

The Alaska Mental Health Trust Authority
Trust Land Office
BEST INTEREST DECISION
Hilcorp Alaska, LLC
Negotiated Oil & Gas Lease - Tyonek

MHT: 9300103
MH Parcel(s): S70437

In accordance with AS 38.05.801 et seq. and the implementing regulations governing Alaska Mental Health Trust (“Trust”) land management (11 AAC 99), Trust land shall be managed consistently with the responsibilities accepted by the State under the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 (1956)). This means that management shall be conducted solely in the best interest of the Trust and its beneficiaries.

In determining the best interest of the Trust and its beneficiaries, and in determining consistency between state law and the Alaska Mental Health Enabling Act, the Executive Director of the Alaska Mental Health Trust Land Office (“TLO”) shall, at a minimum, consider the following interactive Trust management principles in accordance with 11 AAC 99.020:

- Maximization of long-term revenue from Trust land;
- Protection of the corpus;
- Protection and enhancement of the long-term productivity of Trust land;
- Encouragement of a diversity of revenue-producing uses of Trust land; and
- Management of Trust land prudently, efficiently, and with accountability to the Trust and its beneficiaries.

- I. **Proposed Use of Trust Land.** Negotiated Oil & Gas lease for approximately 250.00 acres of unencumbered Trust Hydrocarbon estate for the exploration and development of oil and gas.
- II. **Applicant/File #.** Hilcorp Alaska, LLC / MHT 9300103
- III. **Subject Property.**
 - A. **Legal Description.** A portion of Section 27 of Township 11 North, 12 West, Seward Meridian, containing 344.00 acres more or less.
 - B. **Settlement Parcel Number(s).** S70437 (a portion of)
 - C. **Site Characteristics/Primary Resource Values.** The project’s location is on a portion of a parcel adjacent to tidelands and is generally characterized by low vegetation, sparse forest and disseminated wetlands. Currently, the primary resource value is oil & gas development but other areas of the parcel, particularly further inland have documented wind resources in addition to coal deposits. The issuance of an oil and gas lease does not preclude other compatible land uses that may be proposed during the lease term and ensures the parcel remains available for future development.

- D. Historical and Existing Uses of the Property.** The subject lands owned by the Trust are undeveloped and have not be previously leased for this activity.
- E. Adjacent Land Use Trends.** Site is adjacent to rural, undeveloped lands in the Beluga region. The southern boundary of the proposed lease is adjacent to State owned tidelands. Approximately 1 mile to the west, Hilcorp operates the Granite Point Tank Farm to treat crude oil and natural gas.
- F. Previous State Plans/Classifications.** The parcel was previously included in the 1985 Susitna Area Plan within the Beluga subregion and categorized as subunit 3C (Granite Point). The primary land use designations was to be managed for its potential for industrial and/or port development if resource development occurs in the Beluga area and that “this is the only public-owned port site in this area of Cook Inlet”.

Since conversion of the land to be in Trust ownership, these lands are no longer bound by state area plans and are to be managed in the best interest of the Trust. Should resource development advance on this side of Cook Inlet, the Trust retains the ability to manage compatible uses, the issuance of an oil and gas lease does not preclude other development projects from taking place, in fact, may benefit from the any sort of infrastructure development.

- G. Existing Plans Affecting the Subject Parcel.** The subject area is considered to be “rural” by the Kenai Peninsula Borough and is generally not subject to most zoning restrictions. The TLO’s lease that is being proposed to Hilcorp standardly requires compliance with all local, state, and federal laws, regulations, and requirements.
- H. Apparent Highest and Best Use.** As surface development has not taken place on the subject area of the parcel in question, it is the most opportune time for hydrocarbon development as it is considered to be minimally invasive and preserves the long-term use of this parcel for future development.

IV. Proposal Background. The area of interest is a fee estate parcel owned by the Trust, adjacent to the northern portion of the Granite Point Unit in which Hilcorp operates within the waters of Cook Inlet. Approximately 1 mile to the west of the proposed boundary is the Granite Point Tank Farm at which Hilcorp processes and stores crude oil and natural gas.

Hilcorp proposes to target the historic Kaloa structure, with tentative plans to drill one initial well in late 2026 from the Trust parcel, followed by additional wells if conditions warrant.

V. Terms and Conditions.

- A. Lease Term:** Primary lease term of five years, continued indefinitely by commercial production.
- B. Annual Rent:** Year 1 - \$10.00 per acre; Year 2 - \$11.00; Year 3 - \$12.00 per acre; Year 4 - \$13.00 per acre; Year 5 - \$14.00
- C. Production Royalty:** 12.5%

D. Surface Use Conflicts/Damages. Hilcorp is required to resolve surface use conflicts and damages, if any, in accordance with the provisions of law applicable to private subsurface state owners.

E. Environmental Law and Considerations. Hilcorp will be required to enter into an oil and gas lease with the TLO, with the lease requiring full compliance with all applicable environmental laws. Additionally, the lease will include operating stipulations substantially the same as oil and gas leases issued on general state lands in recent years, with some of those stipulations exceeding the requirements of existing general environmental laws.

VI. Resource Management Considerations. The proposal is consistent with the “ Resource Management Strategy for Trust Land” (RMS), which was adopted in 2021 in consultation with the Trust and provides for the disposal of Trust hydrocarbon resources on a negotiated basis in certain circumstances. Given that Hilcorp was the only bidder to lease the State of Alaska hydrocarbon estate adjacent to the Trust property in consideration for the exploration and development of oil & gas, the likelihood of finding another party in the region who will have the capacity to develop the Trust resources similar to Hilcorp is significantly lower as shown by recent results of the State’s competitive process.

VII. Alternatives.

- A. Offer the tract competitively, which is not warranted given the applicant’s experience and present land position in the area.
- B. Do not offer the land for oil and gas leasing at this time, which is also not warranted as the growing concerns of the Cook Inlet Basin being an ageing basin may not provide for a more opportune time to add the lands effected by this decision given Hilcorp’s current investment in the region.

VIII. Risk Management Considerations.

- A. **Performance Risks.** Performance risks will be minimized by enforcement of the terms and conditions of the lease agreement, including, but not limited to, the provisions that address rent and royalty payments, development plan approval, and diligent resource development over time.
- B. **Environmental Risks.** Any exploration, development, or production activities performed under this lease will be done within the parameters of all local, state, and federal laws. Lease stipulations require compliance with all applicable regulatory requirements and violations are grounds for termination of the agreement. The lessee will be adequately bonded and insured.
- C. **Public Concerns.** No known concerns have been raised at the time of this decision. This activity has occurred in the area previously.

IX. Due Diligence.

- A. **Site Inspection.** Staff are generally familiar with the Trust parcels in the region and would inspect lease activities throughout development.

- B. Valuation.** Lease terms are competitive market rates that maximize the revenue of the lands.
- C. Terms and Conditions Review.** The use of the TLO's standard Oil & Gas Lease document will be used in this transaction, is constantly reviewed, and is similar to industry standard agreements such as the DNR's Division of Oil & Gas lease agreement.

X. Authorities.

- A. Applicable Authority.** AS 37.14.009(a), AS 38.05.801, and 11 AAC 99 (key statutes and regulations applicable to Trust land management and disposal).
- B. Inconsistency Determination.** As the proposed a negotiated lease of Trust owned hydrocarbon estate is specifically authorized under 11 AAC 99, any relevant provision of law applicable to other state lands is inapplicable to this action if it is inconsistent with Trust responsibilities accepted by the State under the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 (1956)) as clarified by AS 38.05.801 and Alaska Mental Health Trust land regulations (11 AAC 99). 11 AAC 99 includes determinations that certain State statutes applicable to other State land do not apply to Trust land unless determined by the Executive Director, on a case-by-case basis, to be consistent with 11 AAC 99.020. The State Statutes deemed inconsistent with Trust management principles and inapplicable to Trust land by these regulations have not been applied to this decision or this action, including, but not limited to, AS 38.04 (Policy for Use and Classification of State Land Surface), AS 38.05.035 (Powers and Duties of the Director), AS 38.05.300 (Classification of Land), AS 38.05.945 (Notice), AS 38.05.946 (Hearings), and 11 AAC 02 (Appeals). In addition to the above, the TLO hereby deems other existing or future provisions of AS 38.05.180 inconsistent with Trust responsibilities accepted by the state under the Alaska Mental Health Enabling Act in the event that application of said provisions would result in the TLO being required to act in a manner that is not solely in the best interest of the Trust and its beneficiaries as required by 11 AAC 99.020. Examples of specific provisions of AS 38.05.180 that will not apply to the proposed lease include, but are not limited to: AS 38.05.180(b), (five year oil and gas leasing plans); 180(f)(3), Leasing Methods; .180(f)(4), Discovery Well royalty reduction; .180(i), Exploration Incentive Credits as they apply to rental or royalty payments; .180(m), limitations on the size of a lease tract; and .180(n) rental rates.

Finally, the TLO hereby deems AS 38.05.130, Surface Use Bonding, inconsistent with Trust responsibilities accepted by the state, in that its application would require the TLO to act as a land use regulator at a significant cost and no corresponding benefit to the Trust. Other provisions of existing law provide surface owners with sufficient legal recourse in the event that land use conflicts arise as a result of this proposed lease offering.

- XI. Trust Authority Consultation.** The Alaska Mental Health Trust Resource Management Committee was consulted on January 22, 2026. The Committee recommended that the

proposed transaction be forwarded to the Alaska Mental Health Trust board of trustees. On February 19, 2026, the board of trustees adopted the motion stating:

“The Resource Management Committee recommends that the Alaska Mental Health Trust Authority board of trustees concur with the negotiated lease of Trust land, a portion of parcel S70437 near Tyonek with Hilcorp Alaska, LLC for the exploration and development of oil and gas resources.”

XII. Best Interest Decision. Given the information above and the information contained in the complete record, the Executive Director finds that the proposed transaction is in the best interest of the Trust, subject to the terms and conditions addressed in this decision. The decision is based upon the consideration of the five Trust management principles set out in 11 AAC 99.020 and is in full compliance with 11 AAC 99. This decision does not preclude the TLO from determining that an alternative proposal will serve the best interest of the Trust. A future determination of that nature will require a best interest decision specific to the proposal.

A. Non-competitive Disposal Determination. 11 AAC 99.020 (d) allows for the disposal of Trust land through a competitive basis, unless the Executive Director in consultation with the Trust Authority, determines in a written decision required by 11 AAC 99.040 that a non-competitive disposal is in the best interest of the Trust and its beneficiaries. If another party submits a qualified offer as explained in Section XIII, the Executive Director may consider a competitive sale under the authority of this decision. Since the 2022 Winter Competitive Lease Sale held by the DNR Division of Oil & Gas, Hilcorp has been the sole bidder the state has had with an exception of 3 tracts to one other company. With the limited competitive interest in the Cook Inlet region, a competitive process would likely result in more in cost of staff time than would be gained in benefit for the Trust.

XIII. Opportunity for Comment. Notice of this Best Interest Decision will take place as provided under 11 AAC 99.050. Persons who believe that the decision should be altered because it is not in the best interest of the Trust or its beneficiaries, or because the decision is inconsistent with Trust management principles set out in 11 AAC 99.020 or any other provision of 11 AAC 99, must provide written comments to the TLO during the notice period. Following the comment deadline, the Executive Director will consider timely written comments that question the decision on the basis of the best interest of the Trust and its beneficiaries or inconsistency with 11 AAC 99. The Executive Director may then, in his or her discretion, modify the decision in whole or in part in response to such comments or other pertinent information, or affirm the Best Interest Decision without changes. The Best Interest Decision as modified or affirmed will become the final agency action, subject to reconsideration procedures under 11 AAC 99.060. Additional notice will be provided for a substantially modified decision. If no comments are received by the end of the notice period, this Best Interest Decision will be affirmed, and the proposed action taken. (See notice for specific dates.)

XIV. Reconsideration. To be eligible to file for reconsideration of this Best Interest Decision, or to file a subsequent appeal to the Superior Court, a person must submit written comments during the notice period.

Persons who submit timely written comments will be provided with a copy of the final written decision and will be eligible to request reconsideration within 20 calendar days after publication of the notice or receipt of the decision, whichever is earlier under 11 AAC 99.060(b). This request must be accompanied by the fee established by the Executive Director under 11 AAC 99.130, which has been set at \$500, to be eligible for reconsideration. The Executive Director shall order or deny reconsideration within 20 calendar days after receiving the request for reconsideration. If the Executive Director takes no action during the 20-day period following the request for reconsideration, the request is considered denied. Denial of a request for reconsideration is the final administrative decision for purposes of appeal to the superior court under AS 44.62.560.

XV. Available Documents. Background documents and information cited herein is on file and available for review at the TLO, located at 2600 Cordova Street, Suite 201, Anchorage, Alaska 99503. Phone: (907) 269-8658. Email: mhtlo@alaska.gov.

The disposal action proposed by this decision will occur no less than 30 days after the first publication date of this decision, and after the conclusion of the TLO administrative process. For specific dates or further information about the disposal, interested parties should contact the TLO at the above address, or visit the website at: <https://alaskamentalhealthtrust.org/trust-land-office/>.

XVI. APPROVED:



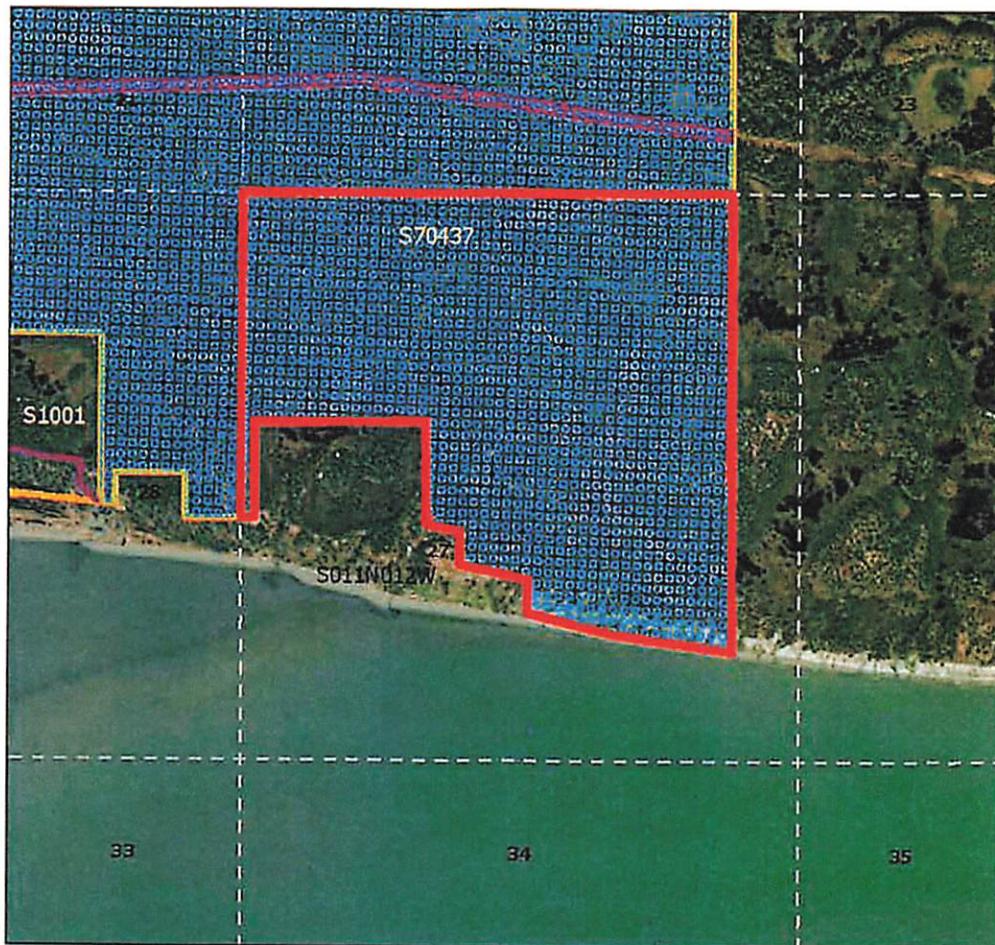
for Jusdi Warner
Executive Director
Alaska Mental Health Trust Land Office

3/9/2026

Date

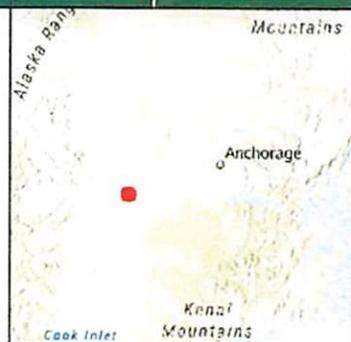
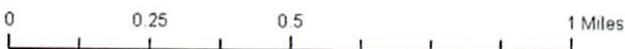
Attachment A: Area Map

Attachment A Area Map



MHT 9300103

- MHT 9300103
- Easement Area
- Land Lease
- Mental Health Parcel
- PLSS Township
- PLSS Section



Alaska Mental Health Trust Authority
Trust Land Office
Notice under 11 AAC 99.050 of
Decision to Issue a Negotiated Oil & Gas Lease – Tyonek
MHT 9300103

Notice is hereby given that, pursuant to the provisions of AS 38.05.801 and 11 AAC 99, the Executive Director of the Alaska Mental Health Trust Land Office (TLO) has determined that it is in the best interest of the Alaska Mental Health Trust and its beneficiaries to complete a **Lease, Non-Competitive** Oil & Gas (477) of certain Trust land to the Hilcorp Alaska, LLC. The basis for this determination is explained in a written best interest decision prepared by the Executive Director pursuant to 11 AAC 99.040.

The Trust land affected by the decision is near Tyonek and is more particularly described as located within a portion of Section 27 of Township 11 North, 12 West, Seward Meridian, containing 344.0 more or less. (MH Parcel S70437).

Persons who believe that the written decision should be altered because it is not in the best interest of the Trust or its beneficiaries, or because the decision is inconsistent with Trust management principles set out in 11 AAC 99.020, or any other provision of 11 AAC 99, must provide written comments on or before **4:30 PM, April 13, 2026**. Comments should be submitted to the TLO at **2600 Cordova Street, Suite 201, Anchorage, AK 99503**, or by fax (907) 269-8905 or email mhtlo@alaska.gov. Following the comment deadline, the Executive Director will consider timely comments that question the decision on the basis of the best interest of the Alaska Mental Health Trust and its beneficiaries or inconsistency with 11 AAC 99, and the best interest decision may be changed in response to such written comments or other information. Commenting parties will be provided a copy of the final best interest decision after the end of the notice period.

To be eligible to file for reconsideration of the best interest decision, or to file a subsequent appeal to the Superior Court, a person must have submitted written comments during the notice period. Eligible persons will have twenty (20) calendar days after published notice of or receipt of the final written decision to request that the Executive Director reconsider the decision under 11 AAC 99.060(b).

Copies of the written decision are available at the Trust Land Office, or at <https://alaskamentalhealthtrust.org/trust-land-office/>. If you have any questions concerning this action, please contact the Trust Land Office at (907) 269-8658.

In compliance with the Americans with Disabilities Act, the Alaska Mental Health Trust is prepared to accommodate individuals with disabilities. Please contact the Trust Land Office at (907) 269-8658 for assistance. Requests for assistance must be received at least 96 hours prior to the comment deadline in order to ensure that any necessary accommodations can be provided.

The Executive Director of the TLO reserves the right to waive technical defects in this notice or to amend, postpone, or vacate the best interest decision.

DocuSigned by:
Jeffrey Green

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Jusdi Warner
Executive Director

3/10/2026

Date

Published Kenai Peninsula Clarion: 3/13/2026