

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

MHT: 9300101
MH Parcel(s): S50100, S50101,
S50102, S50103,
S50135, S50136,
S50137, S50138.

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 286.82 acres of unencumbered Trust Hydrocarbon estate on eight separate parcels for the exploration and development of oil and gas. This land would add to a land package consisting of State-owned hydrocarbon that was awarded to Hilcorp in a 2024 competitive leasing process.
- II. Applicant/File #.** Hilcorp Alaska, LLC / MHT 9300101
- III. Subject Property.**
- A. Legal Description.** Eight Trust parcels within portions of Sections 1-2 of Township 5 North, Range 10 West, Seward Meridian, containing 286.82 acres more or less, as depicted on Exhibit A and described in Exhibit B.
 - B. Settlement Parcel Number(s).** S50100, S50101, S50102, S50103, S50135, S50136, S50137, S50138.

- C. Site Characteristics/Primary Resource Values.** The subject lands are in a relatively undeveloped area north of Soldotna, approximately 1.5 – 2.0 miles east of the Kenai Spur Highway.
- D. Historical and Existing Uses of the Property.** The subject lands owned by the Trust are undeveloped hydrocarbon estate parcels, the surface uses of these lands are primarily privately owned, residential lots with developed houses. The Trust hydrocarbon parcels in question have not been a part of exploration efforts previously.
- E. Adjacent Land Use Trends.** Adjacent subsurface land is included in Hilcorp’s land package that was awarded by DNR’s Division of Oil & Gas leasing process. Adjacent surface land use consists primarily of residential lots/infrastructure, which Hilcorp will be required to resolve any surface use and/or damages, if any, in accordance with provisions of the law.
- F. Previous State Plans/Classifications.** None.
- G. Existing Plans Affecting the Subject Parcel.** The Kenai Peninsula Borough is divided into two base zoning districts: Municipal District, and the Rural District. And unless there is an added overlay district, such as the Habitat Protection District or Floodplain District, the Borough doesn’t generally restrict land use activities.
- H. Apparent Highest and Best Use.** As the interest being offered is limited in ownership to the Hydrocarbon estate, the highest and best use of this land will only ever be oil and gas exploration, with the anticipation of subsequent development and production.

- IV. Proposal Background.** Hilcorp was awarded as the apparent high bidder of the 2024 Cook Inlet competitive lease sale hosted by the Alaska Department of Natural Resources, Division of Oil & Gas for approximately 1,880 acres of adjacent hydrocarbon estate for the exploration and development of oil and gas resources. Hilcorp proposes to include approximately 280 acres, more or less, of Trust land in those efforts.

Given Hilcorp’s land interest in the area, the results of recent State competitive lease sale, and Hilcorp’s prior experience in the region, it is unlikely that another credible oil and gas company would bid on the Trust acreage if it was offered competitively. If the lease is issued to Hilcorp, pending the outcome of the required two step decision process, exploration and development efforts are anticipated to start in 2025.

- 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 per acre; Year 3 - \$12.00 per acre; Year 4 - \$13.00 per acre; Year 5 - \$14.00 per acre
 - C. Production Royalty:** 12.5%
 - D. Surface Use Conflicts/Damages.** Hilcorp will be required to resolve surface use conflicts and damages, if any, in accordance with the provisions of law applicable to private subsurface estate owners.

E. Environmental Laws 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 as Hilcorp is significantly lower as shown by the 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 adjacent land package.

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 9, 2025. The Committee recommended that the proposed transaction be forwarded to the Alaska Mental Health Trust board of trustees. On February 5th, 2025, the board of trustees adopted the motion stating: "*The Alaska Mental Health Trust Authority board of trustees concur with the negotiated lease of Trust land,*

parcels S50100, S50101, S50102, S50103, S50135, S50136, S50137, & S50138 near Soldotna to 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. Given Hilcorp's assembled land package adjacent to the Trust hydrocarbon parcels in question, in addition to the results of the 2024 Cook Inlet Competitive Lease process hosted by the DNR Division of Oil & Gas in which Hilcorp was the sole bidder, it is held that there may not be a more opportune time to get an experienced developer to include these lands in exploration efforts as the bulk acreage surrounding the parcels effected by this decision will be encumbered/developed. Without a larger land package to spread the cost of exploration and development across, there is a significant risk of the economics never aligning for the parcels in question to be considered for exploration and development.

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 as a 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 are 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:

Signed by:
Jusdi Warner

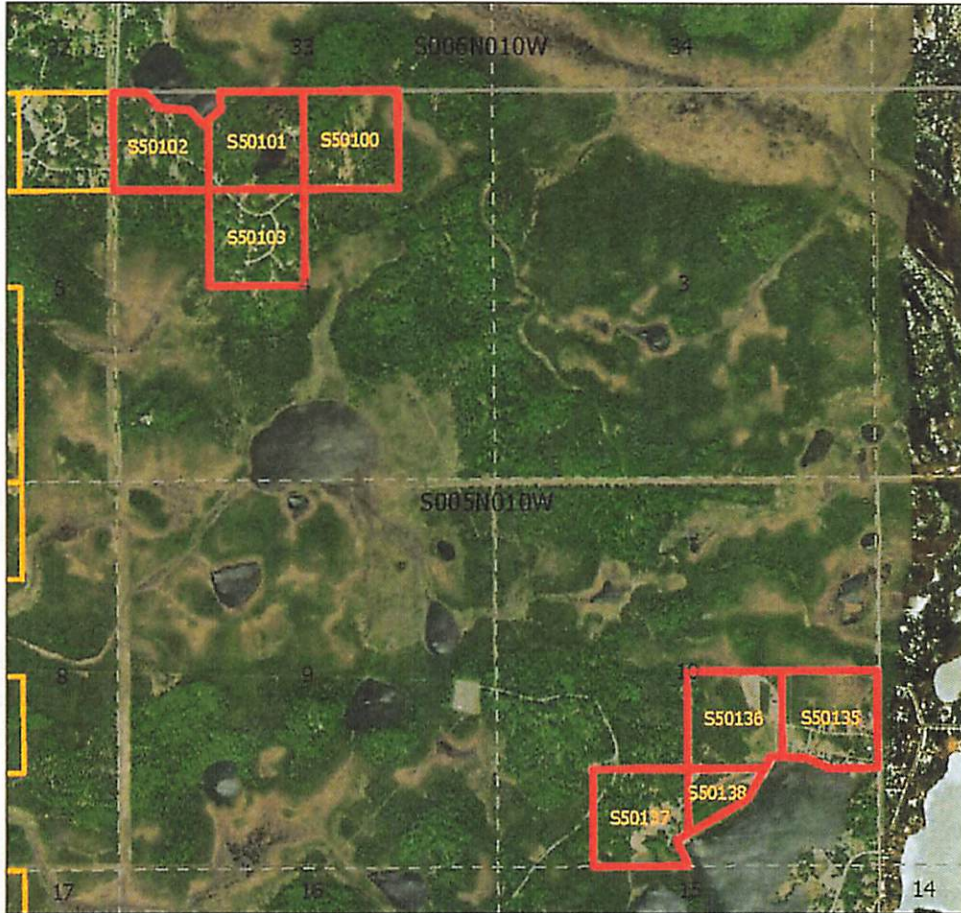
Jusdi Warner
Executive Director
Alaska Mental Health Trust Land Office

2/20/2025

Date

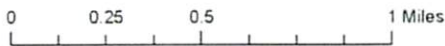
Attachments:
Exhibit A – Area Map
Exhibit B – Legal Description

Exhibit A
Area Map



MHT 9300101

- MHT 9300101
- Mental Health Parcel
- PLSS Township
- PLSS Section



Best Interest Decision
MHT 9300101
MH Parcel(s) S50100, S50101, S50102, S50103,
S50135, S50136, S50137, S50138

Exhibit B Legal Description

MH Parcel S50100

T. 005 N., R. 010 W., Seward Meridian, Alaska. Section 4: Lot 2; containing 40.00 acres, more or less. According to the survey plat accepted by the United States Department of the Interior, General Land Office in Washington, D.C. on June 24, 1943.

MH Parcel S50101

T. 005 N., R. 010 W., Seward Meridian, Alaska Section 4: Lot 3; containing 38.92 acres, more or less. According to the survey plat accepted by the United States Department of the Interior, General Land Office in Washington, D.C. on June 24, 1943.

MH Parcel S50102

T. 005 N., R. 010 W., Seward Meridian, Alaska Section 4: Lot 4; containing 35.03 acres, more or less. According to the survey plat accepted by the United States Department of the Interior, General Land Office in Washington, D.C. on June 24, 1943.

MH Parcel S50103

T. 005 N., R. 010 W., Seward Meridian, Alaska Section 4: SE1/4NW1/4; containing 40.00 acres, more or less. According to the survey plat accepted by the United States Department of the Interior, General Land Office in Washington, D.C. on June 24, 1943.

MH Parcel S50135

T. 005 N., R. 010 W., Seward Meridian, Alaska Section 10: Lot 1; containing 38.65 acres, more or less. According to the survey plat accepted by the United States Department of the Interior, General Land Office in Washington, D.C. on June 24, 1943.

MH Parcel S50136

T. 005 N., R. 010 W., Seward Meridian, Alaska Section 10: Lot 2; containing 39.60 acres, more or less. According to the survey plat accepted by the United States Department of the Interior, General Land Office in Washington, D.C. on June 24, 1943.

MH Parcel S50137

T. 005 N., R. 010 W., Seward Meridian, Alaska Section 10: Lot 3; containing 39.60 acres, more or less. According to the survey plat accepted by the United States Department of the Interior, General Land Office in Washington, D.C. on June 24, 1943.

MH Parcel S50138

T. 005 N., R. 010 W., Seward Meridian, Alaska Section 10: Lot 4; containing 15.02 acres, more or less. According to the survey plat accepted by the United States Department of the Interior, General Land Office in Washington, D.C. on June 24, 1943.

Aggregating to 286.82 total acres, more or less, of Trust land.

Best Interest Decision

MHT 9300101

MH Parcel(s) S50100, S50101, S50102, S50103,
S50135, S50136, S50137, S50138

Page 8 of 8

Alaska Mental Health Trust Authority
Trust Land Office
Notice under 11 AAC 99.050 of
Decision to Issue a Negotiated Oil & Gas Lease – Soldotna
MHT 9300101

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 Soldotna, and is more particularly described as being located within Sections 4 & 10, Township 5 North, Range 10 West, Seward Meridian, containing approximately 286.82 acres (MH Parcel(s) S50100, S50101, S50102, S50103, S50135, S50136, S50137, S50138).

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, March 31, 2025. 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.

Signed by:
Jusdi Warner

Jusdi Warner
Executive Director

2/25/2025

Date

Published Kenai Peninsula Clarion: 02/28/2025