

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

Lease Extension Decision
ADL 400081 Schlumberger Technology Corporation
Other Competitive Lease

Decision to Extend Lease

Schlumberger Technology Corporation (Schlumberger) 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). The lease extension will allow DMLW appropriate time to consider and complete the lease renewal 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 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 400081, comprise the administrative record for this case.

Location and Legal Description

Tract 13 (ADL 400081) of Alaska State Land Survey 76-227, Survey of North Slope Lease Tracts, Deadhorse, Alaska; within Section 18, Township 10 North, Range 15 East, Umiat Meridian (Attachment A), encompassing approximately 11.5 acres.

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

Third Party Interests

Surface Activity

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

- ADL 63237, Public Easement, Utility, Issued, Arctic Slope Telephone Assoc. Inc
- ADL 64036, Public Easement, Utility, Issued, US Department of Transportation, Federal Aviation Administration, Alaska Region
- ADL 400161, Private Easement, Non-Exclusive Right-of-Way, 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 #10222 (ADL 400081) 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 Tract 13, 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 Schlumberger on August 3, 2017. The inspection included a complete tour of the facilities on site (inside and outside of buildings) and shovel sheen tests around the perimeter of the gravel pad. The inspection report (See File) recommends a few follow up steps, including coordinating with the Alaska Department of Environmental Conservation (DEC) and Schlumberger regarding the characterization and cleanup of spills.

A DMLW case file (ADL 420904) was initiated to track potential environmental concerns and pollution-related actions at the site. ADL 420904 will consolidate past, present, and any potential future pollution concerns and actions for Tract 13.

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. Schlumberger has already provided the bond for \$25,000 as required by the lease. DMLW has on file the 1978 rider to the bond which increased the bond from \$5,000 to \$25,000, though the original bond paperwork is missing from the file. The existing bond with appropriate documentation must remain in

place through the two-year extension period. Update and adjustment of the bond to reflect current on site conditions and risk assessment will be addressed during long-term lease renewal adjudication.

Insurance

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

The original lease provisions restricted compensation increases. The rental rate remained the same for the first 25 years. After that time period, rent increases were restricted to 50-percent of the previous annual rental. The annual rental established in 1978 was \$562.50. This increased to \$1,125 in 2003. In 2013 the annual compensation was increased to \$1,687.50.

An appraisal was recently conducted by MacSwain Associates LLC, and the effective date of the appraisal is June 17, 2017. It reports the market price of the 11.54-acre parcel to be \$1,250,000 and the annual market rent of \$100,000, assuming the appraised parcel is vacant land.

The lease extension and subsequent renewal, if approved, will be required to comply with AS 38.05.105, Periodic Rent Adjustments. Schlumberger obtained an appraisal for the lease tracts prior to applying for lease renewal. The appraisal resulted in an increase in the annual market rent from \$1,687.50 to \$2,531.25, when the 50-percent rent increase cap is applied. Annual rent will be set at \$2,531.25 at the start of the two-year extension. Updates and more significant increases in rent requirements will be addressed in long-term lease renewal process, as the law capping rental increases at 50-percent of previous annual rent was repealed in 1992.

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. This proposed action will be posted on the Alaska Online Public Notice System for 30 days, and the notice will also be provided to the North Slope Borough.

Background

Schlumberger is the current lessee for Tracts 13, which is a 40-year lease issued through a public auction on February 14, 1978 to Schlumberger Offshore Services (SOS). According to the earliest Development Plan on file (dated March 6, 1978):

The purpose of the existing development is to provide an operating base and living quarters for SOS personnel on the North Slope. These personnel provide evaluation and completion services to the oil/gas developers. These services are vitally needed to produce the oil/gas reserves of the North Slope.

DNR approved lease assignment from Schlumberger Offshore Services to Schlumberger Well Services, a division of Schlumberger Technology Corporation on June 1, 1988, when the two companies merged. The lease is set to expire on February 13, 2018 (See File).

The only Notice of Default documented in the case file is from September 1989 when 25 barrels of hydrocarbon material and/or chemicals were found not contained in a lined revetment. The situation was remedied within the allotted 60-day time frame.

Soil sampling was conducted in 2000 to the west of the pad after a petroleum sheen has been observed. Test results showed non-detection for gasoline and diesel. Additional soil sampling was conducted 2004 at three locations (three depths per location—1 foot, 2 feet, and 4 feet), prior to the construction of the new camp; sampling was conducted by DEC-approved Arctic Fox Laboratory. Benzene, toluene, and ethylbenzene were not detected within any of the 12 samples. Gasoline range organics (GRO) and xylene were detected at the 2 feet depth at Location 2 (4.20 mg/kg and 0.156 mg/kg, respectively), and diesel range organics (DRO) was detected at one-foot depth at Location 2 (60.7 mg/kg). No other environmental concerns are documented in the case file records.

Lease Discussion

The use of the lease tract by Schlumberger is for equipment shops, living quarters, catering facilities, and waste plants in support of Schlumberger's North Slope operations. The development plan submitted by Schlumberger 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. Schlumberger had applied for a renewal of their current lease, but potential contamination concerns were discovered at the site.

The extension of the lease to Schlumberger will provide Schlumberger with the ability to continue operations on Deadhorse Lease Tracts 13. During this two-year extension, the DMLW will adjudicate the renewal application under AS 38.05.070(e) and address any outstanding issues that may be identified through the adjudication process. As a condition of lease renewal, Schlumberger will be required to follow through on contamination concerns. Follow up steps will be identified in consultation with DEC.

Schlumberger is in active negotiations with a potential buyer of the improvements on Tract 13. The extended lease may be assigned to a new qualifying entity if a purchase agreement is reached prior to lease renewal. The new buyer will be subject to the same contamination follow-up actions and any additional requirements identified during the lease renewal adjudication process. Additionally, any new lessee will be subject to the extended lease agreement resulting from this extension process, and will be subject to updated long-term lease agreement that may result from the future renewal process.


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 DMLW considers the nature of contamination at the site and adjudicates the request for a long-term lease renewal.

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 Schlumberger Technology Corporation.

 NRM II 
for Kimberley Maher Date
Natural Resource Specialist

 5 Feb 2018
Brent Goodrum Date
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.

 2/12/18
Andrew T. Mack Date
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.

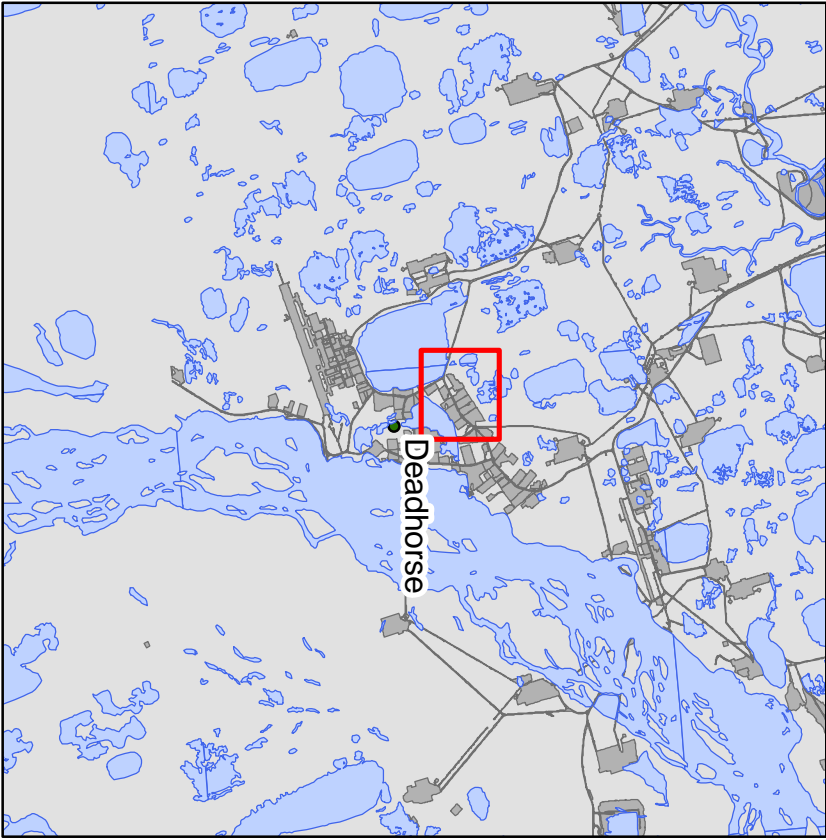
If no appeal is filed by that date, this decision goes into effect as a final order and decision on the 31st calendar day after the date of issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may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

Attachments

Attachment A – Location Map

Attachment B – Lease Extension Instrument

Deadhorse Lease Tract 13 (ADL 400081)

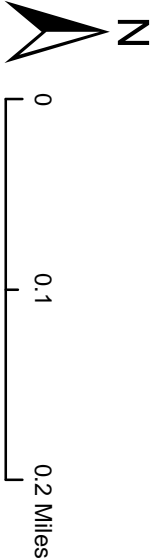


Date: 9/21/2017

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 400081

Schlumberger Technology Corporation Deadhorse Lease Tract 13

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 Schlumberger Technology Corporation 6411 A Street, Anchorage, AK 99518, who agree as follows:

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

Lessor (Schlumberger Technology Corporation) entered into a Lease Agreement dated February 14, 1978 under ADL 400081. The Lease Agreement was recorded in the Barrow Recording District as document number:1998-000004-0.

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 remain as originally written.

Lessee:

Date

Authorized Signer
Schlumberger Technology Corporation

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