

The Alaska Mental Health Trust Authority Trust Land Office

BEST INTEREST DECISION Doyon, Limited Negotiated Oil and Gas Lease

MHT 9300097
MH Parcel(s) **Multiple** Parcels

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. To negotiate a lease for approximately 9,500 acres of unencumbered Trust subsurface estate for oil and gas exploration and development. The area of interest consists of parcels owned by the Trust that are located in the Nenana area west of the Parks Highway.

II. Applicant/File #. Doyon, Limited. The application is serialized as MHT 9300097.

III. Subject Property.

A. Legal Description. Various trust parcels within all or portions of sections 4-9, 17-21, and 28-32 of Township 4 South, Range 8 West, Fairbanks Meridian, Alaska, consisting of 9,468 acres more or less, as depicted on Exhibit A and described in Exhibit B.

B. Settlement Parcel Number(s). Multiple Parcels.

C. Site Characteristics/Primary Resource Values. The Subject Lands are located about 55 miles south of Fairbanks, in an undeveloped and relatively inaccessible area west of the Parks Highway and west of the city of Nenana. The area is primarily rolling hills and lowlands covered by a mixed spruce/birch forest.

Timber sales have occurred in the past in the vicinity, primarily on native owned land located on the river islands in the area but also on public land further north within the Tanana State Forest. Public land has also been sold in the more accessible areas for both agricultural and recreational purposes. The Trust owns the fee estate in the Subject Lands. At this point, the resource values of interest to the Trust are oil and gas. Exploration of this land for oil and gas exploration would not preclude other uses of Trust land in the future. The area is considered to have reasonably good prospects primarily for gas development.

- D. Historical and Existing Uses of the Property.** Hunting, fishing, and trapping for sport and subsistence uses occur in the area around Nenana. Other recreational activities such as snowmobiling, cross-country skiing, and boating on the area rivers undoubtedly occur as well. The Nenana Basin is relatively underexplored in terms of oil and gas resources. Historically, two shallow wells have been drilled in the basin, one in the 60's and another in 1984. More recently, Doyon has actively explored the area, completing seismic programs and drilling two wells, one of which was on this same lease tract before a previous lease expired. Doyon continues to explore the area and is planning another exploratory well in the summer of 2016 on an adjacent state lease.
- E. Adjacent Land Use Trends.** The Subject Lands proposed for lease have, as previously mentioned, been leased to Doyon in the past, but that lease expired in 2013. Doyon previously held an oil and gas exploration license for a large block of state land in the vicinity, and that license has recently been converted into a number of state oil and gas leases. Doyon also owns corporate land in the area as a result of the Alaska Native Claims Settlement Act. Therefore, a significant portion of the adjacent land, both public and private, in the vicinity of the land covered by this decision, have been or will be the focus of some type of oil and gas leasing, exploration, or development effort since Doyon has secured a large contiguous tract of the available land in this area for this purpose.
- F. Previous State Plans/Classifications.** None.
- G. Existing Plans Affecting the Subject Parcel.** The land being offered for lease are not within the boundaries of an incorporated borough but are between the Fairbanks North Star Borough, which is to the east, and the Denali Borough, which is south of the subject land. This land is within the Tanana Basin Area Plan, which allows for the leasing of land for oil and gas exploration and development.
- H. Apparent Highest and Best Use.** As the interest being offered is limited to the oil and gas estate associated with the subject land, the highest and best use of this land is oil and gas exploration, with the hope of subsequent development and production.

- IV. Proposal Background.** Doyon has assembled acreage on a basin wide scale to explore for and hopefully develop oil and gas resources in the Nenana area. Doyon effectively controls the area of interest, with state leases and private land ownership. Doyon has proposed to lease unencumbered trust land in the area on a negotiated basis. Given Doyon's land interest in the area, and its past history of exploration here, it is unlikely that another credible oil and gas company would bid on the trust acreage if it was offered

competitively. With the trust lease in place, Doyon will likely proceed with additional exploration programs to target the best location to drill additional exploration wells.

V. Terms and Conditions.

A. Lease Term: Primary lease term of ten years.

B. Bonus Bid: N/A

C. Annual Rent: \$3/acre for lease years 1-3; \$4/acre for years 4 and 5; and \$5/acre for years 6+.

D. Production Royalty: 12 1/2%

VI. Resource Management Considerations. The proposal is consistent with the “Resources Management Strategy for Trust Lands” (“Strategy”), which was developed in consultation with The Trust and provides for the TLO to “focus first on land or resources at the high end of their market values (“best markets”)”. Given the high energy costs that exist in the Fairbanks area and interior parts of Alaska, which are the projected markets for any gas produced from this area, the oil and gas resources affected by this decision are “best market” resources that should be offered now rather than later. Additionally, the action is a required “first step” towards generating potentially significant revenues from Trust oil and gas resources, consistent with a key trust land management principle of encouraging a diversity of revenue generating uses of Trust land. Finally, since the Trust acreage in this area is limited and on the fringe of what is thought to be more prospective acreage in the Nenana Basin, this leasing opportunity is viewed as the best chance to get Trust acreage in this area explored for potential petroleum resources, in conjunction with the acreage the applicant has already assembled and is committed to explore in this area.

VII. Alternatives. 1. Offer the tract competitively, which is not warranted given the applicant’s experience and land position in the area; 2) do not offer the land for oil and gas leasing.

VIII. Risk Management Considerations.

A. Performance Risks. Performance risks will be minimized by aggressive enforcement of the terms and conditions of the lease document, 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 local, state, and federal environmental protection laws that are applicable. Lease stipulations require compliance with all applicable regulatory requirements. The lessee will be adequately bonded and insured.

C. Public Concerns. Historically, concern has been expressed about the impact of leasing activities on public resources, such as fish and wildlife resources. Environmental laws and regulations have been promulgated over time to address these concerns. As noted above, the TLO lease will require full compliance with those laws and regulations. Furthermore, withholding Trust lands from leasing will not likely result in Doyon stopping its intended exploration and development on adjacent lands. Therefore, it would not be prudent for the TLO to withhold

Trust lands from leasing due to those types of public concerns when exploration of adjacent lands will occur whether or not Trust lands are leased.

IX. Due Diligence.

- A. Site Inspection.** TLO personnel have visited the proposed lease area in the past when the land was previously leased.
- B. Valuation.** Lease terms are similar to the lease terms of other leases the applicant has acquired in the area.
- C. Terms and Conditions Review.** The TLO contracted with a private law firm and collaborated with other public and private land managers to develop lease terms and a lease form that best serve the interests of the Trust.

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 negotiated lease 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 August 4, 2015. The Committee recommended that the proposed transaction be forwarded to the Alaska Mental Health Trust Board of Trustees. The Board of Trustees was consulted on August 26, 2015, and the Board of Trustees concurred with the issuance of the proposed lease subject to the outcome of the notice process.
- 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.
- 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 will 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). 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 100, 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: www.mhtrustland.org.

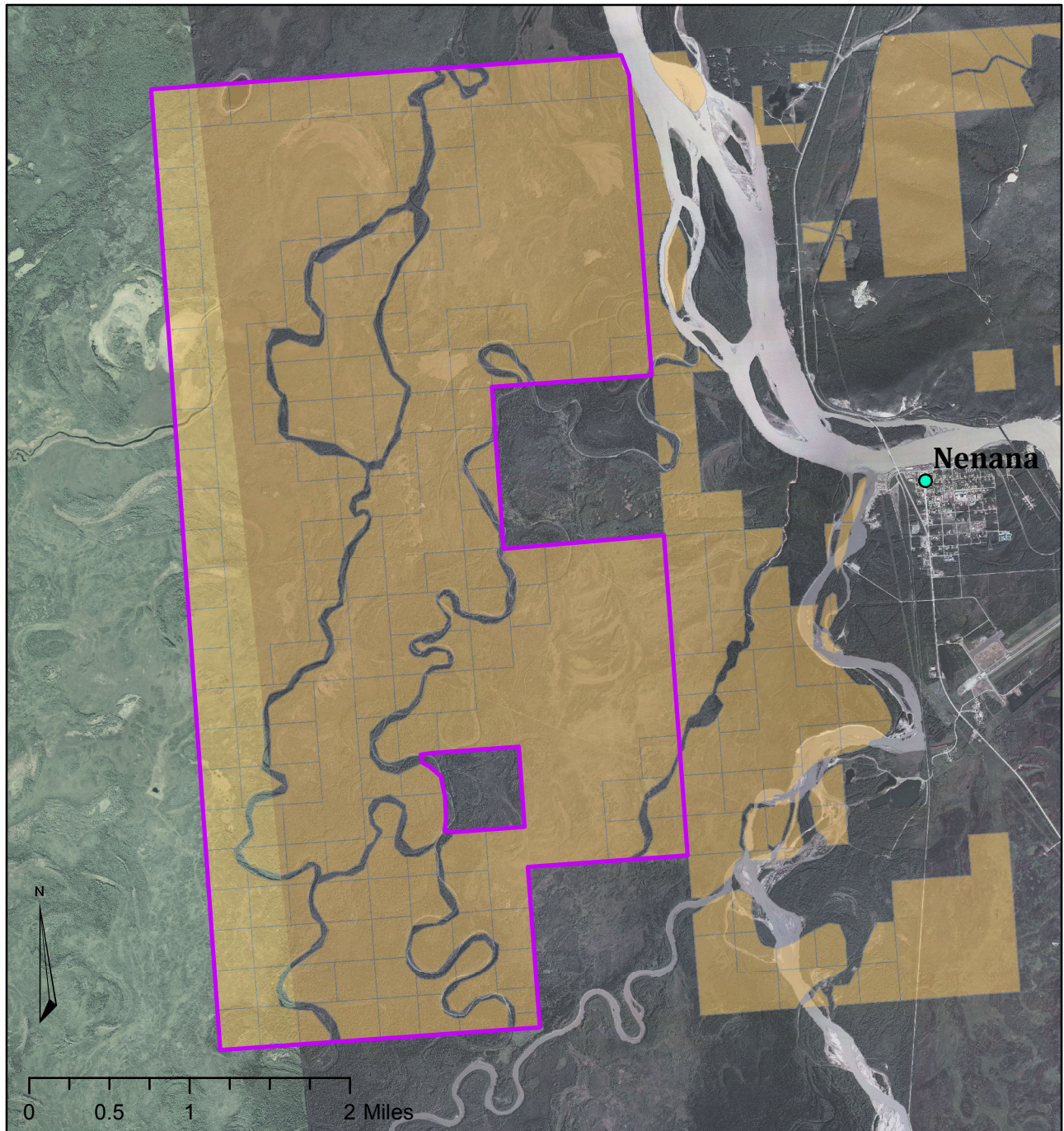
XVI. APPROVED:



John Morrison
Acting Executive Director
Alaska Mental Health Trust Land Office

8-27-15

Date



Doyon Limited Oil & Gas Lease MHT 9300097



-  MHT 9300097 Lease Boundary
-  Mental Health Trust Land



Exhibit B
MHT 9300097

Township 4 South, Range 8 West, Fairbanks Meridian, Alaska

Section 4: Lots 1-4, S1/2N1/2, S1/2 (630.55 acres);
Section 5: Lots 1-13, S1/2NW1/4, N1/2SW1/4 (578.83 acres);
Section 6: Lots 1-7, S1/2NE1/4, SE1/4NW1/4, E1/2SW1/4, SE1/4 (632.83 acres);
Section 7: Lots 1-11, W1/2NE1/4, E1/2NW1/4, E1/2SW1/4 (595.15 acres);
Section 8: Lots 1-13, NE1/4NE1/4, S1/2NE1/4, SW1/4SW1/4, NW1/4SE1/4 (602.23 acres);
Section 9: Lots 1-5, N1/2, NE1/4SW1/4, N1/2SE1/4, SW1/4SE1/4 (618.35 acres);
Section 17: Lots 1-15, SW1/4NE1/4, SE1/4SW1/4, W1/2SE1/4 (581.84 acres);
Section 18: Lots 1-8, SW1/4NE1/4, E1/2NW1/4, E1/2SW1/4, N1/2SE1/4, SW1/4SE1/4 (622.46 acres);
Section 19: Lots 1-11, W1/2NE1/4, E1/2NW1/4, NE1/4SW1/4, SE1/4SE1/4 (608.12 acres);
Section 20: Lots 1-13, NE1/4NW1/4, SW1/4NW1/4, NW1/4SW1/4, SE1/4SE1/4 (591.17 acres);
Section 21: Lots 1-3, E1/2, E1/2NW1/4, SW1/4 (631.86 acres);
Section 28: Lots 1-5, N1/2NE1/4, SW1/4NE1/4, W1/2 (616.63 acres);
Section 29: Lots 1-5, Lots 8-13, N1/2NE1/4, SE1/4SE1/4 (415.43 acres);
Section 30: Lots 1-14, E1/2NE1/4, N1/2SE1/4 (581.42 acres);
Section 31: Lots 1-13, NE1/4NW1/4, NE1/4SE1/4 (598.36 acres);
Section 32: Lots 1-13, Lot 15, NE1/4NE1/4, NW1/4NW1/4, SW1/4SW1/4 (562.56 acres)

This lease contains 9,467.79 acres, more or less, according to the survey plat accepted by the United States Surveyor General's Office on March 20, 1918 and the supplemental plat of Section 32 filed with the United States Department of the Interior, Bureau of Land Management on March 17, 1992.