

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

Lease Extension Decision
ADL 400080 Baker Hughes Oilfield Operations, LLC
Other Competitive Lease

Decision to Extend Lease

Baker Hughes Oilfield Operations LLC (Baker Hughes) 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 ADL 400080 to Baker Hughes for a period of two years to allow 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 400080, comprise the administrative record for this case.

Location and Legal Description

Tract 12 (ADL 400080) of Alaska State Land Survey 76-227, Survey of North Slope Lease Tracts, Deadhorse, Alaska; approximately 12.2 acres within Section 8, 17, 18, 19, and 20, Township 10 North, Range 15 East, Umiat Meridian (Attachment A).

Title

The State received title to the land under GS 1338 on March 27, 1974 through patent #50-74-0092.

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

There are four easements along the Spine Road in the vicinity of the lease tract:

- ADL 64036, Public Easement, Utility, Issued, USDOT FAA AK Region
- ADL 400161, Private Easement, Non-Exclusive ROW, Issued, TDX North Slope Generating, Inc.
- 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

An oil and gas lease resides under the lease tract:

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

See Title Report RPT #10221 (ADL 400080) for more information. There are no other known third-party interests identified at this site, and the third party interests identified 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 19A and 20A, 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

An industrial road (Spine Road), which connects to the Dalton Highway, provides direct physical and legal access to the tracts and does not require an authorization.

Hazardous Materials and Potential Contaminants

A site inspection was conducted by DMLW personnel and representatives of Baker Hughes on August 4, 2017. A list of potentially toxic or hazardous materials was included with the application development plan, including a variety of lubricants, industrial fluids, and solvents that are stored in flammable lockers within the workshop. A number of historic fuel spills and environmental concerns are addressed in the Background Section.

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. Baker Hughes has already provided a bond in the amount of \$750,000 in January 2009 that fulfills the requirement of the lease extension.

Insurance

To protect the State from liability associated with the use of the site, Baker Hughes 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

Per terms of the current lease agreement and with the requirements of AS 38.05.105, an updated appraisal of the lease site was conducted in 2013 to adjust the compensation rate to the state. The annual compensation for the lease tract after the 2013 appraisal was set to the current amount of \$96,000 per year. Appraisals are required on five-year intervals. In preparation for the lease renewal process and now the lease extension, a market check was requested of the DMLW Appraisal Section in April 2017. The market check indicated that a new appraisal would not be necessary in 2018. Baker Hughes will be required to continue to pay \$96,000 annually during the lease extension.

Agency Review

Agency review was conducted from December 6 - 19, 2017. The review requested comments on the proposed lease renewal. 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 State Pipeline Coordinators Section, Alaska Department of Fish and Game (ADFG), Department of Environmental Conservation (DEC) Spill Prevention and Response, DEC Division of Water, US Army Corp of Engineers, and the US Fish and Wildlife Service. The North Slope Borough (NSB) was also included in the agency notice.

ADFG provided a comment stating no objection the two-year extension.

DEC Division of Water noted that the lease intersects a Drinking Water Protection Area (DWPA) for two public water system (PWS) sources. BP Prudhoe Bay Opt. Center (PWSID 331011) and North Slope Borough SA 10 (PWSID 331184). Due to this intersection, DEC Division of Water asks that the applicant follow the "Recommendations for General Construction Projects" (Recommendations) where applicable (Attachment C).

Baker Hughes will be provided a copy of the Recommendations and requested to follow them where applicable.

No additional comments were received.

As no agency objections were received pursuant to original renewal notice, no additional separate agency notice for short extension was deemed necessary.

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. The notice will also be provided to the North Slope Borough.

Background

Baker Hughes is the current lessee for Tract 12, which is set to expire February 13, 2018. In November 2017, Baker Hughes applied to renew the lease for 20 additional years. The lease was first established in Lease Agreement between DNR and Tri-State Tool Industries, Inc. on February 14, 1978. The lease was amended on June 28, 1991, to assign the lease from Tri-State Tool Industries, Inc. to Tri-State Oil Tools, Inc. It was amended again on November 14, 1995, to assign the lease from Tri-State Oil Tools, Inc. to Baker Oil Tools when Tri-State Oil Tools merged with Baker Oil Tools. The lease was amended one more time on March 4, 2011 to assign the lease from Baker Oil Tools to Baker Hughes Oilfield Operations, Inc.

The pad has been expanded three times under the lease—in 1981, 1989, and again in 2007.

There has been several incidents of fuel spills or concerns at Tract 12, as documented by the case file. Staining was present on the west side of the pad in a photo from 1979. Staining was also noticed on the north side of the pad in 1984, at the waterfall treatment plant outfall. A 1988 memo states that oily water may have been discharged through sewer outfall, resulting in stressed tundra. A June 1990 lease tract inspection found a leaking fuel tank that leaked through its liner onto the gravel underneath. An August 3, 1989 Notice of Default identified several day fuel tanks with no secondary containment around them, five drums of hydrocarbons materials without the required secondary containment, and several spots of contaminated gravel on the pad. Tri-State Oil Tools, Inc. was given 60 days to remedy the items of concern. A May 1994 visit to the lease tract found diesel pooled on the surface of the pad, adjacent to the fuel tank on the west side of the pad. During a July 1996 visit to the lease tract, a stockpile of approximately 300 cubic yards of gravel was discovered. The gravel had been excavated from within the shop during renovations and in preparation of pouring a concrete slab. The case file also includes the DEC Record of Decision that no further remedial action is required for the contaminated gravel found during the renovations because the contamination has been adequately addressed and does not pose an unacceptable risk to human health or the environment. Sometime in 1997, a piece of machinery was found leaking fluid onto the pad. The piece of machinery was placed on cribbing and underlined with plastic material, and the gravel was removed and disposed of.

Lease Discussion

The use of the lease tract by Baker Hughes is for operation of an oilfield service base including offices, equipment shops, and employee housing in support of Baker Hughes's North Slope operations. The development plan submitted by Baker Hughes with the lease renewal application does not include any changes to the current development plan (See File).

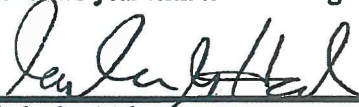
Per AS 38.05.070(f), a one-time lease extension for a period of up to two years may be approved if it is determined to be in the best interest of the state and the extension is necessary to prolong the lease while the department considers certain applications, including an application for lease renewal or an application to issue a new lease at the same site due to substantial change in purpose or operation of the lease. Baker Hughes had applied for a renewal of their current lease, but contamination concerns were discovered at the site.

The two-year lease extension of the lease to Baker Hughes will provide Baker Hughes with the ability to continue operations on Deadhorse Lease Tract 12 and address contamination concerns discovered during the site inspections conducted in August 2017 (see the Hazardous Materials and Potential Contaminants section above). The lease extension will also allow additional time for DMLW to consider and adjudicate the renewal application, and to work with Baker Hughes and DEC, if appropriate, to address specific remediation work plans which will need to be developed for consideration of long-term lease renewal.

Recommendation

It has been determined that the lease extension for a limited term of two years is in the best interest of the State. Issuance of the lease for a limited term will allow for continued use while DNR considers the nature of contamination and related corrective action, should it be required. 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.

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 Baker Hughes Oilfield Operations LLC.

 NRM IE January 25, 2018
Date
Kimberley Maher
Natural Resource Specialist

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

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, as recommended above.

 2/12/18
Date
Andy T. Mack
Commissioner, Department of Natural Resources

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.

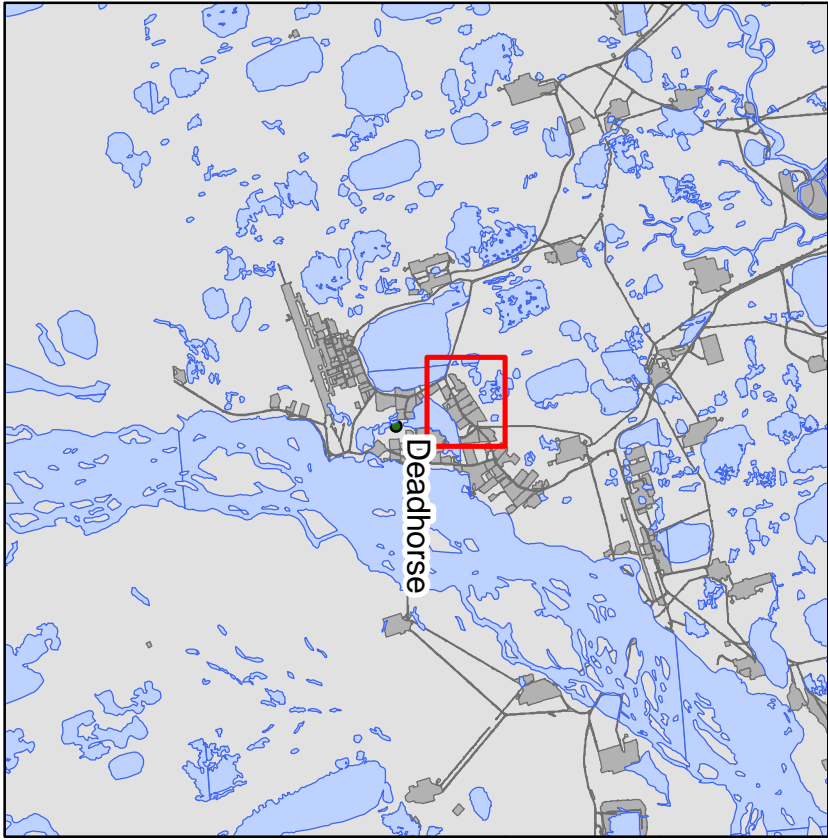
Attachments

Attachment A – Location Map

Attachment B – Lease Extension Instrument

Attachment C – DEC's "Recommendations for General Construction Projects"

Deadhorse Lease Tract 12 (ADL 400080)

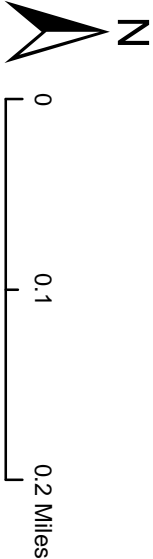


Date: 9/21/2017

Author: B. Baird

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Coordinate System: NAD 1983 Alaska Albers
Projection: Albers
Datum: North American 1983
False Easting: 0.0000
False Northing: 0.0000
Central Meridian: -154.0000
Standard Parallel 1: 55.0000
Standard Parallel 2: 65.0000
Latitude Of Origin: 50.0000
Units: Meter



Attachment B

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

Extension to Lease Agreement

ADL 400080
Baker Hughes Oilfield Operations, LLC Deadhorse Lease Tract 12

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 Baker Hughes Oilfield Operations, Inc. 17021 Aldine Westfield Road, Houston, TX 77073, who agree as follows:

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

Lessor (Tri-State Oil Tool Industries, Inc.) entered into a Lease Agreement dated February 14, 1978 under ADL 400080. The Lease Agreement was recorded in the Barrow Recording District as document number:1998-000439-0. The Lessor merged with Baker Oil Tools which then changed their name to Baker Oilfield Operations, Inc. The lease was amended to reflect the new name on March 4, 2011.

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, remain as originally written.

Lessee:

Date

Authorized Signer
Baker Hughes Oilfield Operations, LLC

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

Date

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



Alaska DEC/Division of Environmental Health-Drinking Water Program

Recommendations for General Construction Projects associated with, or near, a Public Water System (PWS)

1. Identify on a legible map the location of existing public water system (PWS) drinking water protection areas (DWPA) for PWS sources (e.g. springs, wells, or surface water intakes) that intersect the boundary of the proposed project/permit area. The DWPAs can be found using the interactive web map application, "Alaska DEC Drinking Water Protection Areas", located at <http://dec.alaska.gov/das/GIS/apps.htm>. Basic instructions for using this web map can be found at http://dec.alaska.gov/eh/dw/DWP/protection_areas_map.html.
2. Where the project/permit intersects a PWS DWPA, notify the PWS contact. PWS contact information can be obtained using the online application, *Drinking Water Watch*, <http://dec.alaska.gov/DWW/>, by entering the appropriate 6-digit PWS ID (e.g. 220025).
3. Within the identified DWPA, control stormwater discharge.
4. Within the identified DWPA, restrict project/permit activities that could significantly change the natural surface water drainage or groundwater gradient.
5. All data related to the project/permit, including but not limited to, water quality results (field and lab), survey data, water levels, subsurface lithologic descriptions and depth, and groundwater flow direction and gradient information, should be made available to the permitting agency upon request.
 - a. When associated with the development, construction, modification, or operation of a PWS, all water quality sampling and hydrologic data collection should be accomplished under the supervision of a qualified professional and follow a written sampling plan approved by the permitting entity.
6. Limit the amount of equipment storage, maintenance and operation, and other potential sources of contamination, within the following DWPAs:
 - a. Zone A DWPA (several-months-time-of-travel for contributing groundwater, or 1,000-foot buffer of the contributing surface water body and its immediate tributaries);
 - b. Zone E DWPA (1,000-foot buffer of the contributing surface water body and its immediate tributaries for a source using groundwater under the direct influence of surface water (GWUDISW)); or
 - c. *Provisional* DWPA (1,000-foot radius around a PWS source).
7. Implement best management practices where equipment storage, maintenance and operation, or other potential sources of contamination are located within a PWS DWPA and that will minimize the potential for contamination to enter the water source used by a PWS.
8. Immediately notify the nearby PWS of any identified potential contamination, such as spills or excess erosion.