

HCR

130

COMMITTEE REPORT

SENATE

5/26/78

FURTHER: FINANCE

Date: 5/24/78

Mr. President:

The Committee on RESOURCES has had HCR 130
sale of royalty oil to Earth Resources Company of Alaska

under consideration and (a majority of the committee) (the committee reports it back as follows)

- recommends it do pass () recommends it do not pass
- () recommends it do pass with attached amendment(s)
- () recommends it be replaced with CS for _____

and _____ () new title () same title

- () AND attaches a Letter of Intent () New Fiscal Note
- () reports it back without recommendation
- () and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Signature]
[Signature]
[Signature]
[Signature]

[Signature]
 Chairman

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

11TH FLOOR STATE OFFICE BLDG.

FLOOR 11 - JUNE 1978

May 17, 1978

Mr. L. F. DeLong
North Pole Refining
P. O. Box 5028
North Pole, Alaska 99705

RECEIVED
MAY 18 1978
NORTH POLE REFINING
11:00 am

Dear Mr. DeLong:

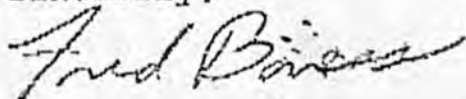
During Legislative hearings on the contract between the State and Earth Resources Company of Alaska a question was raised concerning the relationship between North Pole's right to take royalty oil from lessees other than Frudhoe Bay and the similar provision in the Alpetco contract. I responded that there was no conflict because North Pole's right was only to unobligated oil. However, upon reviewing the executed draft of the Agreement I noted that such language was missing from Article 2.1.2.

I, therefore, checked earlier drafts of the Agreement. In the March 16, 1978, draft the words "if such oil is available and unobligated." conclude the first sentence of Article 2.1.2. These words are dropped in the March 27, 1978, draft, however, my working copy of that draft contains a penned notation that those words are missing and should be added.

I have discussed this omission with Mr. Silides and he concurs with me that the omission is an oversight which occurred during preparation of the final copy for execution. The final executed contract therefore should contain the words "if such oil is available and unobligated." at the end of the first sentence in Article 2.1.2.

In order to affirm this correction, I am asking that you sign this letter and return it to me.

Sincerely,



Frederick H. Boness
Deputy Commissioner

I concur that Article 2.1.2 should contain the inclusion discussed in this letter.

AGO 785723 +

GEORGE C. SILIDES, ENGINEERING ASSOCIATES

P. O. BOX 746 — FAIRBANKS, ALASKA 99707

CONSULTING ENGINEERS PLANNERS SURVEYORS

Mr. L.F. DeLong, President
North Pole Refinery
Post Office Box 5028
North Pole, Alaska 99705

May 19, 1978

Dear Mr. DeLong,

Reference is made to Deputy Commissioner Fred Boness' letter to you dated May 17, 1978 regarding an omission in the final draft of the North Pole Refinery - State of Alaska Agreement for the purchase of royalty oil.

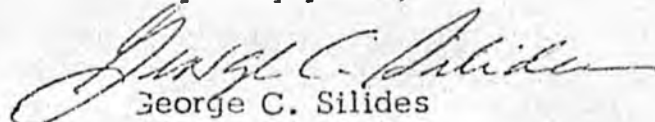
He is correct in saying that the words "if such oil is available and unobligated" were in the March 16, 1978 draft which was approved by both parties for presentation to the Royalty Oil Board on that date.

The request for reinsertion of the words is technically in order since their omission was inadvertent. As a practical matter, NPR obviously cannot nominate oil the State does not have, nor is there anything in your Agreement that interferes with the State's right to sell oil from the other leases for in-state use to other refiners. This is in contrast to the ALPETCO contract which dedicates oil to their exclusive use.

The basis of your Agreement is in-state use, and the recent actions of the Legislature confirms their total support to this concept. Obviously, you cannot object to the sale of royalty oil to others for in-state use. But it is a certainty, however, that you would invoke all of the elements of AS 38.05.183 if royalty oil were in any way being exported during a need for that oil to satisfy the local product market need.

Therefore, since the chance opportunity has been given to both parties to fully clarify the situation, I recommend that the correction should read "if such oil is available and unobligated to in-state use", and that Mr. Boness' letter be redrafted to reflect the added clarifying clause.

Very truly yours,


George C. Silides

CC:

Mr. Frederick Boness
Deputy Commissioner, Dept. of Nat. Resources

AGO 785724

MEMORANDUM

TO: Senator Mike Colletta May 15, 1978

FROM: George C. Silides, P.E.

SUBJECT: Summary -- Salient features of North Pole Refinery
Royalty Oil contract.

1. The crude oil is to provide an assured supply to an existing facility serving the Fairbanks North Star Borough and Interior Alaska.
2. Any and all royalty oil purchased under this Agreement shall be processed at Purchaser's refinery at North Pole, Alaska.
3. Purchaser is obligated to buy a minimum of 5000 barrels/day.
4. Maximum quantity may not exceed 35,000 barrels/day from all sources combined.
5. Chief source of supply is the leases of the present Prudhoe Bay Unit Agreement (Exhibit "A").
6. If the present leases cannot supply the required volumes, North Pole Refinery may purchase royalty oil from other leases, provided that, firstly, NPR is unable to buy the needed oil from the producers; secondly, that the oil has not not been earlier obligated by the State; and thirdly, the additional oil is required to fulfill contract obligations in supplying the local market. NPR is not guaranteed that additional oil will be available at the time of need. Please note this very distinct difference with the ALPETCO contract.
7. Price is the same as if the State had taken its oil in value. NPR is also obligated for any additional costs which may be legally incurred because of taking in kind, such as cleaning and dehydrating. (Presently under litigation by the State with producers)
8. NPR takes delivery at the Lease and is responsible for the transportation of the oil.
9. Payment is monthly.
10. Security acceptable to the State must be provided.
11. NPR is responsible for disposing of all oil nominated. State is protected in the event of force majeure at NPR. State must make good faith effort to relieve NPR in the event of force majeure.

Memorandum

NPR

May 15, 1978

12. Contract may be terminated by the State upon default of contract provisions by NPR.

13. NPR may terminate upon giving eight (8) months notice.

14. By advance agreement the supplier/purchaser relationship ends upon termination. This has been given OK by the FEA.

15. Contract may be amended between the parties, subject to approval by the Royalty Board and the Legislature, for each amendment.

Summary
Earth Resources Company of Alaska
Agreement for the Sale and
Purchase of State Royalty Oil

Earth Resources Company (North Pole Refining) owns and operates a 22,600 barrels per calendar day refinery at North Pole, Alaska. They are currently running approximately 20,000 barrels per day of North Slope crude and producing approximately 8,500 barrels per day of refined products for the Fairbanks area market. The remaining residual oil is returned to the TAP line. The products produced are Jet Fuel, Arctic Diesel, #1 and #2 Fuel Oil, and Industrial Turbine Fuel.

This company has been purchasing crude oil from the Prudhoe Bay producers (Exxon, Arco, Sohio and others) since the start of the refinery. They desire to purchase royalty oil to supplement their current purchases and to acquire a secure long-term source of supply.

This sales agreement provides that NPR may purchase up to 15% of the royalty oil from Prudhoe Bay plus additional quantities which are unobligated and available from Prudhoe Bay or other leases but not to exceed a total of 35,000 BPD. Should NPR not purchase a minimum of 5,000 BPD for three consecutive months, the State may cancel the Agreement.

As you know, NPR returns to the pipeline portions of the crude oil that are not marketed. They have also agreed to sell this return oil to other royalty oil purchases on fair and reasonable terms.

The price that NPR shall pay for this oil is equal to the amount the State would have received had the royalty oil been taken in-value. The price term is the same as included in the Alpetco contract.

The Point of Delivery, Passage of Title, and Responsibility passes from the State to NPR at the same point the State takes delivery. (This will be Pump Station #1.)

The State must provide crude oil for pipeline fill for NPR to fulfill NPR's tariff obligation. The State will receive payment for this quantity of crude oil upon termination of the Agreement.

NPR has agreed to process all royalty oil purchased at their North Pole refinery except in a force majeure situation or if NPR desires to trade or exchange this crude for other Alaskan crude or products. Should NPR desire to export products produced from the State, they agree to first consult with the Commissioner of Natural Resources to insure that such products are surplus to the State's needs.

The term of the Agreement is for 25 years or until the year 2003. NPR may terminate the Agreement on eight months notice. The State may terminate if NPR defaults under terms of the Agreement.

To secure payment for crude purchased by NPR, the State will receive either purchase money security interest in all oil delivered and products produced, or a letter of credit will be provided by NPR.

The provisions relating to Equal Opportunity Employment, Local Hire, and Oil Spill are the same as the Alpetco contract.