



**State of Alaska**  
**Department of Natural Resources**  
**Division of Mining, Land & Water**  
**Northern Regional Office**  
Lease Extension Decision  
ADL 64473 CH2M HILL Alaska, Inc.  
Other Competitive Lease

### **Decision to Extend Lease**

CH2M HILL Alaska, Inc. (CH2M) has applied to the Department of Natural Resources (DNR), Division of Mining, Land & Water (DMLW), to renew a current long-term lease on Tracts 22 and 23A of ASLS 76-227 in Deadhorse, Alaska. The leases will expire July 8, 2019. A complete application was provided to DMLW on June 6, 2019. DMLW has made the decision to extend the lease for a maximum of two years pursuant to AS 38.05.070(f)(2). The lease extension will allow DMLW appropriate time to consider the application for renewal and complete the renewal decision process.

### **Scope of Decision**

The scope of this decision is to determine if it is in the State's best interest to extend the lease for ADL 64473 to CH2M for oil field services that support the North Slope oil and gas operators.

### **Authority**

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

### **Administrative Record**

The administrative record for the proposed action consists of the Constitution of the State of Alaska, the Alaska Land Act as amended, applicable statutes and regulations referenced here-in, the 1969 Industrial Classification (CL 618) and the 2006 Deadhorse Lease Tracts Site Specific Plan (CL NC-04-003) and other classification references described herein, and the casefile for the application serialized by DNR as ADL 64473.

### **Location and Legal Description**

The site is located approximately one-half mile northeast of the intersection of the Spine Road and Lake Colleen Road in Deadhorse, Alaska and is described as Tracts 22 and 23A of Alaska State Land Survey (ASLS) 76-227, Survey of North Slope Lease Tracts, Deadhorse, Alaska within Sections 18, Township 10 North, Range 15 East, Umiat Meridian, containing 16.14 acres, more or less.

### **Title**

The State received patent, #50-74-0092 on March 27, 1974 under General Grant 1338. Standard reservations apply.

### **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 64063, 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.
- ADL 230698, Private Non-Exclusive Easement for fiber optic cable, Interim Authorization, Arctic Cable Company, LLC

Subsurface Activity:

- ADL 28330, Oil & Gas Lease Competitive, Issued, BP Exploration (Alaska) Inc. Portions of Drill Site 12 are located within Section 18 however, there are no surface activities associated with ADL 28330 within the subject lease site.

The lease was originally issued subject to ADL 28330 and ADL 63237. With these stipulations in addition to other appropriate stipulations and reservations, extension of this lease is considered to be a reasonable concurrent use which is compatible with the third party interests noted.

### **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 22 and 23, are to be managed to support oil and gas operations (SSP, p. 19).

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

This site has not been closed to mineral entry.

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

### **Access**

Industrial roads (Spine Road and Lake Colleen Road) are authorized under lease operations approvals (LO/NS) to BP Exploration (Alaska) Inc. related to their subsurface leases and connect to the Dalton Highway providing direct physical and legal access to the tracts and do not require an authorization.

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

There is known contamination within Tracts 22 and 23A. Contamination was noted as early as 1992 when Tracts 22, 23, and 24 were under the same operatorship, VECO Inc. A Phase I Environmental Site Assessment (ESA) was conducted in 2007 that encompassed Tracts 22, 23, and 24. This ESA and subsequent site inspections performed in March 2008 were used to inform a Phase II ESA that was conducted later that year through 2010. The Phase II ESA found petroleum hydrocarbon contamination at six areas on tracts 22 and 23A. Approximately 24,000 in place cubic yards of contaminated material was excavated from these areas and thermally treated at an off-site facility. Though extensive excavation activities were conducted, contaminated material remains in the pad near buildings and utilities.

The Alaska Department of Environmental Conservation (ADEC) issued a Cleanup Complete – Institutional Controls Determination in 2010 that specified that contaminated soil remaining adjacent to the Light Duty Maintenance Building, Building 23-740-1, Building 23-740-2, and Building 23-008 must be removed when those areas become accessible in addition to standard institutional controls.

In July 2014, contaminated soil was discovered during demolition of the dry storage historic batch plant building located on tract 23A. The contamination was identified under what was believed to be the support pad for a former boiler along the north wall of the building. As a result of this discovery, ADEC reopened the site for additional characterization and cleanup.

In August 2015, an area approximately 20-feet by 8-feet was excavated to a depth of 3 to 4.5-feet below the surface at the former batch plant. Approximately 40 cubic yards of impacted material was removed and transported to OIT for disposal in Fairbanks, AK. Samples taken from the bottom and sidewalls of the investigation revealed diesel range organics (DRO) and residual range organics (RRO) remained in the gravel pad material at concentrations up to 3,700mg/kg and 7,900 mg/kg, respectively. In a letter dated December 1, 2015, ADEC requested a work plan by February 1, 2016 for additional site delineation.

Additional delineation work on site collected samples from 13 soil borings. Results indicated that the vertical and horizontal extent of the contamination was delineated. Approximately 67 cubic yards of impacted soil above Method One soil cleanup levels remains in the subsurface soils, primarily located near the former cement chute in the northwest corner of the excavation.

In 2017, a former VECO employee reported that it was common practice in the 1980s to bury debris (paint, welding rods, sheet metal, wood, etc.) near two Quonset huts on Tract 22. Field activities were completed on July 17, 2016 and consisted of collecting soil samples from 15 soil borings advanced within and outside of each Quonset hut. Each boring was completed to refusal, at depths between to 3.5 and 4 feet below the

surface where metal debris, oily waste, or permafrost was encountered. Based on headspace screening results, a total of six soil samples were submitted for laboratory analysis of gasoline range organics (GRO), DRO, RRO, and volatile organic compounds (VOCs). Soil samples collected from inside the Quonset huts were also analyzed for semi-volatile organic compounds (SVOCs), polychlorinated biphenyls (PCBs), and Resource Conservation and Recovery Act (RCRA) metals. Results from the investigation revealed that limited petroleum (DRO) contamination is present beneath the northern Quonset hut. However, chromium was present in one sample (SB-13) at 45 mg/kg. ADEC requested the following to determine if further action was necessary: (1) delineate the full extent of the debris field; (2) further characterize the chromium contamination to determine if hexavalent chromium is present; and (3) further characterize the extent of contamination between the site and the nearest surface water body. A work plan was requested by May 1, 2017.

A total of 10 soil samples were collected from 11 soil borings during the 2018 effort. Additionally, collocated sediment and surface water samples were collected from the downgradient surface water body. Concentrations of DRO were identified in one soil sample up to 2,300 mg/kg, however all other samples were below 300 mg/kg for DRO or no contaminants were detected. The sediment sample exhibited levels of DRO and RRO up to 680 mg/kg and 2,300 mg/kg, respectively. All results for the surface water samples were below the more conservative of the Table C groundwater cleanup levels and the Alaska Water Quality Standards. ADEC determined that the extent of petroleum-related contamination around the Quonset hut was sufficiently delineated. An evaluation of the subsurface was completed using an electromagnetic survey and resistivity data to create subsurface profiles. The extent of the buried debris field was sufficiently delineated for ADEC and the site was recommended for closure. However, site closure detailing required institutional control measures has not been completed as of this extension decision. This will be addressed prior to the renewal decision.

DNR has initiated a potentially hazardous site file (ADL 420324) to track contamination associated with Tracts 22 and 23A. The ADEC contaminated site file number is 300.38.033.

### **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. CH2M currently holds a bond in the amount of \$250,000. The existing bond will need to be held for the term of the lease extension.

### **Insurance**

To protect the State from liability associated with the use of the site, CH2M 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 at 10-year appraisal intervals. The annual rental established in 1979 was \$1500. This increased to \$2,250 in 2004. In 2014 the annual compensation was increased to \$3,375.

Annual rent will be set at \$3,375 at the start of the two-year extension. Updates and more significant increases in rent requirements will be addressed in the long-term lease renewal process, as the law capping rental increases at 50-percent of previous annual rent was repealed in 1992. DMLW will submitted a Minimum Rent Determination request to the DMLW Appraisal Unit in preparation for the lease renewal process.

## **Agency Review**

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

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

## **Public Review**

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

## **Background**

ADL 64473 was issued to VECO Inc. on June 2, 1974. The first lease was issued as a 5-year, short term authorization. In 1979, the then Division of Forest, Water, and Land Management (now DMLW) determined that short term leases did not serve the state's best interest and held a long-term lease auction to convert many of the short-term leases in the Deadhorse area to long-term leases. Lessees that were part of the auction were required to relinquish their lease and submits bids on the leases they held or others they wished to acquire through new lease agreements. VECO Inc. was the winning bidder for Tracts 22, 23, and 24 at a bid price of \$1500. VECO Inc. was issued a new lease under ADL 64473 with an expiration date of July 8, 2019. The tracts have been used for equipment storage, parts fabrication, camp facilities, and materials storage since 1974.

The original lease provisions restricted compensation increases. The rental rate remained the same for the first 25 years and after that, rent increases were restricted to 50-percent of the previous annual rental at 10-year appraisal intervals. The annual rental established by bid in 1979 was \$1,500. This increased to \$2,250 in 2004. In 2014 the rent was increased again to \$3,375. The law which restricted rental increase to 50-

percent of the previous annual rental was repealed in 1992. When and if renewed, the lease will be subject to annual rental at fair market value as determined by appraisal at five-year intervals.

In 1995, VECO Inc. underwent changes to their corporate structure and the operator and holder of ADL 64473 changed to VECO Alaska. This was not confirmed with DNR until 1998. The new lessee was a wholly owned subsidiary of VECO International and only a lease name change was required.

In 2007, VECO Alaska was purchased by CH2M. At the time, the ownership changes were not clear and the DMLW adjudicated a lease assignment and amendments that made substantial changes to the lease agreement. After notifying CH2M of the amended lease requirements, additional discussion resulted in a simply name change being required for the lease.

In 2017, CH2M was acquired by Jacobs Engineering Group Inc. under the Energy, Chemicals, and Resources Division. However, CH2M continued to operate all its North Slope assets. The Jacobs Energy, Chemicals, and Resources Division was sold to WorleyParsons in 2018. CH2M continues to operate as a wholly owned subsidiary.

### **Lease Discussion**

CH2M leases Tracts 22 and 23A for general oil field support including testing facilities, storage facilities, welding shops, and the staging and storage of materials and equipment. CH2M applied to renew its lease with the State in May 2019. The initial application was incomplete. A complete application was submitted in June 2019. An updated development plan was included with the lease application. There are no proposed changes to the development plan. For a lease to be eligible for renewal, the lease must not be expired.

Per AS 38.05.070(f), a one-time lease extension for a period of up to two years may be approved if it is determined to be in the best interest of the state and the extension is necessary to prolong the lease while the department considers certain applications, including an application for lease renewal or an application to issue a new lease at the same site due to substantial change in purpose or operation of the lease. CH2M has applied for a renewal of a long-term lease, but due to time constraints, the DMLW requires additional time to review the lease renewal application, review site contamination determinations, and adjudicate the renewal decision. The extension of the lease to CH2M will provide CH2M with the ability to continue operations at the site; during this two-year extension, the DMLW will adjudicate the renewal application.

### **Recommendation**

It has been determined that the lease extension for a limited term of two years beginning July 9, 2019 is in the best interest of the State. It will allow the lessee and the lessor to continue a lease agreement without a gap between authorizations resulting in a time period of unauthorized use.

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

In consideration of all the information and facts listed above, it is my recommendation that a lease extension with a limited term, is consistent with the overall classification and management intent for this land and


would be a benefit to the State of Alaska. It is therefore recommended that DNR grant a lease extension with a two-year term to CH2M HILL Alaska, Inc.

  
Melissa Head  
Natural Resource Manager

July 2, 2019  
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 provide notice pursuant to AS 38.05.070(g) and to proceed with the lease extension pursuant to AS 38.05.070(f) and issuance of the lease pursuant to AS 38.05.070.

  
Jeanne Proulx

7/2/19  
Date

Northern Regional Manager, 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](mailto:dnr.appeals@alaska.gov). Under 11 AAC 02.030, appeals and requests for reconsideration filed under 11 AAC 02 must be accompanied by the fee established in 11 AAC 05.160(d)(1)(F) which has been set at \$200 under the provisions of 11 AAC 05.160 (a) and (b).

If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31<sup>st</sup> calendar day after issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to the Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

**Attachments**

Attachment A – Location Map

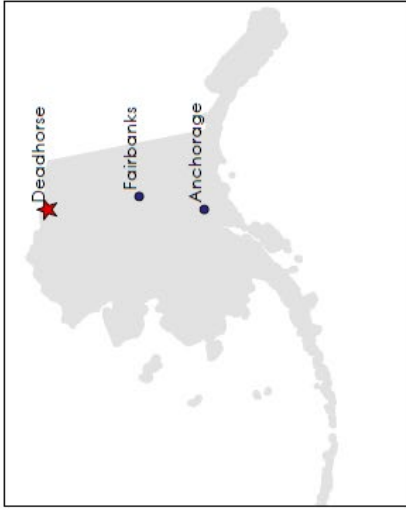
Attachment B – Lease Extension Instrument





**Deadhorse Lease Tracts 22 & 23 (ADL 64473)**

**Attachment A – Location Map**



Date: 7/2/2019  
Source: Esri, DigitalGlobe, GeoEye,  
Earthstar Geographics, CNES/Airbus DS,  
USDA, USGS, AeroGRID, IGN, and the GIS  
User Community





**Attachment B – Lease Extension Instrument**

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

Extension to Lease Agreement

ADL 64473

CH2M HILL Alaska, Inc., Deadhorse Lease Tracts 22 & 23A

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 CH2M HILL Alaska, Inc. 949 East 36<sup>th</sup> Avenue, Anchorage, Alaska 99508, who agree as follows:

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

Lessor (VECO Alaska, Inc.) entered into a Lease Agreement dated July 7, 1979 under ADL 64473. The Lease Agreement was recorded in the Barrow Recording District as document number:1980-001236-0. The Lessor changed its name to CH2M HILL Alaska, Inc. The lease was amended to reflect the name changes on November 8, 2007.

Page 1 of the original lease identifies the expiration date of the lease as “ending at 12 o’clock midnight on the 8<sup>th</sup> day of July, 2019, 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 July 8, 2021.

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

