

SCOMM

#21:34

Sen. Rader

1

PROPOSED
EXCESS ROYALTY RESIDUE GAS
SALES AGREEMENT

AGO 668346

Dois D. Dallas
705 A Tanana Drive
University of Alaska
Fairbanks, Alaska 99701

January 26, 1977

Representative Clark Gruening
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

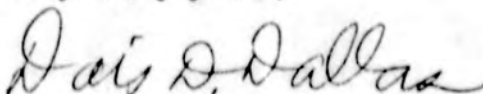
Dear Representative Gruening:

It was most gratifying to hear you discuss the royalty gas question on T.V. last night. The contract as now written is certainly open to criticism by our sister 48 states. You pointed out that this could embarrass us and we readily agree.

We have prepared a revised contract (a copy of which is enclosed) which accomplishes what you have suggested. Under this revision, the state would sell to these companies only the excess residue gas (methane) from a gas processing plant. The state would retain title to the valuable liquid products and sell them separately, but not at the low FPC regulated price for methane.

We are looking forward to meeting you at the hearings in Juneau next week.

Very truly yours,



Dois D. Dallas

xc: Senator John Rader ✓
Representative Carpenter
R. H. Dempsey
Enclosure

PROPOSED
EXCESS ROYALTY RESIDUE GAS SALES AGREEMENT

January 9, 1977

DOIS D. DALLAS

R. H. (BOB) DEMPSEY

705A TANANA DRIVE
FAIRBANKS, ALASKA 99701

January 5, 1977

Representative Larry Carpenter
403 Lignite
Fairbanks, Alaska 99701

Dear Representative Carpenter:

We have had an opportunity to study the material you forwarded to us on December 8, 1976. This material included the proposed Royalty Gas Sales Agreement, Commissioner Martin's statement to the Royalty Board, and other miscellaneous items relative to the sale of Alaska's share of the Prudhoe gas.

We have prepared and are enclosing what we believe to be essential revisions to this contract. It is inconceivable that officials supposedly would present to the legislature a proposed gas sales agreement which does not specifically "exclude" at least enough methane and propane to satisfy the needs of the residential and commercial users in Fairbanks and the North Star Borough where roughly 20% of the population of the State of Alaska resides. Further, it is also inconceivable that they would present a proposal which would allow the ethane, propane, butane and pentanes plus to be sold at the same price per BTU as methane. In the words of one petrochemical company representative, these products (ethane and propane) are "real gems". Hopefully, you will be instrumental in getting the legislature to make the revisions we have recommended.

It would appear that the State has made no positive plans to solicit bids for a petrochemical complex in the Fairbanks area. Under our recommendation this would become mandatory.

It should also be pointed out that under our proposal the State's royalty gas would still be delivered to the Fairbanks area even if the arctic route is eventually selected by the Federal Government. A study we have made indicates that the Fairbanks proposal is feasible.

We fully realize that our proposal constitutes a major revision in the State's Royalty Gas Sales Agreement and the three gas transmission companies favored in this agreement may no longer be interested if the contract is revised according to our recommendation. If so, other companies will be interested and the dollar loss to the State of Alaska by not revising the contracts advanced to the Royalty Board on November 22, 1976 by the Commissioner of Natural Resources will approach one (1) billion dollars.

We will be more than happy to assist you or other members of the legislature in any way possible as you give further consideration to this question.

Very truly yours,

Dois D. Dallas
Dois D. Dallas

Robert H. Dempsey
Robert H. Dempsey

AGO 668349

STATEMENT

The State of Alaska has entered into an agreement to sell its Royalty Gas from the Prudhoe Bay field. The stated purpose of this agreement was to gain support for the All-Alaska (El Paso) route.

There is no intent in our work to criticize the State's motives, only the methods used. Quite frankly we believe a brief, uncomplicated and well thought out political document could have accomplished the State's end. One which would have set levels of performance for prospective buyers in the political arena, and reward their efforts if successful with a first option to negotiate for our Royalty Gas.

The State, however, chose to use a contract to achieve these ends and in doing so, we believe has come up short. We have, using the same format, modified and inserted what we believe to be necessary safeguards for the State in dealing with the sale of Royalty Gas.

ABSTRACT - IMPORTANT REVISIONS CONTAINED IN "PROPOSED EXCESS
ROYALTY RESIDUE GAS" SALES AGREEMENT

	<u>CHANGE</u>	<u>EXPLANATION</u>
GENERAL		
(1)	"Gas" to "Residue Gas"	This makes it mandatory now (not at some future possible time) to remove the valuable liquids and LPG (Propane, Butane, and Pentanes, plus)
(2)	"Royalty Gas" to "Excess Royalty Residue Gas"	This change accomplishes two essential factors: 1. Sells only excess residue gas not needed for petrochemical production in Alaska. 2. The valuable liquids and ethane will not be sold at the low controlled price for methane.
New Definitions	ADD: "Residue Gas" "Excess Royalty Residue Gas" "Acid Gas"	These definitions are needed to clearly establish what is being sold.
SPECIFIC		
(1)	Paragraph 1.2, 1.3	These two sections emphasize that nothing in this agreement will adversely affect the intrastate use or sale of the liquefiable hydrocarbons or export of same.
(2)	Section 3.1	Introduces a gasoline plant.
(3)	Section 3.4	Changes 24 months to 12 months the time the state has to wait to change volumes of residue gas it wants to use in Alaska.

- (4) Section 3.5 adds petrochemical to in state use and deletes "reserved gas". Also Section 7.1, General Terms and Conditions.
- Since under this revised contract the state sells only its excess royalty residue gas there is no need to include "reserved gas".
- (5) This change deletes Sections 3.7 (a) and (d)
- There is no reason for the state to commit "yet undiscovered gas reserves" to these or any other "bonafide interstate purchasers".
- (6) This change deletes Sections 3.10 and 3.11
- There appears to be something hidden in this Section 3.10. The FPC will control what is "reasonable" in this area. Section 3.11 concerns reserved gas which is now deleted.
- (7) Delete a portion of Section 4.2
- If Buyer is required to accept the State's gas where the state receives it then there is no reason to include any other consideration for "reserved" gas which is now deleted.
- (8) Section 4.4 located the gasoline plant near Fairbanks
- If a gasoline plant is located near Fairbanks and all the liquids are removed leaving only methane and a small amount of ethane then it follows that a petrochemical complex will of necessity be constructed in the general area and further that some of the residue gas may also be needed for the manufacture of petrochemicals.
- (9) Section 5.1 ties the heating content to 1000 Btu (equivalent) exclusive of "acid gas".
- Specifying the quality to the "raw gas" specifications for the working interest owners is (or could be) detrimental to Alaska.

- (10) Section 6.2 deals with price as set by the FPC
- This change adds a statement about arm's length agreement which protects the State of Alaska from the possibility of sister company type agreements.
- (11) Article IX concerns the state's reservation
- Since under this contract revision the state will be selling only its excess residue gas there is no reason to talk about "reservation".
- (12) Adds to section 10.1 (old section 11.1) a statement about a separate line if the governments selection does not bring the gas to at least Fairbanks
- This change gives the buyer the option of building a separate line to Fairbanks if the arctic route is selected but if it does not want to build the separate line then the contract is terminated and the state is free to contract with anyone else to build a separate line to Fairbanks.

P R O P O S E D

EXCESS ROYALTY RESIDUE GAS SALES AGREEMENT

THIS AGREEMENT, made and entered into as of this _____ day
of _____, 197 , by and between the Commissioner of Natural
Resources of the STATE OF ALASKA, acting pursuant to AS 38.05.183(d), hereinafter
referred to as "Seller", and Tenneco Alaska, Inc., an Alaskan 1/ corporation,
hereinafter referred to as "Buyer";

WITNESSETH:

WHEREAS, Seller hereby represents to Buyer that Seller has the right
under each of the leases identified in Exhibit A to this Agreement to be paid
by the lessee thereunder a royalty of twelve and one-half percent (12.5%),
unless otherwise stated in Exhibit A, in-kind (amount) or in value of the
natural gas produced and saved and sold or used off of the lands covered
by each such lease; and

WHEREAS, Seller hereby represents to Buyer that under each of the leases
identified in Exhibit A to this Agreement Seller has reserved the right to
elect to take either in-kind (amount) or in value its royalty gas; and

WHEREAS, Seller represents to Buyer that Seller is authorized by
AS 38.05.183(d) to sell royalty gas surplus to the intrastate domestic and
industrial needs of the State of Alaska; and

WHEREAS, Buyer represents to Seller that it is or will be a natural gas company subject to the jurisdiction of the Federal Power Commission and desires to purchase residue gas from Seller so as to increase the supply of residue gas available to its customers or its affiliated pipeline companies in the contiguous 48 states; and

WHEREAS, Seller desires to sell excess royalty residue gas to Buyer and Buyer desires to purchase excess royalty residue gas from Seller under the terms and upon the conditions hereinafter set forth; and

WHEREAS, Buyer and Seller each desire certification and construction of a trans and/or interior Alaska gas pipeline system for movement of natural gas from Prudhoe Bay, Alaska to the contiguous 48 states;

NOW, THEREFORE, in consideration of the representations, covenants, and conditions herein contained, Seller and Buyer hereby agree as follows:

ARTICLE I

SUPPORT FOR TRANS AND/OR INTERIOR ALASKA PIPELINE

1.1 In consideration of the obligations assumed by each, herein, Buyer and Seller agree to actively support and seek before the Federal Power Commission, and any and all other involved federal, state and local authorities, representatives and individuals, the ultimate selection and implementation of a trans and/or interior Alaska gas pipeline system. "Pipeline" shall mean a large diameter gas pipeline (including expansion thereof) commencing at Prudhoe Bay, crossing Alaska in

approximately the same route as the present Trans-Alaska Oil Pipeline, with gasoline plant access at a point no closer than ten miles or more than 25 miles from Fairbanks, Alaska. From Fairbanks, Alaska, the pipeline route will be as designated by the Federal Power Commission unless the arctic route is selected by the Federal Power Commission, in which case Section 10-1 will apply.

1.2 Buyer and Seller, given the considerations as set forth in Article I, Section 1.1, agree that no article, provision, or section of this agreement shall in any way adversely affect the use, sale, or disposal of liquefiable hydrocarbons and non-excess gas as may be necessary for intrastate domestic, commercial, or industrial use of said liquids and gas.

1.3 Both parties further agree that no article, provision, or section of this agreement shall adversely affect the use, sale, disposal or export of any products resulting from the processing of or manufacturing from said liquefiable hydrocarbons or gas.

new paragraphs

ARTICLE II

SELLER'S ROYALTY GAS

2.1 Seller warrants that under the leases identified in Exhibit A of this Agreement, Seller has the right to take its royalty natural gas in-kind which amount it represents is twelve and one-half percent (12.5%), unless otherwise stated in Exhibit A, and agrees that it will exercise this right at the time sufficient to deliver gas to Buyer on the date the pipeline is ready to receive

gas. If the laws, rules or regulations of the United States of America, or any agency thereof, prevent Seller from exercising its right to take its royalty gas in-kind, this Agreement shall be void.

2.2 In addition to the price as provided in Article VI hereof, Buyer shall reimburse Seller for Buyer's pro rata share of any costs attributable to the preparation and transportation of gas to be delivered hereunder which costs Seller may incur as a result of Seller's election to take its royalty gas in-kind and which costs would not have been incurred by Seller if Seller had not elected to take its royalty gas in-kind. Seller shall use its best efforts to minimize any costs incurred by Seller by reason of Seller's taking royalty gas in-kind, such best efforts shall include but not be limited to litigation in cooperation with Buyer to the extent necessary to contest the imposition of unwarranted and/or improper charges.

2.3 In the event Buyer is unable to obtain approval of the Federal Power Commission (or any successor governmental agency having jurisdiction in the premises) to include in Buyer's cost of service the costs Buyer is obligated to pay Seller under Section 2.2 herein, Buyer may terminate this Agreement six (6) months after receipt by Seller of written notice of Buyer's termination notice; provided, however, that any costs identified in Section 2.2 herein becoming due and payable by Seller prior to termination of this Agreement shall be reimbursed to Seller by Buyer regardless of approval of the Federal Power Commission to

include such costs in Buyer's cost of service.

ARTICLE III

QUANTITY

3.1 Subject to the terms and conditions set forth in this Agreement, Seller hereby agrees to sell and deliver or cause to be delivered to Buyer and Buyer hereby agrees to purchase and receive or cause to be received from Seller on each day commencing with the date of first delivery hereunder and continuing during the term of this Agreement, fifty percent (50%) 2/ of Seller's excess royalty residue gas available at Buyer's gasoline plant.

3.2 It is agreed that the base volume of residue gas to be sold by Seller and purchased by Buyer during the term of this Agreement

~~_____~~ *Delete* _____ may be less than but under no conditions shall it be in excess of one (1) trillion, three hundred (300) billion cubic feet. 3/

3.3(a) Commencing on the date of first delivery of excess royalty residue gas hereunder and continuing each day thereafter until the fifth (5th) anniversary date thereof, Seller shall have the right to reduce the quantity of excess royalty residue gas otherwise available for sale and delivery to Buyer under Section 3.1 above up to and including twenty-five percent (25%).

3.3(b) Commencing on the fifth (5th) anniversary date of first deliveries and

and continuing each day thereafter until the tenth (10th) anniversary date thereof, Seller shall have the right to reduce the quantity of excess royalty residue gas available for sale and delivery to Buyer as set forth in Section 3.1 by up to and including fifty percent (50%).

3.3(c) Commencing on the tenth (10th) anniversary date of first deliveries and continuing each day thereafter until the fifteenth (15th) anniversary date thereof, Seller shall have the right to reduce the quantity of excess royalty residue gas available for sale and delivery to Buyer as set forth in Section 3.1 by up to and including seventy-five percent (75%).

3.3(d) Commencing on the fifteenth (15th) anniversary date of first deliveries and continuing each day thereafter until termination of this Agreement, Seller shall have the right to reduce the quantity of excess royalty residue gas available for sale and delivery to Buyer as set forth in Section 3.1 by up to and including one hundred (100%) percent.

3.3(e) Reductions by Seller of the quantity of excess royalty residue gas as provided in this Section 3.3 shall not become effective prior to twelve months following Seller's written notice to Buyer thereof.

3.4 Buyer agrees that Seller shall have the right and power at any time during the term of this Agreement to change the percentages set forth in Subsections 3.3(a), 3.3(b), 3.3(c), and 3.3(d) above; provided, however, that no such change

or changes shall become effective prior to twelve (12) months following Seller's written notice to Buyer thereof.

3.5 The reservation of residue gas by Seller by way of its exercising its rights of gas reductions pursuant to Sections 3.3 and 3.4 hereof shall be for the sole purpose of Seller meeting the intrastate domestic, industrial, and petrochemical needs of the State of Alaska. ~~_____~~ *delete* _____

3.6 Seller agrees that reservations similar to those available to Seller under Sections 3.2, 3.3, 3.4 and 3.5 shall be made in any contract providing for the sale of Seller's excess royalty residue gas from the leases identified in Exhibit A under contract for sale outside of Alaska and that the changes, up or down, in the amount of residue gas reserved for use in Alaska, pursuant to this article shall be made ratably from all such contracts.

~~_____~~ *delete 3.7 A+B* _____

3.7 Buyer hereby acknowledges that at any time after the effective date of this Agreement and prior to the date of first deliveries hereunder, Seller shall have the right and power to initiate the taking of its excess royalty residue gas in-kind under the leases identified in Exhibit A hereto and to utilize, market or otherwise dispose of all or any portion of said excess royalty residue gas in any manner as Seller in its sole discretion, and at its sole expense, may determine; provided, however, that Seller agrees that any such arrangement shall not prevent Seller from making available for sale to Buyer on the date of first deliveries the quantity of residue gas committed to Buyer hereunder and not reserved by Seller pursuant to Sections 3.3 and 3.4.

3.8 Seller will provide Buyer at the beginning of each calendar year its best estimate of volumes under this Agreement which will be available during each calendar year of the next succeeding five (5) calendar years. This estimate shall not constitute the notices required by Subsection 3.3(e) and Section 3.4.

ARTICLE IV

DELIVERY POINT(S) AND DELIVERY PRESSURES
AND GASOLINE PLANT

4.1 Delivery of Seller's royalty gas shall be at the point(s) the working interest owners of the leases identified in Exhibit A make delivery of gas to their purchasers or at any other point mutually agreed upon by the parties hereto.

4.2 Should Seller be required to take delivery of its royalty gas from the working interest owners of the leases described in Exhibit A at a point upstream from the delivery point as determined in Section 4.1 after exerting its best efforts to receive such gas at the delivery point as determined in Section 4.1, Buyer shall accept delivery at the point Seller receives its royalty gas.

Delete

4.3 Residue gas sold and delivered by Seller to Buyer hereunder shall be received by Buyer at the delivery point at the same pressure as the pressure the working interest owners deliver their residue gas to their purchasers, or at the pressure Seller receives its gas from the working interest owners if delivery is made under Section 4.2 hereof.

4.4 Buyer will construct and operate a gasoline plant at a point not closer than ten miles or more than 25 miles from Fairbanks, Alaska. Such gasoline plant will be capable of processing at least .3 mmmcf of gas per day. All liquefiable hydrocarbons obtained by processing gas through the gasoline plant shall be placed in storage to be erected by buyer at the plant site and shall be of sufficient capacity to contain a ten day supply. Ownership of all liquefiable hydrocarbons shall remain with the seller, however nothing in this Agreement will prevent the buyer from bidding for the purchase of the liquefiable hydrocarbons and non-excess methane for use in intrastate, domestic, industrial, and/or a petrochemical industry in Alaska. Ownership of such methane as may be required in intrastate, domestic, industrial, and/or a petrochemical industry in Alaska will remain with the seller and shall be delivered to the Seller at the tail gate of the gasoline plant. Any excess royalty residue gas shall be sold to buyer(s) in accordance with section 6.1. Seller will allow buyer to deduct a processing and transportation charge of 13(?) ¢ per gallon for all liquefiable hydrocarbons removed and 46.2¢ per mcf for all non-excess residue gas retained by Seller, or if there is a net deficiency owed by the Buyer to the Seller then the Seller will remit to the Buyer the deficiency.

amend paragraph

ARTICLE V

QUALITY

5.1 The residue gas to be delivered by Seller to Buyer at the delivery point(s) hereunder shall have a heating content of not less than one thousand (1000) British Thermal Units per cubic foot excluding any acid gas remaining in the excess gas stream.

amend para

ARTICLE VI

PRICE

6.1 Buyer and Seller recognize that as of the date of this Agreement the price which Buyer may be allowed to pay and include in its jurisdictional resale rates has not been determined. In consideration thereof, the price which Buyer shall pay Seller for residue gas purchased hereunder shall be determined in accordance with Section 6.2 or Section 6.3 or Section 6.4 or Section 6.5 and shall be subject to the adjustment as provided by Section 6.6, however, the price paid Seller for residue gas which Buyer reflects in its rates to jurisdictional customers shall never be higher than the price Buyer is permitted to retain in its jurisdictional resale rates as long as such rates are subject to regulation by the Federal Power Commission (or any successor governmental authority having jurisdiction in the premises).

6.2 Seller represents that Seller is not a "Person" as defined in the Natural Gas Act and therefore not subject to the provisions of said Act. Buyer is a natural gas company subject to the regulations of said act. If at the time of first deliveries of gas hereunder the price of residue gas purchased hereunder is subject to the regulation of the Federal Power Commission (or any successor governmental authority having jurisdiction in the premises) because of the Commission's authority to regulate the rates at which Buyer resells such gas, then the initial price to be paid by Buyer to Seller hereunder shall be the highest area, national or ceiling rate allowed to be paid by any interstate gas purchaser to any working interest owner in the leases identified in Exhibit A under contracts

of at least fifty (50) billion cubic feet and providing for substantially the same quality and conditions of delivery as in this Agreement, providing, however, that Seller reserves the right to make an independent determination as to the arm's length validity of transactions between any interstate gas purchaser and any working interest owner in the leases identified in Exhibit A. If such transaction is not at arm's length then the price paid to Seller will be determined by arbitration. (See Section 7.1) The price to be paid thereafter shall be subject to all periodic changes permitted in accordance with the applicable and governing portions of the Rules and Regulations of the Federal Power Commission, (or any successor governmental authority having jurisdiction in the premises), or such other changes in price as may be permitted by any new area, national or ceiling rates applicable to the gas sold under the leases identified in Exhibit A, which may subsequently be established. Such price shall include all applicable adjustment provisions prescribed or permitted; provided, however, such price adjustment provisions which relate to charges for which Seller is reimbursed pursuant to Article II hereof shall be excluded. If Buyer is subsequently unable to obtain approval of any portion of such price in Buyer's cost of services and and required to refund that portion of such price to its customers, Seller shall refund such portion of the price to the Buyer, and at the sole option of the Seller this contract may then be terminated. In the event gas sold by a producer or producers from the leases identified in Exhibit A is permitted a price higher than the area, national or ceiling rates, under Federal Power Commission regulations related to Optional Pricing, Temporary or Emergency Sales, Commission Order Nos. 481 or 533, as amended, or to other similar regulations or orders, then the

price paid for Seller's excess royalty residue gas attributable to such production will be increased to that higher price, corrected only for Btu adjustments. In no instance shall the price paid Seller on a Btu basis be less than the price paid producers for their gas from the same reservoir for same or similar sales in interstate commerce.

6.3 If at the time of first deliveries of residue gas hereunder the price of gas sold from the leases identified in Exhibit A is not regulated by the Federal Power Commission (or any successor governmental authority having jurisdiction in the premises), then the initial price for residue gas delivered hereunder shall be the highest price being paid by any interstate gas purchaser for gas under contracts of at least fifty (50) billion cubic feet and providing for substantially the same quality and conditions (adjusted for Btu content only) of delivery as in this Agreement and produced from the leases identified in Exhibit A.

6.4 If the Federal Power Commission (or any successor governmental authority having jurisdiction in the premises) shall at any time after commencement of the first delivery cease (after commencing) to regulate the price applicable to natural gas of any vintage produced from the leases identified in Exhibit A and sold in interstate commerce, which deregulation would prevent the Federal Power Commission from excluding the price Buyer pays under this Agreement from its cost of service and would have applied to Seller had Seller been subject to governmental regulation, then upon notice of written election given

by Seller or Buyer to the other not later than sixty (60) days after the effective date of such deregulation, the price of residue gas sold by Seller to Buyer hereunder shall be redetermined in accordance with the provisions of Section 6.5.

The redetermined price shall be agreed to by the parties and become effective **within ninety** (90) days after the notice has been given as aforesaid, or if the parties shall fail to agree, the redetermined price shall be established by arbitration. The redetermined price shall remain in effect until later changed in accordance with the pricing provisions of this Agreement.

6.5 Seller or Buyer shall have the option to cause the price being paid for the residue gas sold hereunder to Buyer to be redetermined every twelve (12) months, such to be effective on the anniversary of such redetermination under Section 5.4 hereof. The request for a price redetermination shall be given in writing not later than one hundred twenty (120) days prior to the beginning of the period for which the price redetermination is requested.

Within the same one hundred twenty (120) days following such request for a price redetermination, the parties shall meet to redetermine such price. Such redetermination price shall be the higher of (1) the highest price being paid for residue gas sold in interstate commerce from the North Slope of Alaska set out in a contract selling at least fifty (50) billion cubic feet executed in the one (1) year period immediately preceding said notice and providing for substantially the same quality and conditions (adjusted for Btu content only) of delivery and having a term of at least five (5) years, or (2) the highest price being paid under a renegotiation or price redetermination clause of any contract for residue gas sold in interstate

commerce from the North Slope of Alaska selling at least fifty (50) billion cubic feet and providing for substantially the same quality and conditions (adjusted for Btu content only) of delivery and having a term of at least five (5) years. In the event there are no comparable contracts executed in the one (1) year period, or no contracts under which the price has been renegotiated or redetermined, the parties shall meet to agree upon a price. If the parties are unable to agree, the matter shall be submitted to arbitration as provided in Article VII.

It is agreed that the parties shall have the full one hundred twenty (120) days to reach voluntary agreement on the redetermined price. However, at any time after negotiations have been in process more than thirty (30) days but less than one hundred twenty (120) days, either party may request in writing that the matter be submitted to arbitration as provided in Article VII of this Agreement.

A redetermined price established by arbitration shall become effective as of the later of (1) the date the Board renders its decision, or (2) one hundred twenty (120) days after the giving of notice of the request for a price redetermination.

In no event shall the redetermined price be less than the price being paid to Seller by Buyer immediately preceding the initial redetermination.

6.6 If it is found upon tests that the residue gas being delivered hereunder shall have a gross heating value of more or less than one thousand (1000) British

thermal units per cubic foot, then the price payable for such residue gas shall be increased or reduced. Such increased or reduced price shall be determined by multiplying the price otherwise payable for such residue gas by a fraction the numerator of which is the actual gross heating value of the residue gas delivered, expressed in British thermal units per cubic foot, and the denominator of which is one thousand (1000).

ARTICLE VII

ARBITRATION

7.1 In the event either party shall request arbitration of any dispute arising under this Agreement, there shall be established a board of three (3) arbitrators to be selected as follows: either Seller or Buyer may, at the time such board of arbitration is desired, notify the other of the name of an arbitrator, and such other party shall, within ten (10) days thereafter, select an arbitrator and notify the party desiring arbitration of the name of such arbitrator. If such other party shall fail to name a second arbitrator within ten (10) days, then the party which first served the notice may, on three days (3) notice to the other party, apply to the person who is Chief Judge of the United States District Court for the District of Alaska for the appointment of such second arbitrator. The two (2) arbitrators chosen as above shall, within ten (10) days after the appointment of the second arbitrator, choose a third arbitrator, and in the event of their failure to do so within said ten (10) days, either of the parties hereto may in like manner, on three days (3) notice to the other party, apply to the person who is such Judge for the appointment of a third arbitrator and in such case the arbitrator appointed shall act as the the third arbitrator. The arbitrators selected hereunder shall be qualified by education and

experience to consider the question involved. The Board shall promptly fix a reasonable time and place for the hearing, at which time each of the parties hereto may submit such evidence as it may see fit. If within such thirty (30) days a decision is not rendered by the board, new arbitrators may be named, at the election of either Seller or Buyer, and shall act hereunder in like manner as if none had been previously named. The action of a majority of the members of the board shall govern and their decision in writing shall be final and binding on the parties hereto. Each party shall pay the compensation and expenses of its own counsel, witnesses and employees. All other costs of the arbitration shall be equally divided between Seller and Buyer.

ARTICLE VIII

TERM

8.1 This Agreement shall become effective upon the execution and approval as provided in Section 10.4 hereof and, shall continue and remain in force and effect for a period of twenty (20) years from the date of first deliveries or until the base volume of residue gas as set forth in Section 3.2 hereof has been delivered, whichever is earlier; provided that if, prior to the expiration of the term hereof, the volumes of residue gas available for delivery hereunder shall be so reduced by the decline in production that further production of residue gas for delivery hereunder would be no longer profitable for Seller or that further operation of the facilities used to transport such residue gas by or for the account of Buyer would no longer be profitable to Buyer, then the party for whom continued operation under this Agreement is no

longer profitable may give notice to the other, which notice shall give the reason for such non-profitability and on the two hundred tenth (210) day after the giving of such notice this Agreement shall terminate unless the parties before that time agree to extend the terms hereof prior to the end of that two hundred ten (210) day period.

ARTICLE IX *was article IX*

NOTICES

9.1 Notices to be given hereunder shall be deemed sufficiently given and served when and if deposited in the United States mail postage prepaid and certified or registered, addressed to the Seller at _____, or to the Buyer at _____, as the case may be, or to such other address as either party shall respectively hereafter designate in writing.

9.2 Routine communications, including monthly statements and payments shall be considered as duly delivered when mailed by either registered mail or ordinary first class mail, postage prepaid.

ARTICLE X *was article XI*

CONDITIONS PRECEDENT

10.1 if the ultimate pipeline route selected by the Government does not essentially parallel the present Alyeska Oil Pipeline route to

at least Fairbanks, Alaska, then Buyer may at its sole risk and expense elect to construct a separate pipeline of sufficient diameter to transport the Seller's share of royalty gas to Fairbanks. If Buyer does not elect to construct said pipeline then this contract in its entirety will be terminated.

10.2 In the event that on or before December 31, 1978, all regulatory approvals have not been issued and been accepted by Buyer or the applicant to construct the Pipeline which Buyer or Seller deems necessary to enable Buyer or Seller to perform its obligations under or receive the benefits of this Agreement, either party may thereafter terminate this Agreement by giving written notice to the other party not less than ten (10) days prior to the effectiveness of said action.

10.3 Promptly after approval of this Agreement by concurrent resolution of a majority of each house of the Alaska State Legislature, Buyer shall proceed with diligence in the preparation, filing and prosecution of such applications, petitions, pleadings and other filings with the Federal Power Commission as may be required to obtain all necessary rate, tariff, and/or certificate authorizations, approvals and rulings, as the case may be, related to Buyer's undertakings set forth in this Agreement.

Delete old 11.5-11.6

10.4 This Agreement shall not take effect until approved by concurrent resolution of a majority of each house of the Alaska State Legislature.

ARTICLE XI *was artical XII*

EXHIBITS AND GENERAL TERMS AND CONDITIONS

11.1 Exhibit A and the General Terms and Conditions attached to this Agreement are by this reference incorporated into and made a part of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in four original counterparts on this day and year first above written.

"BUYER"

COMMISSIONER OF NATURAL RESOURCES
OF THE STATE OF ALASKA

ATTEST:

ATTEST:

This "General Terms and Conditions" is attached and made part of Royalty Gas Sales Agreement dated _____ 1976, by and between _____ as Buyer, and _____ as Seller.

SECTION 1	Definitions	2
SECTION 2	Responsibility.	4
SECTION 3	Meters.	4
SECTION 4	Units of Volume	7
SECTION 5	Gas Measurement	8
SECTION 6	Billing and Payment	11
SECTION 7	Receipt of Available Gas.	12
SECTION 8	Title	12
SECTION 9	Force Majeure	13
SECTION 10	Rules and Regulations	15
SECTION 11	Successors and Assigns.	16
SECTION 12	Conformity with Producer Sales Contract.	16
SECTION 13	Miscellaneous	17

General Terms and Conditions

I. DEFINITIONS

The following terms, when used in this General Terms and Conditions and in the foregoing portion of this Royalty Gas Sales Agreement, shall have the following meanings, regardless of capitalization:

1.1 The term "lease or leases" shall mean the oil and gas leases and portions thereof which are described in Exhibit A hereto attached and made a part hereof.

1.2 The term "lessee" shall mean the party or parties owning working interest in the lease or leases.

1.3 The term "gas" shall include casinghead gas produced with crude oil, gas well gas, and residue gas resulting from processing either casinghead gas or gas well gas or both.

1.4 The term "casinghead gas", as used herein, excludes gas cap gas and shall mean gas produced with crude petroleum from an oil well, all or substantially all of which is indigenous to the oil strata from which such crude petroleum oil is produced, together with gas lift gas produced with oil whether originally produced from the same oil stratum or not.

Ⓢ Change to Excess Royalty Residue Gas

1.5 The term "gas well gas" shall mean all other gas, including gas cap gas, or the mixture of hydrocarbon gases produced from the leases other than that includable within the definition of casinghead gas.

1.6 The term "day" shall mean a period of twenty-four (24) consecutive hours beginning at 7:00 o'clock A.M. Alaska Standard Time. The reference date for any day shall be the date of the beginning of such day.

1.7 The term "month" shall mean the period beginning at 7:00 o'clock A.M. Alaska Standard Time on the first day of a calendar month and ending at the same time on the first day of the next succeeding calendar month.

1.8 The term "cubic foot of gas" means the volume of gas contained in one cubic foot of space at a standard pressure base and a standard temperature base. The standard pressure base shall be fourteen and sixty-five one hundredths (14.65) pounds per square inch absolute and the standard temperature base shall be sixty (60) degrees Fahrenheit.

1.9 The term "year" shall mean each successive period of twelve (12) consecutive months beginning on the first day of the month in which deliveries of gas are commenced to Buyer hereunder and any anniversary of such date.

1.10 The term "anniversary date of first delivery" shall mean the same date of each succeeding year as the date of first deliveries.

1.11 The term "domestic and industrial needs of the State of Alaska" shall mean those present and projected residential, commercial and industrial uses for gas within Alaska as determined by the Alaska Royalty Oil and Gas Development Advisory Board in accordance with AS 38.05-.183(d).

1.12; 1.13; 1.14 SEE ATTACHED ADDENDUM

2. RESPONSIBILITY

2.1 Buyer shall not be responsible for the gas prior to its delivery hereunder and Seller shall hold Buyer harmless against any damage or injury caused thereby until same has been delivered to Buyer at the delivery point or points hereunder, after which delivery Buyer shall be deemed in exclusive control and possession thereof and responsible for said gas and shall hold Seller harmless against any injury or damage caused thereby, except that while the gas is being processed by or on behalf of Seller, Buyer shall not be deemed in control or possession thereof and shall not be responsible for said gas.

3. METERS

3.1 Buyer, at its sole cost and expense, shall install, maintain and operate, or cause to have installed, maintained, and operated, at each delivery point, a standard

type orifice meter or meters for the measuring of the quantity of gas delivered hereunder. Orifice meters shall be installed and operated in accordance with the specifications prescribed in Gas Measurement Committee Report No. 3, as revised and reprinted September 1969, of the Natural Gas Department of the American Gas Association, as supplemented and modified from time to time. Buyer shall cause the charts on such meters to be changed each day, or at such other times as may be agreed upon by the parties hereto. The meters, meter readings and meter charts shall be accessible at all reasonable times to inspection and examination by Seller.

3.2 From time to time and at least once each month, the accuracy of Buyer's measuring equipment shall be verified by and at the expense of the Buyer. If either party at any time shall notify the other that it desires a special test of any meter, the other party shall cooperate to secure an immediate verification of the accuracy of such meter and joint observation of any adjustments. If any such test shall be requested by Seller and upon such test, the measuring equipment shall be found to be registering correctly, the cost of such test shall be charged to Seller, otherwise the cost of all such tests shall be borne by Buyer. Buyer shall give notice to Seller of the time of all tests made pursuant to this Section in order that Seller may conveniently have its representative present. Calibration and

adjustment of Buyer's meters and changing of charts shall be done only by Buyer.

3.3 If, upon any test, the percentage of inaccuracy shall be two percent (2%) or more, the registration of such meter shall be corrected at the rate of such inaccuracy for any period which is definitely known or agreed upon, but in case the period is not definitely known or agreed upon, then for a period extending back one-half (1/2) the time elapsed since the date of the last calibration. Following any test, metering equipment found inaccurate shall be immediately restored by Buyer as closely as possible to a condition of accuracy. If, for any reason, any meter is out of service or out of repair so that the amount of gas delivered cannot be estimated or computed from the reading thereof, the amount of gas delivered through the period such meter is out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best available data, using the first of the following methods which is feasible:

a. By using the registration of Seller's check meter if installed and accurately registering.

b. By correcting the error if the percentage of error is ascertainable by calibration test or mathematical calculation.

c. By estimating the quantity of deliveries by deliveries during preceding periods under similar conditions when the meter was registering accurately.

3.4 Seller may, at its option and expense, install and operate or cause to be installed and operated check meters to check Buyer's meters, but measurement of gas for the purpose of this Agreement shall be by Buyer's meter, except as hereinabove specifically provided to the contrary. Such check meters and equipment shall be so installed as not to interfere with the operation of the meters to be installed and maintained by Buyer at or near the points of delivery.

4. UNITS OF VOLUME

4.1 The unit of volume for all purposes hereunder (except as otherwise specified in Subsection 4.2 of this Section 4) shall be one thousand (1000) cubic feet at an absolute pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch at a temperature of sixty (60) degrees Fahrenheit.

4.2 The unit of volume for the determination of the gross heating value of the gas purchased hereunder shall be the amount of gas, saturated with water vapor, which would occupy a volume of one (1) cubic foot at a temperature of sixty (60) degrees Fahrenheit and under a pressure equivalent to thirty (30) inches of mercury at thirty-two (32)

degrees Fahrenheit. Such gross heating value shall be expressed in British thermal units per cubic foot.

5. GAS MEASUREMENT

5.1 The volumes of gas delivered hereunder shall be computed in accordance with the specifications prescribed in Gas Measurement Committee Report No. 3, as revised and reprinted September, 1969, of the Natural Gas Department of the American Gas Association, as supplemented and modified from time to time, applied in a practical and appropriate manner, and appropriate correction shall be made for deviation of the gas from Boyle's Law in accordance with said Gas Measurement Committee Report No. 3. Any additional data required to be developed in accordance with recommendations contained in such report shall be jointly determined by the parties hereto in a manner mutually agreeable.

5.2 For the purpose of measurement, the absolute atmospheric (barometric) pressure shall be agreed upon for each point of delivery hereunder based on the actual elevation or location of the delivery point above sea level and shall thereafter be deemed to remain constant regardless of variations in the actual barometric pressure from time to time.

For meters of the orifice type the following factors shall be given due consideration:

a. The temperature of the gas flowing through Buyer's meters shall be obtained by the use of a recording thermometer so installed by Buyer that it may properly re-record the temperature of such gas. The arithmetical average of the hourly temperature during the period gas passed shall be used to make proper computations of volumes hereunder.

b. The specific gravity of the natural gas shall be determined by Buyer by calculation (compensated for any difference between the specific gravity in the ideal state and in the real state in accordance with published procedures adopted by the Gas Measurement Committee of the American Gas Association) utilizing the analysis of the natural gas determined in accordance with Subsection 5.3 of this Section 5. The specific gravity so determined shall be utilized during the applicable period of time referred to in said Subsection 5.3.

5.3 Each three (3) months or as near the first of each three (3) months' period as practicable, Buyer shall sample and analyze the gas delivered hereunder at each delivery point for determination of its constituents and the total gross heating value thereof. The "Method for Natural Gas Analysis by Gas Chromatography, Revised and Adopted as Standard, 1964, by the Natural Gas Processors Association,"

as supplemented and modified from time to time, shall be used in making such determination. Copies of each such analysis shall be furnished by Buyer to Seller. Should Seller not be satisfied with the results of such analysis, it shall notify Buyer in writing. Promptly thereafter, representatives of the parties shall obtain simultaneously under normal operating conditions two (2) samples of the gas delivered hereunder at the point of delivery in question in appropriate sampling devices of the same type. Each of the parties shall take one (1) such sample and subject it to appropriate laboratory analyses to determine the total gross heating value thereof, reporting the results thereof in writing to the other. The average of the total gross heating value shown by such two (2) analyses shall be used for all purposes of this Agreement for the period covered by the analyses made by Buyer which gave rise to the joint determination.

5.4 Buyer reserves the right to install and utilize recording gravimeters and/or calorimeters at any and all delivery points for the determination of specific gravity and gross heating value in lieu of the testing procedures provided in Subsections 5.2(b) and 5.3 of this Section 5.

5.5 Buyer shall give notice to Seller of the time of all tests of gas delivered hereunder or of any equipment

used in measuring or determining the nature of quality of such gas, in order that Seller may conveniently have its representative present. Should Seller not be satisfied with any such tests, it shall so notify Buyer and Buyer shall perform such retests as may be necessary to assure an accurate test.

6. BILLING AND PAYMENT

6.1 On or before the fifteenth (15th) day of each month after deliveries of gas are commenced hereunder, Buyer shall render to Seller a statement showing the amount of gas delivered by Seller and the amount of gas purchased by Buyer hereunder during the preceding calendar month and payment for gas sold hereunder by Seller shall be made by Buyer to Seller on or before the twenty-fifth (25th) day of the calendar month in which such statement is rendered.

6.2 Upon request, Buyer shall furnish or cause to be furnished Seller the measurement charts applicable to any monthly statement. Seller shall return to Buyer all charts after thirty (30) days.

6.3 Any error or discrepancy in charts or statements furnished pursuant to the above shall be promptly reported to Buyer and Buyer shall make proper adjustment thereof within forty-five (45) days after final determination of the

correct volumes or values involved; provided, however, that if no such errors or discrepancies are reported to Buyer within two (2) years from the date of such chart or statement the same shall be conclusively deemed to be correct.

6.4. Seller shall have access to Buyer's records and books at all reasonable hours so far as they affect measurement and settlement for gas sold hereunder.

7. RECEIPT OF AVAILABLE GAS

7.1 In accordance with the provisions hereof, Buyer shall proceed diligently to seek such authorization as required to receive gas then available for delivery by Seller hereunder. Delete

8. TITLE

8.1 Seller hereby warrants title to the gas sold by it hereunder and its right to sell the same and warrants that all such gas is owned by Seller free from all liens, encumbrances and adverse claims.

• Change "gas" to "residue gas".

9. FORCE MAJEURE

9.1 In the event of either Buyer or Seller being rendered unable by force majeure to perform a duty or an obligation under the Royalty Gas Sales Agreement, the performance of said duty or obligation by the party affected by such force majeure shall be suspended without liability to the other party to the Royalty Gas* Sales Agreement during the continuance of the period of inability caused by force majeure but for no longer period, and the party whose performance is thus suspended shall, so far as possible, take all actions within its control to remedy the cause of its non-performance with all reasonable dispatch.

The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, military action, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, or storm warnings, crevasses, floods, washouts, arrests and restraints of governments and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, or making repairs or alterations to machinery or lines of pipe, the necessity for testing (as required by law, governmental regulation or for safe operation thereof, in the judgment of the testing party), freezing of wells or lines of pipe, partial or entire failure of wells, inability of any party

* Change "Royalty Gas" to "Excess Royalty Residue Gas".

hereto to obtain necessary materials, supplies or permits due to existing or future rules, regulations, orders, laws or proclamations of governmental authorities (both Federal and State), including both civil and military, any inability on the part of any purchaser or purchasers to receive gas from Buyer by reason of force majeure affecting such purchaser or purchasers, provided that such inability of Buyer to take gas because of force majeure affecting its purchasers, shall be fairly apportioned among its various sources of gas supply, and any other causes, whether of the kind herein enumerated or otherwise, not within the control of the party claiming suspension, and which by the exercise of due diligence such party is unable to prevent or overcome; such term shall likewise include (a) in those instances where either party hereto is required to obtain servitudes, right-of-way grants, permits or licenses to enable such party to fulfill its obligations hereunder, the inability of such party in acquiring, at reasonable cost and after the exercise of reasonable diligence, such servitudes, right-of-way grants, permits or licenses, and (b) in those instances where either party hereto is required to furnish materials and supplies for the purpose of constructing or maintaining facilities, or is required to secure permits or permission from any governmental agency to enable such party to fulfill its obligations hereunder, the inability of such party to acquire, or the delays on the part of such party in acquiring, at reasonable cost and after the exercise of

reasonable diligence, such materials and supplies, permits and permissions; provided, however, Seller shall have the right but not the obligation to sell on a day to day basis free from this Agreement any gas which is committed to Buyer hereunder but which Buyer does not take because of force majeure. The word "party" as used in this Section 1 shall mean and include any person or persons, corporate or otherwise, with whom Seller enters into or has agreements for the conditioning, processing, compressing, or transportation, for its account, of the gas to be delivered hereunder from the point of delivery hereunder to Buyer's facilities.

9.2 It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

10. RULES AND REGULATIONS

10.1 This Agreement is subject to all present and future valid laws and valid orders, rules and regulations of the United States, the State of Alaska, or any duly constituted agency thereof.

11. SUCCESSORS AND ASSIGNS

11.1 This Agreement shall bind and benefit the parties hereto and their respective successors and assigns, provided that no conveyance or transfer of any interest of either party shall be binding upon the other party until such other party has been furnished with written notice and true copy of such conveyance or transfer; provided, further, that either Buyer or Seller, or both, may assign its right, title and interest in, to and by virtue of this Agreement, including any and all extensions, renewals, amendments and supplements thereto to a trustee or trustees, individual or corporate, as security for bonds or other obligations or securities, without such trustee or trustees assuming or becoming in any respect obligated to perform any of the obligations of the assignor, and if any such trustee be a corporation, without its being required by the parties hereto to qualify to do business in the State of Alaska, but no such assignment shall serve to relieve the assigning party of its obligations hereunder.

12. CONFORMITY WITH PRODUCER SALES CONTRACT

12.1 Seller and Buyer recognize that this Agreement is being entered into prior to sales agreements by the working interest owners. Each party further recognizes that Seller's royalty gas will be commingled with the gas of the working interest owners and that consequently Seller's gas will be produced, gathered and treated identically with the

gas of the working interest owners. It is therefore agreed between the parties that if terms, conditions, or clauses are included in contracts for the sale of gas from the leases identified in Exhibit A by the working interest owners which terms, conditions, or clauses are more favorable to the vendor than the terms, conditions or clauses of Sections 3, 5 and 6 of these General Terms and Conditions herein, Seller shall at its sole option have the right to include such term, condition or clause into this Agreement by giving Buyer written notice within ninety (90) days after approval by the Federal Power Commission of said working interest owner's contract for the sale of its gas.

13. MISCELLANEOUS

13.1 No waiver by either party of one or more defaults by the other in the performance of any of the provisions of this Agreement shall operate or be construed as a waiver of any other or further default or defaults, whether of a like or of a different character.

13.2 This Agreement, and the construction and interpretation thereof, shall be governed by the laws of the State of Alaska.

13.3 Article headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

13.4 This Agreement may be supplemented, amended or modified only by a written instrument duly executed by the parties hereto.

13.5 Except in the cases for which arbitration is specifically provided herein, if either party shall fail to perform any of the covenants or obligations imposed upon it by this Agreement (except where such failure shall be excused under the force majeure provisions hereof), then and in that event, the other party may, at its option (without waiving any other remedy for breach hereof), by notice in writing specifying wherein the default has occurred, indicate such party's election to terminate this Agreement by reason thereof. The party in default shall have sixty (60) days from the receipt of such notice to remedy such default and to pay or indemnify the other party all loss or damage incurred as a result thereof, and upon failure so to do, this Agreement shall terminate from and after the expiration of such sixty (60) day period. Any such termination shall be an additional remedy and shall not prejudice the right of the party not in default to collect any amounts due it hereunder for any damage or loss suffered by it and shall not waive any other remedy to which the party not in default may be entitled for breach of this Agreement.

13.6 If any provision or clause of this Agreement or application thereof to any person or circumstances is held

invalid, such invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provision or application.

13.7 Seller and Buyer shall each preserve all test data, charts and other similar records as required by the Federal Power Commission.

ADDENDUM to General Terms and Conditions, Section I, Definitions:

1.12 The term "residue gas" shall mean that portion of the gas entering the plant which remains after the extraction of plant products and used as process fuel and treating fuel in said plant.

1.13 The term "excess royalty residue gas" shall mean any of Seller's royalty residue gas remaining after Seller completes contracts for intrastate domestic, industrial and/or petrochemical uses within the state of Alaska.

1.14 The term "acid gas" shall mean the carbon dioxide, nitrogen and hydrogen sulfide.

new definitions

Exhibit A

Attached to and Made a Part of a Royalty Gas Sales Agreement dated _____, 1976, Between _____ "Buyer" and _____ Seller", With Respect to Certain Royalty Gas Owned and Taken In-Kind by _____ Under the Leases Described Herein Covering Lands in the State of Alaska.

Each of the following described Leases reserves to the State of Alaska a one-eighth (1/8) royalty interest, unless otherwise stated.

<u>Lease Serial No.</u>	<u>Legal Description</u>	<u>Gross Acres</u>
-------------------------	--------------------------	--------------------

EXPLANATION OF FOOTNOTES

The preceding agreement for the sale of royalty gas is a copy of the Agreement between the State of Alaska and Tenneco Alaska, Inc. The Agreements between the State and El Paso Natural Gas Co. and the State and Southern Natural Gas Company are virtually identical. The differences which exist have been footnoted in this contract and the changes which are appropriate to the El Paso and Southern contract are explained in each footnote.

The contract is being made available in this manner as it facilitates comparison of the three contracts and avoids the necessity of distributing widely three copies of contracts which are virtually identical. These footnotes, of course, do not appear in the original contracts.

Footnotes:

1/ Instead of the words "Tenneco Alaska Inc., an Alaskan corporation" substitute the words "El Paso Natural Gas Co., a Delaware corporation" for the El Paso contract and the words "Southern Natural Gas Company, a Delaware corporation" for the Southern contract.

2/ Instead of the words "fifty percent (50%)" substitute the words "twenty-five percent (25%)" for both the El Paso and Southern contracts.

3/ Instead of the words "one (1) trillion, three hundred (300) billion cubic feet" substitute the words "six hundred fifty (650) billion cubic feet" for both the Southern and El Paso contract.

4/ An additional sentence is added at the end of Section 3.7(b) to the El Paso and Southern contracts. For the El Paso contract that sentence reads as follows:

Buyer's right under this Section shall apply only to surplus royalty gas available after Seller has satisfied its obligations under Subsections 3.7 (a) and 3.7 (b) of that Agreement between the State of Alaska and Tenneco Alaska, Inc. dated_____.

For the Southern contract the added sentence reads as follows:

Buyer's right under this Section shall apply only to surplus royalty gas available after Seller has satisfied its obligations under Subsections 3.7 (a) and 3.7 (b) of that Agreement between the State of Alaska and Tenneco Alaska, Inc. dated_____, and that Agreement between the State of Alaska and El Paso Natural Gas Co. dated_____.