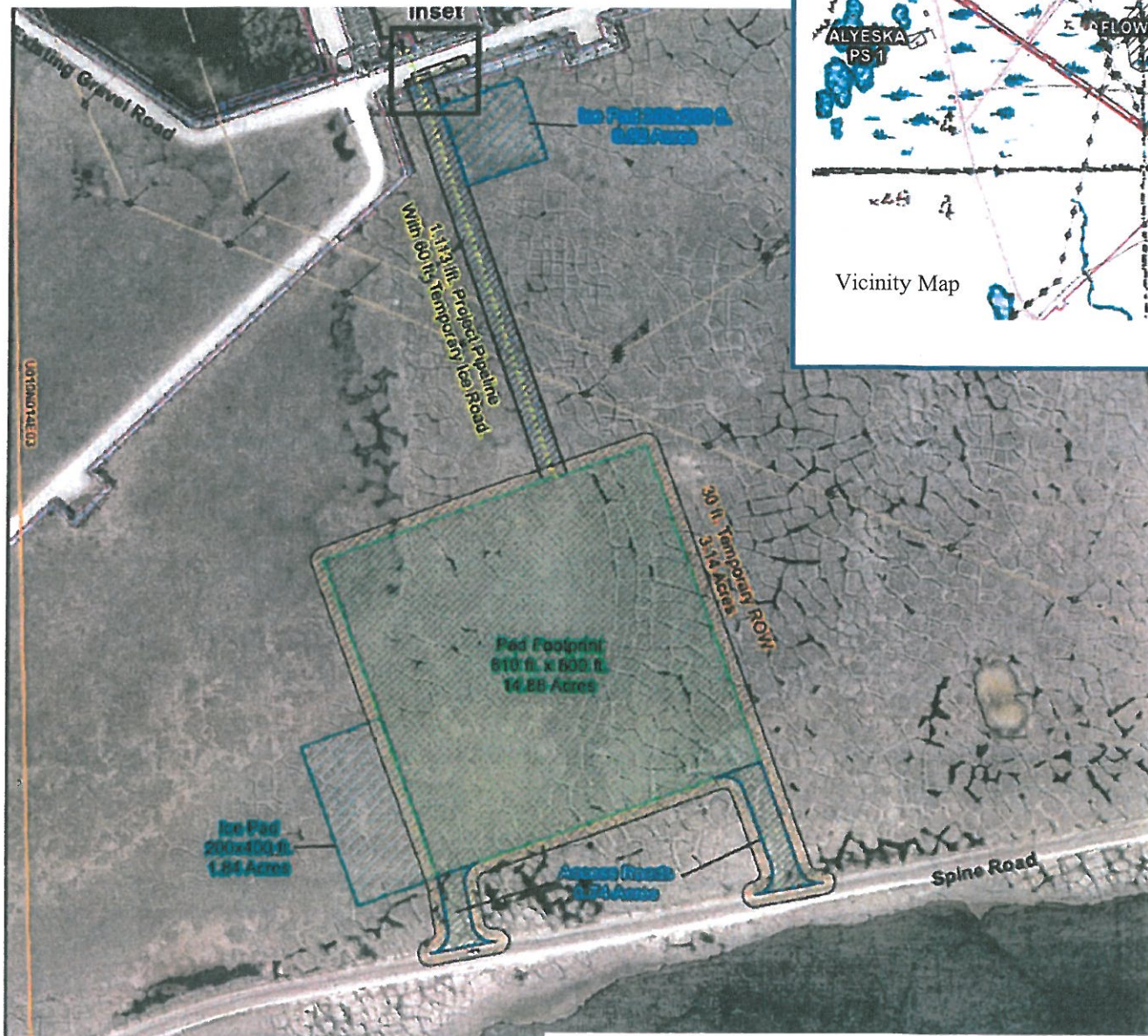
**I. General Guidelines for Preparing a Development Plan.** For new authorizations, the development plan must show the proposed improvements and/or use areas, as well as preconstruction plans. For existing authorizations without a current development plan or if the development plan is being updated, the plan must show existing improvements and/or use areas, etc., and any known future changes. The development plan must include:

- Maps: a USGS map at a scale of at least 1:63,360 showing the location of the proposed project; a blueline drawing or sketch, drawn to scale (the attached diagram may be used);

See *Figure A*

Figure A

# AIDEA NORTH SLOPE PAD PROPOSED PROJECT MAP



Section 3 Township 10 North Range 14 East, Umiat Meridian

Date Prepared:

May 25, 2018

Applicant's Name:

AIDEA

**STATE OF ALASKA**  
**DEPARTMENT OF NATURAL RESOURCES**  
**DIVISION OF MINING, LAND AND WATER**

## DIAGRAM

Sec.(s) \_\_\_\_\_ Township \_\_\_\_\_, Range \_\_\_\_\_, Meridian \_\_\_\_\_

Scale: 1" = N/A

SHEET \_\_\_ OF \_\_\_

File #



**Narrative:****II. Written Project description: a detailed written description (narrative) of the intended use and level of development planned under the authorization and an explanation of the sketch or blueline drawing.**

AIDEA requires this lease to assist in economic development on the North Slope. The pad could be used for processing natural gas including LNG, the manufacture of needed chemicals, tankage (crude oil, or processed products) or storage (laydown areas or warehousing). Currently AIDEA has identified a User that will utilize approximately one-third of the pad and the pipeline right of way to tie into BP's fuel case header. Natural gas will be converted to methanol for use on the North Slope. The remainder of the pad will be available for other users, those that could have synergy in joint operations with the Methanol facility will be encouraged.

The Methanol facility and all other construction or activities will occur on the existing approximately 14-acre pad. This project is similar to the LNG project initially proposed by AIDEA in 2014 in that it involves a natural gas pipeline connecting the field fuel gas system to a facility that will transform the natural gas methanol, which will be loaded onto trucks for further transportation to users on the North Slope. The natural gas pipeline and plant will be located on the existing gravel pad and within the existing pipeline corridor. The pipeline will be 6" and will carry up to 5 MMscf/d of gas.

The proposed 1,270 linear foot feed gas pipeline will transport natural gas from the existing PBU field fuel gas pipeline along the existing ROW to the existing gravel pad as shown in **Figure B**. A minimum of 7 feet of vertical clearance will be maintained between the tundra surface and the bottom of pipe. The tie-in to the PBU field fuel gas pipeline will consist of connecting to an existing flange in the field fuel gas pipeline.

The point of origin of the proposed feed gas pipeline will be at an existing PBU field fuel gas pipeline tie-in flange, located approximately 1,000 ft. south of Flow Station-3. The point of termination of the proposed pipeline lease will be at the point of connection at the Pad.

The initial user shall be required, to the extent reasonably practical, construct and install its improvements in the pipeline corridor of the ROW in a manner that will allow for other users of the Pad to access and utilize the corridor.

Construction materials for the Methanol Facility will be temporarily stored on the western two-thirds of the existing gravel pad.

After obtaining this lease, other potential users of the pad are free to approach AIDEA to lease space on the pad as permitted by AS 38.05.070. These will not be limited to any given project and other users could include other gas processing, product storage, material storage, parking, or other operations that are appropriate to being located on the North Slope including telecommunications. The only limitation is the second user cannot interfere or impede the operations of the first user. Any user is subject to review by the North Slope Borough (NSB) and is required to meet all safety requirements on the North Slope

**Legal description. Provide a legal description of the parcel, i.e. a metes and bounds description, survey, lot and block, aliquot part, or other legal description.**

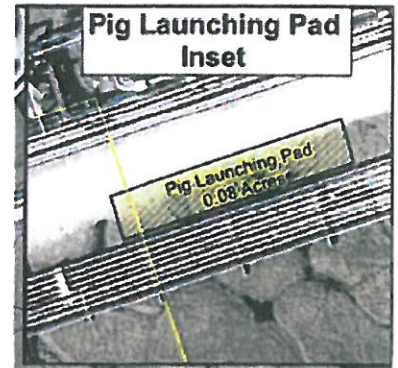
The Lease will be located around an 800-foot by 810-foot pad with one 60-foot wide by 310-foot long and one 60-foot wide by 180-foot long, driveways connecting the parcel to Spine Road; these will also be included in the ROW lease. The lease boundaries will include a 10-foot buffer surrounding the gravel infrastructure (pad, access roads, and pig launching pad) and extend to the edge of the constructed Spine Rd, incorporating an area of undeveloped tundra located between the two access roads.

The width of the pipeline ROW shall be 100 feet total. The right-of-way shall begin at a point just south of Flow Station 3 within the Prudhoe Bay Operating Unit (point-of-origin); then continuing approximately 1,100 feet in a southerly direction to the Pad.

The pipeline area will include a connection location at the British Petroleum Exploration Alaska (BPXA) Fuel Gas Line. Details are under development.

All components of the ROW lease are located within the following lands:

- Township 10 North, Range 14 East, Umiat Meridian, Section 3
- The pipeline, gravel pad, pig launching pad and driveways will be located and situated on the land generally depicted on *Figures A-E*.
- The total areas for the ROW (which includes pipeline ROW, facility pad, pig launching pad and two driveways) aggregates to approximately 18 acres, more or less, all in the Barrow Recording District. All distances and acreages are approximations based on the Applicant's description of the right-of-way.



**Terrain/ground cover:** Describe the existing terrain/ground cover, and proposed changes to the terrain/ground cover.

The existing area of the pad is constructed gravel. The pipeline corridor is tundra and crosses existing gravel and pipeline infrastructure owned and operated by BPXA.

**Access:** Describe existing and planned access, and mode of transportation. If public access is to be restricted, define possible alternative public access routes.

An ice road will be constructed to enable access to the pipeline route during pipeline construction activities. No new road construction will be required to support access to the pipeline for ongoing operations and maintenance.

**Buildings and other structures:** Describe each building or structure, whether permanent or temporary, including a description of the foundation as well as the building and floor construction; the date when the structure is to be constructed or placed on the parcel; the duration of use; and what activities are to occur within each structure.

The proposed Methanol facility will be a permanent facility on raised foundations. *See Figure E.*

The vertical support members (VSMs) for the pipeline will be placed into holes drilled into the tundra and backfilled with a sand/water slurry using North Slope standard practice. No grades, cuts, or fills will be employed along the proposed pipeline ROW.

Future structures are unknown at this time.

**Power source:** Describe type and availability of power source to the site.

The current plan is to generate all necessary power on site using a portion of the takeoff of natural gas. It is anticipated that a second user would work with the first user to buy power, and if an expansion was needed that a joint solution would be created. However, AIDEA will not require the operator to construct a larger than necessary gen-set.

**Waste types, waste sources, and disposal methods:** List the types of waste that will be generated on-site, including solid waste, the source, and method of disposal.

All wastes will be trucked from site.

**Hazardous substances:** Describe the types and volumes of hazardous substances present or proposed, the specific storage location, and spill plan and spill prevention methods. Describe any containment structure(s) and volume of containment structure(s), the type of lining material, and configuration of the containment structure. Provide Material Safety Data Sheets (MSDS).

The methanol plant may have up to 300,000 gallons (7,143 bbls) of methanol storage. These tanks will be located on the existing gravel pad. It will be designed to prevent the escape of liquids spilled within the facility. External tanks will be located within secondary containment areas. Routine visual inspection of piping, pressure vessels and tanks will be conducted, as well as inspection programs compliant with API 510, 570, and 625. Gas detection and leak detection systems will be installed, tested, and operated according to industry best practice.

For the gas pipeline, the focus will be on the prevention and detection of leaks. This will be done through code-based pipeline design and construction, code required construction inspection, hydrostatic testing, routine inspections with gas detectors, and an API 570 inspection program.

Other projects may include other hazardous substances and controls. These will be addressed as potential leases are developed in coordination with the Department of Natural Resources (DNR).

**Water supply:** Describe the water supply and wastewater disposal method.

Water for operations and office facilities will be trucked in and stored. Water will be purchased from the NSB. A storage tanks for water will be housed within the facility.

Construction water sources will require temporary water use permits from DNR. The permits will stipulate conditions for the protection of fish and water resources, as appropriate. Protection of fish in an affected stream or lake will also be addressed by Title 16 Fish Habitat permits issued by the Alaska Department of Fish and Game (ADF&G).

**Parking areas and storage areas:** Describe long-term and short-term parking and storage areas, and any measures that will be taken to minimize drips or spills from leaking vehicles or equipment. Describe the items to be stored in the storage areas.

Construction of the methanol facility will temporarily encumber the entire pad for parking and storage. Construction permits and mitigations will include implementation of a Storm Water Pollution Protection Plan (SWPPP). Spills and runoff will be addressed by prevention and response plans during construction. Portable liners will be used under resting mobile equipment, fuel storage areas will be surrounded by secondary containment, storage pads will be constructed to prevent spills from running off-pad, and all spills will be cleaned up immediately and disposed of appropriately before breakup. The work surface will be left as clean as practicable following completion of pipeline construction.

During operations, the methanol plant will be the terminal delivery facility of the proposed gas pipeline. Tanker trucks will load methanol at the truck loading rack and deliver it to consumers in the area. Drivers will be trained and certified in the safe loading and unloading of Methanol. The loading area will be constructed with an impermeable liner to catch spills. See attached *Figure E* depicting the proposed site layout.



**Describe the proposed method for all stream crossings and crossing of other bodies of water:**

The proposed pipeline will not cross any stream or other bodies of water.

**Number of people using the site: State the number of people employed and working on the parcel, and describe the supervisor/staff ratio. Estimate the number of clients that will be using the site.**

For a methanol facility, it is estimated that there will be 25 labor and management or other technical staff on site dedicated to construction of the pipeline for approximately one month. Full-time on site staff for this operations is estimated at two staff personnel on days and one on nights. Personnel will be housed at existing camps within Prudhoe Bay or Deadhorse, Alaska. Should a temporary small construction camp be necessary, all required authorizations and permits will be obtained prior to on site construction.

Other development projects may increase this number.

**Maintenance and operations: Describe the long-term requirements, how they will occur and who will perform the work. Specify if any subcontractors will be involved, and explain the tasks they will perform.**

Maintenance and operations will be performed by the operator of the facilities on the Pad. The current plan is:

- No additional gravel placement is planned
- The pipeline will be supported aboveground on VSMs, with very little direct impact to the tundra surface.
- Elevating the pipeline reduces heat transfer to the ground surface and, thus, prevents or minimizes thaw of the underlying permafrost.
- The pipeline will be monitored regularly during operations using visual on ground observations. Ground monitoring will be done in a manner that minimizes disturbance to tundra by personnel walking the ROW or using vehicles approved for tundra travel during the appropriate season.
- Most planned pipeline repairs or maintenance will be completed from existing gravel pads and roads or else in winter from temporary ice/snow pads and/or roads.
- If maintenance or repairs are required to be conducted during the summer or fall when travel over the tundra is permitted, repairs will be supported by approved tundra travel methods.
- After construction, an API 570 pipeline inspection and maintenance program will be implemented. The goals of this program will not only be to ensure pipeline operating integrity and safety, but to prevent, identify, and respond to all situations that pose significant risk of damage to the environment

**Closure/reclamation plan: Provide a closure/reclamation plan, if required for the type of authorization being applied for, e.g. material sale.**

Upon abandonment of the pad or termination of the Lease AIDEA shall confer with DNR about the disposition of the improvements constructed or installed on the Premises, and remove the facilities as directed.

At the termination of a Sublease Sublease's shall be required to remove all portions of the development as directed by AIDEA and leave the premises safe and free from debris and hazards

Because the pipeline will be constructed during the winter, no erosion should occur as a direct result of construction activities. The pipeline will be constructed above grade on VSMs with no river/stream crossings. The other portions of the project will be built on an existing gravel pad, and therefore should not result in any erosion of the tundra.

Detailed abandonment procedures will be developed prior to termination of pipeline operations. Abandonment procedures will be based on applicable regulatory requirements at the time and will be designed to minimize impacts to public property in coordination with the land owner.

**IV. Sketch or blueline portion of the development plan. The sketch or blueline must be drawn to scale, and each item labeled in such a way that the information contained in the drawing can be located in the narrative portion of the development plan (professional quality drafting and mechanical lettering is preferred). Following is a list of information to be shown on the drawing, if applicable:**

Section, Township, and Range lines; North arrow; scale; title; and legend (attached is an acceptable format).

- See *Figure C*

All property boundaries, ordinary or mean high water lines, and existing or proposed rights-of-way; major topographic features such as roads, streams, rivers, and lakes, and their geographic names.

- See *Figure D*

Location and dimensions of any gravel pads, or cement foundations, buildings, and other structures and improvements, appropriately labeled.

- See *Figure E*

Location of any buried or above-ground utility lines (power, water, fuel, natural gas, etc.); sewage facilities, including sewage and wastewater outfall point; underground water system; and water source (if any).

- Not Applicable

Location where any hazardous substances, including but not limited to oil, lubricants, fuel oil, gasoline, solvents, and diesel fuel, are stored. Method of storage (tank, drum, etc.).

- To Be Determined

Location of parking areas, and areas for the storage of inactive vehicles; snow storage areas; storage areas for any other items not mentioned above (drill rigs, camps, pipe, watercraft, etc.).

- To Be Determined



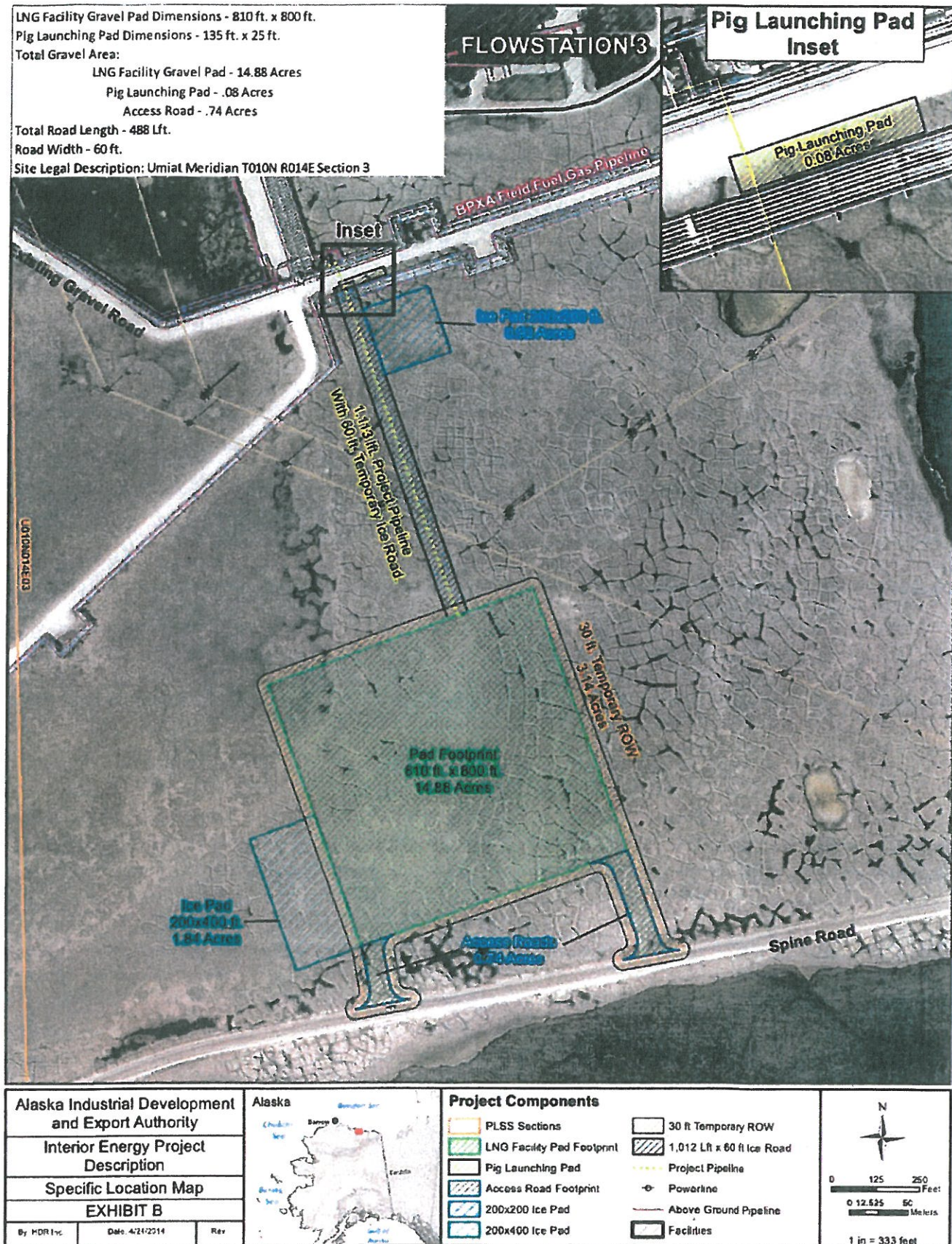


Figure B – Site Plan



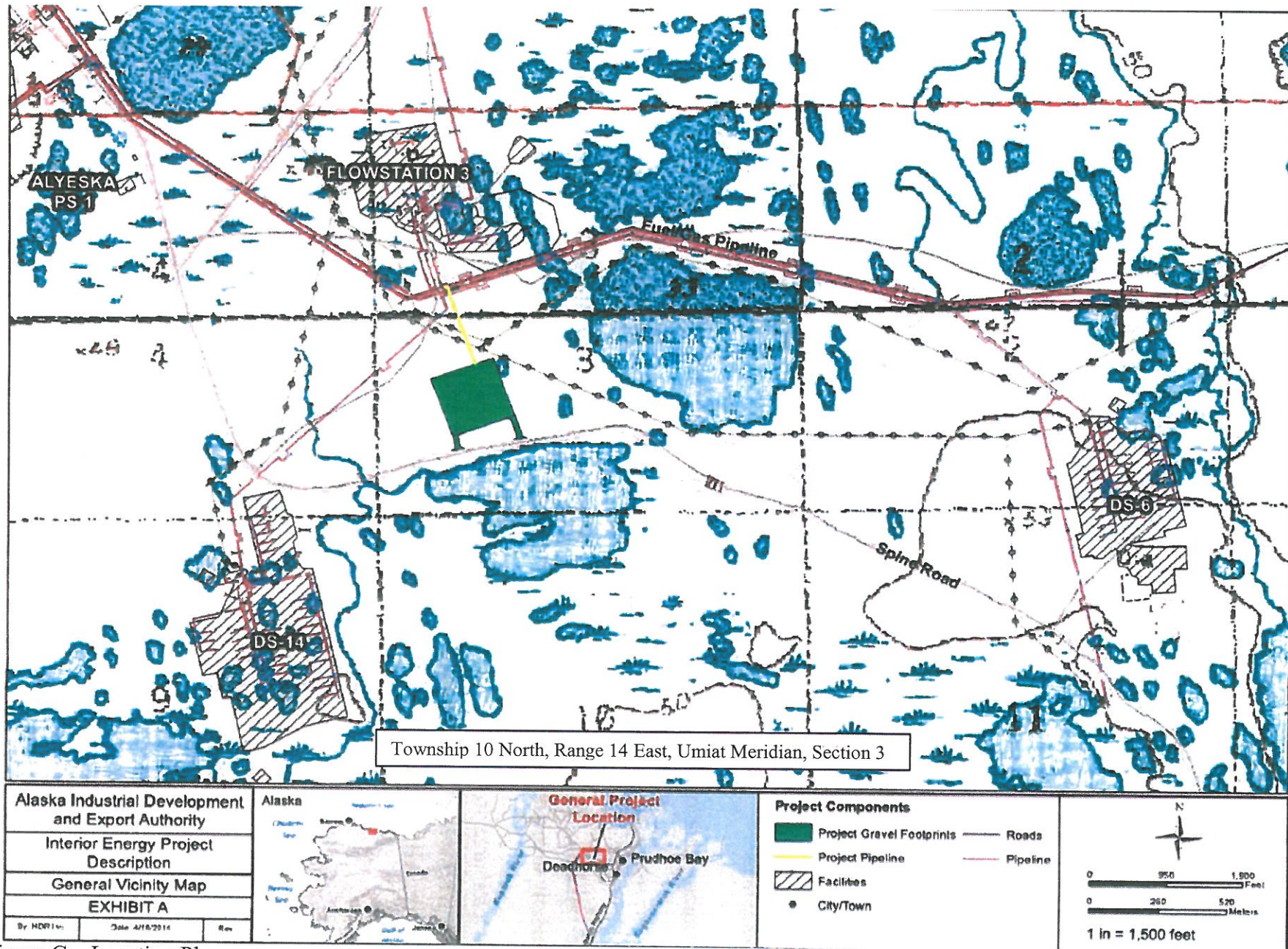


Figure C – Location Plan



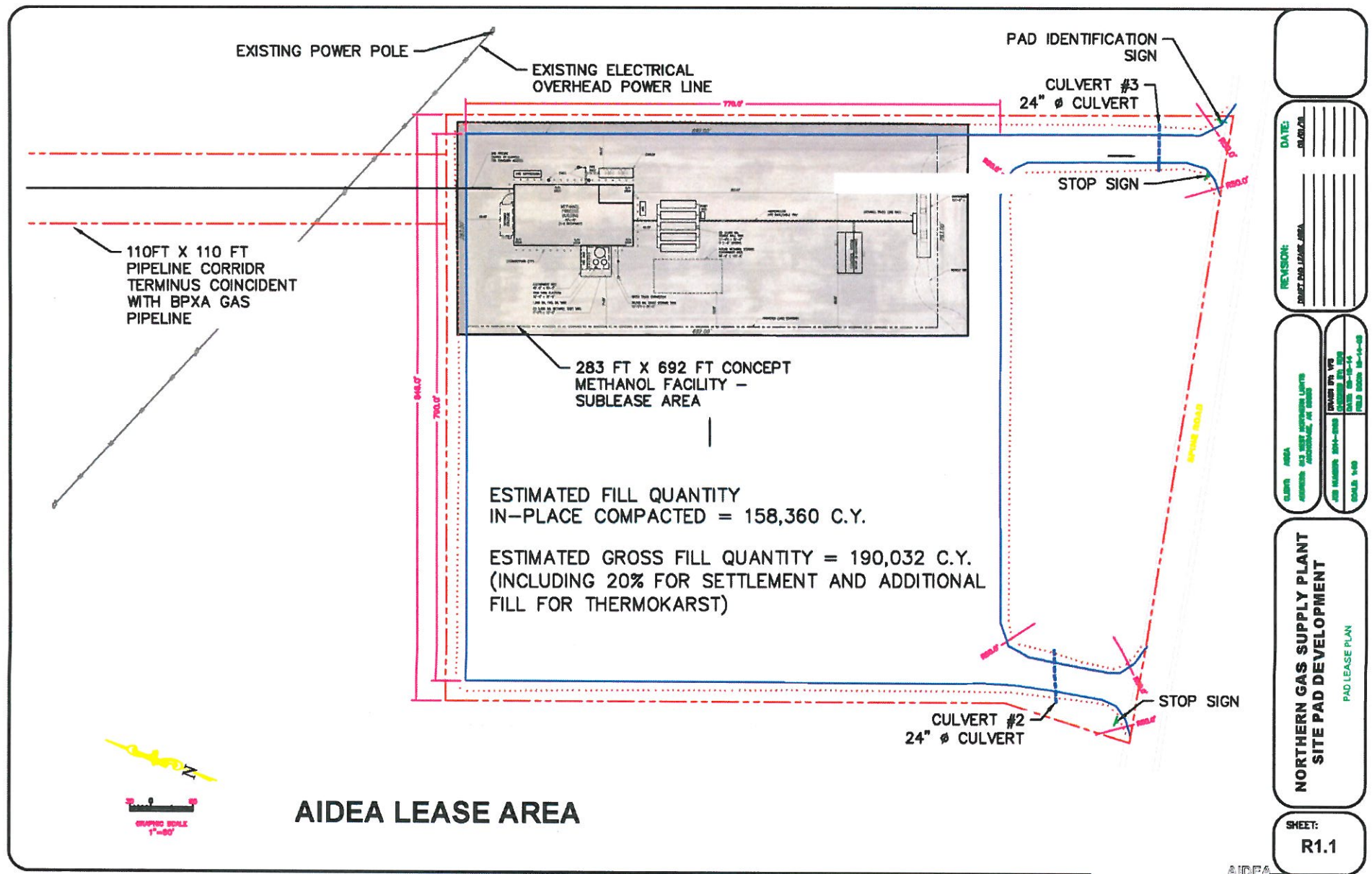


Figure D – Proposed Lease Area

