

LEG. FINANCE - BILLS 1977 - 1978 869

HCR 43 cont. 869

Article X11.3. of the agreement provides that "Purchaser is granted the right for two (2) successive three (3) year periods to extend this contract by giving the State written notice thereof not less than seven (7) months prior to the end of the then expiring term. Any such renewal shall be upon such terms and conditions as the parties may agree to." The effective date of this agreement is January 1, 1970 (date of first delivery of crude) and ends eight (8) years from date of first delivery (January 1, 1978).

As stated above, the original contract provides for extensions, however, it is believed to be in the interest of both the State and Tesoro to rewrite the basic agreement to reflect anticipated changes in the petroleum industry in Alaska, FEA price regulations, and considerations relating to the Mandatory Petroleum Allocation Regulations. Therefore, it is recommended that this agreement be extended for one (1) year instead of three (3) years to allow for the development of this information.

The State has three alternatives which are:

1. Allow the contract to expire and take the oil in value.
2. Renegotiate the complete contract on a long term basis.
3. Extend current contract.

Should the State allow the contract to expire and take its royalty in value, it is likely that it would not be allowed to do so if Tesoro-Alaskan objected since they could claim relief from FEA under the Mandatory Petroleum Allocation Regulations in that crude oil Buyer/Seller relationships are frozen unless the Buyer desires to terminate the agreement. Should this occur, there would be no purpose of a competitive bid since FEA could force the sale to continue to Tesoro-Alaskan.

Tesoro-Alaskan is also the largest refiner in the State and supplies a large portion of the petroleum market, therefore, it may be considered that it is in the State's interest to assure them an adequate crude supply. Tesoro supplies a larger quantity of products to the State than royalty oil purchased. There is no known refiner in Alaska who could purchase royalty crude oil and deliver the needed products to the Alaskan market.

The need for competitive bid has been greatly reduced due to the FEA crude oil price controls. The extension agreement allows for the maximum price which could be obtained. During the next year the State will learn much more about the future price or value of Cook Inlet crude as a result of the marketing of North Slope crude and related Federal price regulations.

The State should have this information available when negotiating a new long term contract to insure that the best price possible is obtained and the interests of the State are protected.

The State presently receives the following for its royalty oil produced in the Cook Inlet Basin:

Base Price for 40.0+ Degree API Crude

East Side (Old Oil)	\$5.26 per Barrel
West Side (Old Oil)	\$5.035 per Barrel
Adjustment for each full degree API Gravity below 40.0	-\$0.05 per Barrel
Adjustment for all oil over 15,000 BPD	+\$0.002 per Barrel
Adjustment of all oil classified as New Oil	+\$5.85 per Barrel
Adjustment for transportation all oil	-\$0.056 per Barrel

Note: Cleaning and dehydration charge 2.5¢/Bbl 1976
(Paid by Tesoro) 5.85¢/Bbl 1977

The Federal price controls allow for a gravity adjustment reduction of 3¢ per Barrel for each full degree of API gravity below 40.9 API gravity. However, the original agreement calls for the 5¢ per Barrel indicated above which is the basis for the

current payment. The State has obtained gravity adjustment as specified under the Federal Price controls for the Extension agreement.

The extension for one (1) year gives the State needed time to determine its best course since further information will be available to develop a contract in the best interest of the State, particularly since there is little advantage to do otherwise. The State needs one full year lead time to complete a contract due to the requirement in the lease form to give 6 months notice to producers for the State to take oil and gas in-kind and an additional 6 months allowance for Royalty Board and Legislative approval.

APPROVAL OF THE EXTENSION OF THE AGREEMENT
FOR THE SALE AND PURCHASE OF STATE ROYALTY
OIL BETWEEN THE STATE OF ALASKA AND THE
TESORO-ALASKA PETROLEUM CORPORATION

WHEREAS, Alaska Statutes 38.06.050(a) and 38.05.183 require that the Alaska Royalty Oil and Gas Development Advisory Board ("Board") grant to the Commissioner of Natural Resources ("Commissioner") written approval for the sale, exchange or other disposition of royalty oil or gas, and

WHEREAS, Alaska Statute 38.05.182 requires that the Board grant its consent to the taking of royalty oil or gas in-kind, and

WHEREAS, the Board has been advised by the Commissioner of the progress of negotiations and has heard testimony, both in public sessions and working sessions, from the purchaser, and

WHEREAS, the Commissioner has now concluded his negotiations with the purchaser and has presented to this Board for its approval an Extension Agreement for the sale of royalty crude oil from the Cook Inlet Basin (which crude oil is identified more specifically in the contract), and

WHEREAS, This Board has carefully reviewed the proposed extension agreement and has received public comment on the extension agreement, and

WHEREAS, This Board finds that the taking of royalty crude oil in-kind to meet the obligations under the agreement will serve an important public purpose and be of general benefit to the public interest,

NOW THEREFORE, the Alaska Royalty Oil and Gas Development Advisory Board hereby grants its approval of the Extension Agreement between the State of Alaska and Tesoro-Alaska Petroleum Corporation and further approves the taking in-kind of the royalty crude oil dedicated to this contract.

Approve

Disapprove

[Signature]
John P. Radtke
[Signature]
[Signature]
[Signature]

Date: 3-8-77

APPROVAL OF REQUEST OF COMMISSIONER
OF NATURAL RESOURCES
TO REJECT APPLICATIONS

WHEREAS, Alaska Statute 38.06.050(b) prohibits the rejection of applications for the purchase of royalty oil or gas by the Commissioner of Natural Resources ("Commissioner") without the approval of the Alaska Royalty Oil and Gas Development Advisory Board ("Board"), and

WHEREAS, the Commissioner in conjunction with his request for the sale of royalty crude oil to Tesoro-Alaska Petroleum Corporation requests that he be allowed to reject applications in conflict with the proposed sale, and

WHEREAS, this Board has reviewed all other applications for the purchase of royalty crude oil and heard public comment thereon,

NOW THEREFORE, this Board hereby grants its approval to reject applications to the extent such applications are rendered infeasible or impossible by the contracts for the sale of royalty crude oil approved by this Board on this date.

Approve

Disapprove

[Signature]
John R. Roden
[Signature]
[Signature]
[Signature]

Date: 3-7-77

APPROVAL OF REQUEST OF COMMISSIONER OF NATURAL RESOURCES
TO WAIVE REQUIREMENT OF COMPETITIVE BIDDING

WHEREAS, Alaska Statutes 38.06.050(c) and 38.05.183 (a) and (c) require the Alaska Royalty Oil and Gas Development Advisory Board ("Board") grant written approval to the Commissioner of Natural Resources ("Commissioner") to waive the requirement that royalty oil or gas be sold by competitive bid, and

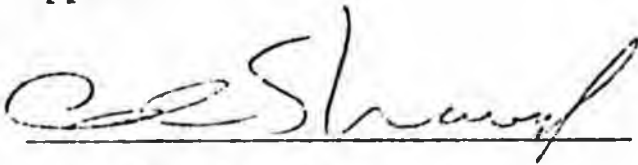
WHEREAS, the Commissioner has submitted to this Board a request to waive the requirement of public bidding with respect to royalty crude oil from certain leases which are known commonly as the Cook Inlet Basin leases, and

WHEREAS, this Board has considered the request of the Commissioner and finds the Commissioner's reasons sufficient to justify a waiver of the requirement for public bidding in the public interest;

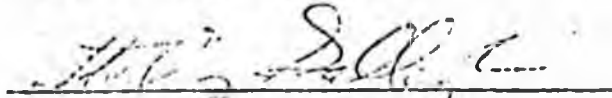
NOW THEREFORE, the Alaska Royalty Oil and Gas Development Advisory Board hereby grants to the Commissioner of Natural Resources its approval of his request to waive public bidding.

Approve

Disapprove



John R. Rodewald



John M. Taylor



Date: 3-8-77

EXTENSION OF
AGREEMENT FOR THE SALE
AND PURCHASE OF STATE ROYALTY OIL

THIS EXTENSION, entered into by and between the STATE OF ALASKA ("STATE"), acting by and through its Commissioner of Natural Resources with the consent of the Alaska Royalty Oil and Gas Development Advisory Board pursuant to AS 38.05.182, AS 38.05.183 and AS 38.06 and TESORO-ALASKAN PETROLEUM COMPANY ("TESORO-ALASKAN").

W I T N E S S E T H :

WHEREAS, the STATE entered into that certain agreement entitled "AGREEMENT FOR THE SALE AND PURCHASE OF STATE OF ALASKA ROYALTY OIL" ("Agreement") with Alaskan Oil and Refining Company as of January 31, 1969; and

WHEREAS, TESORO-ALASKAN is the legal successor in due course to Alaskan Oil and Refining Company and the Alaskan Oil and Refining Company's rights, duties and obligations under the Agreement; and

WHEREAS, the paragraph numbered "1" of Article XII of the Agreement provides in pertinent part that the Agreement "shall continue and remain in full force and effect for a term beginning the date hereof and ending eight (8) years from the Date of First Delivery:" and

WHEREAS, the "Date of First Delivery" referred to in the aforesaid paragraph of the Agreement was January 1, 1970; and

WHEREAS, beginning on and since that date the STATE has sold royalty oil to TESORO-ALASKAN pursuant to the Agreement; and

WHEREAS, the STATE believes a one year extension of the sale of royalty oil to TESORO-ALASKAN for use in TESORO-ALASKAN'S Kenai Refinery is in the best interest of the STATE;

NOW THEREFORE, in consideration of the foregoing and in consideration of the mutual covenants and agreements herein contained, the STATE and TESORO-ALASKAN covenant and agree as follows:

ARTICLE I. EXTENSION

Article XII, Paragraph 1 of the Agreement shall be amended by the deletion thereof in its entirety and the substitution of the following:

1. The primary term of this contract shall extend to and include December 31, 1978, and shall be upon the same terms and conditions as provided herein, except, however, that the price to be paid by TESORO-ALASKAN to the STATE for royalty oil shall be in accordance with the provisions of Article II of this extension.

ARTICLE II. PRICE

Commencing January 1, 1978, TESORO-ALASKAN will pay to the STATE for royalty oil sold and delivered to it the highest price allowed under federal price controls for crude oil of like quality and gravity produced from fields in the Cook Inlet Area. It is understood and agreed that the highest price allowed under federal price controls, as referred to above, includes a premium of two cents (2¢) per barrel for up to 5000 barrels per day taken (pursuant to Paragraph 2 of Article II of the Agreement) in addition to the Contract Quantity of 15,000 barrels per day.

In the event the price of crude oil subject to this contract should cease to be regulated by the federal government during the period of time covered by this extension then and in that event TESORO-ALASKAN will pay to the STATE for the Contract Quantity of 15,000 barrels per day of royalty oil delivered to it in accordance with Article V of the Agreement. TESORO-ALASKAN shall pay to the STATE the price determined as immediately set forth, above, plus a premium of two cents (2¢) per barrel for all royalty oil delivered to it in excess of 15,000 barrels per day.

ARTICLE III. IN-STATE USE

TESORO-ALASKAN agrees that all oil purchased under the terms of this extension shall (a) be refined only in TESORO-ALASKAN'S Kenai Refinery or (b) shall be traded for an equal quantity of Alaskan crude oil which shall be refined in TESORO-ALASKAN'S Kenai Refinery.

ARTICLE IV. RATIFICATION

Except as hereinabove expressly modified, the Agreement (and all of its terms to the extent heretofore modified) shall remain in full force and effect.

ARTICLE V. APPROVAL OF ALASKA

STATE LEGISLATURE REQUIRED

If, on or before May 15, 1977, the Alaska State Legislature shall not have approved this Extension of the Agreement by a concurrent resolution concurred in by a majority of the members of each House, and this Extension of the Agreement shall not have been executed by the State of Alaska and in force and effect, as of such date, then this document

shall be null and void and of no force or effect, the same as if it had never been made.

IN WITNESS WHEREOF, the STATE has caused this Extension to be executed by its Commissioner of Natural Resources with the consent of the Alaska Royalty Oil and Gas Development Advisory Board (a copy of the resolution of the said Board consenting to this Extension is attached hereto as Exhibit A) and TESORO-ALASKAN has caused this Extension to be executed by its duly authorized officer, all in duplicate originals as of this 8th day of March, 1977.

THE STATE OF ALASKA

TESORO-ALASKAN PETROLEUM
COMPANY

John R. Roderick

Dennis F. Juren

~~W. Guy R. Martin~~ JOHN R. RODERICK
Acting Commissioner of Natural
Resources

Dennis F. Juren, President

10043

March 22, 1977

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting a resolution giving legislative approval to a one-year extension of the agreement between Tesoro-Alaskan Petroleum Company for the purchase of royalty crude oil from the Cook Inlet area. AS 39.06.055(a) provides that no sale of state-owned royalty oil may be made unless approved by concurrent resolution of the legislature.

The Alaska Royalty Oil and Gas Development and Advisory Board has reviewed the extension and granted its approval on March 9, 1977. The Board's declarations and findings are included in the material submitted to each legislator today. We would be pleased to assist you with any additional information which you request.

The present agreement between the state and Tesoro-Alaskan will expire on December 31, 1977. Tesoro-Alaskan has expressed its desire to continue purchasing state royalty oil from Cook Inlet, and I believe it is in the best interests of the state to continue to sell that oil to Tesoro-Alaskan. Tesoro-Alaskan is the largest refiner in the state and supplies a large portion of the Alaskan petroleum market. It supplies a larger quantity of petroleum products to Alaskan consumers than royalty oil purchased.

As you know, the Federal Energy Administration currently controls the ceiling price of all domestic crude oil, including that produced in the Cook Inlet. This Extension Agreement provides for the state to receive the maximum known price for the oil which can be obtained under these regulations.

The FEA, under the Mandatory Petroleum Allocation Regulations, has also frozen crude oil Buyer/Seller relationships unless the Buyer desires to terminate. The Tesoro-Alaskan Petroleum Company does not wish to terminate but has expressed the desire to extend the current agreement.

This resolution authorizes only a one-year extension of the existing agreement so that we might have additional time to consider long-range use of Cook Inlet royalty oil.

Thank you for your consideration.

Sincerely,

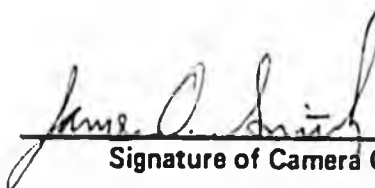
Jay S. Hammond
Governor



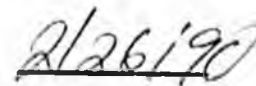
RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.



Signature of Camera Operator

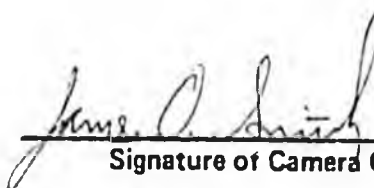


Date

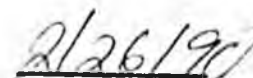


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Signature of Camera Operator



Date

3-23-77

COMMITTEE REPORT

HOUSE

_____ Date

Mr. Speaker:

The Committee on FURANCE has had HCF 53

under consideration. A majority of the members of the Committee

- 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 that CS for _____ do pass
- (and) recommends it be referred to the _____ committee
- reports it back without recommendation
- AND attaches a report of its intent
- (other) _____

MEMBERS SIGNING THE MAJORITY REPORT:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

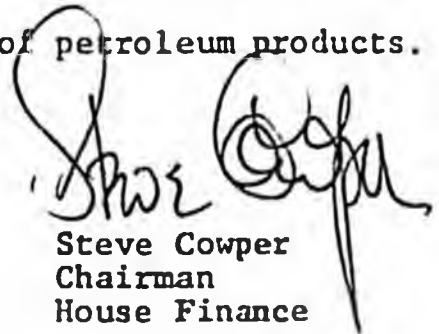
_____	recommends:	_____
_____	recommends:	_____
_____	recommends:	_____

_____ Chairman

HOUSE FINANCE COMMITTEE

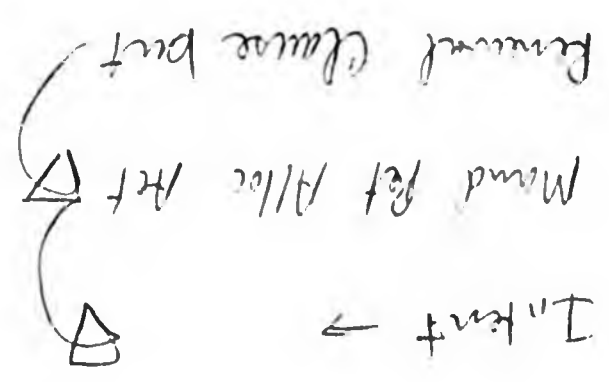
LETTER OF INTENT ON HCR 43

It is the intent of the House Finance Committee in recommending the approval of HCR 43, that the State of Alaska incorporate in any future negotiations with Tesoro-Alaska Petroleum Company an effort to secure some benefits to the Alaska consumer, including but not limited to lower fuel prices and greater availability of petroleum products.



Steve Cowper
Chairman
House Finance

More stringent, rather than less.



Introduced: 3/23/77
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2

HOUSE CONCURRENT RESOLUTION NO. 43

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

TENTH LEGISLATURE - FIRST SESSION

5

Approving the extension of the

6

Tesoro-Alaskan Petroleum Company

7

agreement to purchase royalty crude

8

oil taken in-kind

9

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10

WHEREAS, under AS 38.06.055(a), each house of the legislature must

11

approve by concurrent resolution all sales of state-owned royalty oil

12

before the sale may be consummated; and

13

WHEREAS, the State of Alaska has the right under AS 38.05.180 and its

14

oil and gas leases to receive royalty oil either in-kind or in-value from

15

fields in the Cook Inlet area; and

16

WHEREAS, the state entered into an agreement entitled "AGREEMENT FOR

17

THE SALE AND PURCHASE OF STATE OF ALASKA ROYALTY OIL" ("agreement") with

18

Alaskan Oil and Refining Company as of January 31, 1969; and

19

WHEREAS, Tesoro-Alaskan Petroleum Company is the legal successor to

20

the rights, duties and obligations of Alaskan Oil and Refining Company

21

under the agreement; and

22

WHEREAS, beginning on January 1, 1970, the state has sold royalty oil

23

to Tesoro-Alaskan Petroleum Company under the agreement; and

24

WHEREAS, the commissioner of natural resources has determined that

25

additional information is needed before negotiating the best possible long

26

term agreement; and

27

WHEREAS, the commissioner of natural resources has entered into an

28

agreement to extend the agreement for the sale of royalty crude oil from

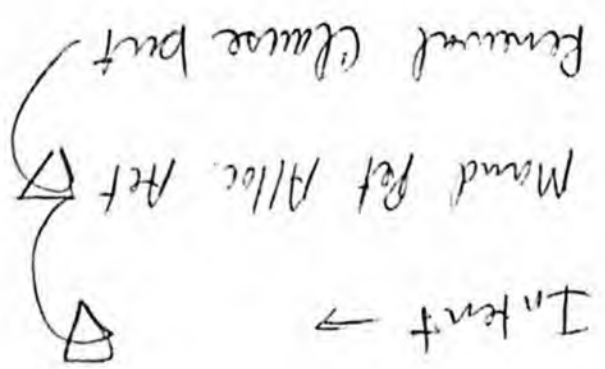
29

fields in the Cook Inlet area to Tesoro-Alaskan Petroleum Company for

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

More stringent, rather than less.



AMENDMENT

OFFERED IN THE SENATE:

By: Parr, Guy

To: _____ SENATE BILL No. 197 AM

HOUSE BILL No. _____

PAGE: 1

LINE: 13

Insert:

Sec. 3. The Dept. of fish and game shall, no later than ^{Jan. 10, 1978} ~~March 1, 1978~~ recommend to the legislature that the sale of subsistence caught salmon eggs be permitted or prohibited. The individualized recommendations for each fishing unit or submit shall be supported by factual documentation. The Dept. of Public Safety shall assist in gathering the documentation.

Remember following section.

Introduced: 3/23/77
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO. 43

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the extension of the
6 Tesoro-Alaskan Petroleum Company
7 agreement to purchase royalty crude
8 oil taken in-kind

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 WHEREAS, under AS 38.06.055(a), each house of the legislature must
11 approve by concurrent resolution all sales of state-owned royalty oil
12 before the sale may be consummated; and

13 WHEREAS, the State of Alaska has the right under AS 38.05.160 and its
14 oil and gas leases to receive royalty oil either in-kind or in-value from
15 fields in the Cook Inlet area; and

16 WHEREAS, the state entered into an agreement entitled "AGREEMENT FOR
17 THE SALE AND PURCHASE OF STATE OF ALASKA ROYALTY OIL" ("agreement") with
18 Alaskan Oil and Refining Company as of January 31, 1969; and

19 WHEREAS, Tesoro-Alaskan Petroleum Company is the legal successor to
20 the rights, duties and obligations of Alaskan Oil and Refining Company
21 under the agreement; and

22 WHEREAS, beginning on January 1, 1970, the state has sold royalty oil
23 to Tesoro-Alaskan Petroleum Company under the agreement; and

24 WHEREAS, the commissioner of natural resources has determined that
25 additional information is needed before negotiating the best possible long
26 term agreement; and

27 WHEREAS, the commissioner of natural resources has entered into an
28 agreement to extend the agreement for the sale of royalty crude oil from
29 fields in the Cook Inlet area to Tesoro-Alaskan Petroleum Company for

1 one year; and

2 WHEREAS, the Alaska Royalty Oil and Gas Development Advisory Board
3 approved the extension of the agreement for the sale of royalty crude oil
4 from fields in the Cook Inlet area to Tesoro-Alaskan Petroleum Company for
5 one year; and

6 WHEREAS, the legislature has reviewed this extension and conducted
7 hearings and otherwise received public input on this extension; and

8 WHEREAS, the legislature finds this extension to be in the public
9 interest of Alaska and its people, and further finds that this extension is
10 in compliance with all requirements of law;

11 BE IT RESOLVED by the Alaska State Legislature that the "Extension of
12 Agreement For The Sale and Purchase of State Royalty Oil" dated March 8,
13 1977, with the Tesoro-Alaskan Petroleum Company and the commissioner of
14 natural resources, for the sale and purchase of royalty crude oil from
15 fields in the Cook Inlet area is hereby approved.

10643

March 22, 1977

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 13 of the Alaska Constitution, I am transmitting a resolution giving legislative approval to a one-year extension of the agreement between Tesoro-Alaskan Petroleum Company for the purchase of royalty crude oil from the Cook Inlet area. AS 32.06.055(a) provides that no sale of state-owned royalty oil may be made unless approved by concurrent resolution of the legislature.

The Alaska Royalty Oil and Gas Development and Advisory Board has reviewed the extension and granted its approval on March 9, 1977. The Board's declarations and findings are included in the material submitted to each legislator today. We would be pleased to assist you with any additional information which you request.

The present agreement between the state and Tesoro-Alaska will expire on September 30, 1977. Tesoro-Alaska has expressed its desire to continue purchasing state royalty oil from Cook Inlet, and I believe it is in the best interests of the state to continue to sell that oil to Tesoro-Alaska. Tesoro-Alaska is the largest refiner in the state and supplies a large portion of the Alaskan petroleum market. It supplies a larger quantity of petroleum products to Alaskan consumers than royalty oil purchased.

As you know, the Federal Energy Administration currently controls the ceiling price of all domestic crude oil, including that produced in the Cook Inlet. This Extension Agreement provides for the state to receive the maximum floor price for the oil which can be obtained under these regulations.

The FEA, under the Mandatory Petroleum Allocation Reg-
ulations, has also frozen crude oil buyer/seller re-
lationships unless the buyer desires to terminate.
The Tesoro-Alaskan Petroleum Company does not wish to
terminate but has expressed the desire to extend the
current agreement.

This resolution authorizes only a one-year extension
of the existing agreement so that we might have ad-
ditional time to consider long-range use of Cook Inlet
royalty oil.

Thank you for your consideration.

Sincerely,

Jay S. Hammond
Governor



4

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HCR 43

MAR 24 1977

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

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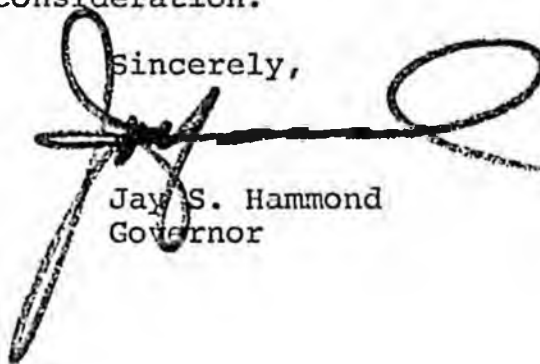
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This resolution authorizes only a one-year extension of the existing agreement so that we might have additional time to consider long-range use of Cook Inlet royalty oil.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay S. Hammond". The signature is stylized with a large loop at the end and a long horizontal stroke.

Jay S. Hammond
Governor

14043

March 22, 1977

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

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Under the authority of art. III, sec. 13 of the Alaska Constitution, I am transmitting a resolution giving legislative approval to a one-year extension of the agreement between Tesoro-Alaskan Petroleum Company for the purchase of royalty crude oil from the Cook Inlet area. AS 39.96.055(a) provides that no sale of state-owned royalty oil may be made unless approved by concurrent resolution of the legislature.

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Sincerely,

Jay S. Hammond
Governor

Introduced: 3/23/77
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO. 43

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the extension of the
6 Tesoro-Alaskan Petroleum Company
7 agreement to purchase royalty crude
8 oil taken in-kind

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 WHEREAS, under AS 38.06.055(a), each house of the legislature must
11 approve by concurrent resolution all sales of state-owned royalty oil
12 before the sale may be consummated; and

13 WHEREAS, the State of Alaska has the right under AS 38.05.180 and its
14 oil and gas leases to receive royalty oil either in-kind or in-value from
15 fields in the Cook Inlet area; and

16 WHEREAS, the state entered into an agreement entitled "AGREEMENT FOR
17 THE SALE AND PURCHASE OF STATE OF ALASKA ROYALTY OIL" ("agreement") with
18 Alaskan Oil and Refining Company as of January 31, 1969; and

19 WHEREAS, Tesoro-Alaskan Petroleum Company is the legal successor to
20 the rights, duties and obligations of Alaskan Oil and Refining Company
21 under the agreement; and

22 WHEREAS, beginning on January 1, 1970, the state has sold royalty oil
23 to Tesoro-Alaskan Petroleum Company under the agreement; and

24 WHEREAS, the commissioner of natural resources has determined that
25 additional information is needed before negotiating the best possible long
26 term agreement; and

27 WHEREAS, the commissioner of natural resources has entered into an
28 agreement to extend the agreement for the sale of royalty crude oil from
29 fields in the Cook Inlet area to Tesoro-Alaskan Petroleum Company for

1 one year; and

2 WHEREAS, the Alaska Royalty Oil and Gas Development Advisory Board
3 approved the extension of the agreement for the sale of royalty crude oil
4 from fields in the Cook Inlet area to Tesoro-Alaskan Petroleum Company for
5 one year; and

6 WHEREAS, the legislature has reviewed this extension and conducted
7 hearings and otherwise received public input on this extension; and

8 WHEREAS, the legislature finds this extension to be in the public
9 interest of Alaska and its people, and further finds that this extension is
10 in compliance with all requirements of law;

11 BE IT RESOLVED by the Alaska State Legislature that the "Extension of
12 Agreement For The Sale and Purchase of State Royalty Oil" dated March 8,
13 1977, with the Tesoro-Alaskan Petroleum Company and the commissioner of
14 natural resources, for the sale and purchase of royalty crude oil from
15 fields in the Cook Inlet area is hereby approved.

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TO: House Finance Committee
FROM: Hugh Malone
DATE: March 30, 1977
SUBJ: Governor's Resolution on Tesoro
Contract

When are you planning on scheduling
this?

HCR 43

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the extension of the
6 Tesoro-Alaskan Petroleum Company
7 agreement to purchase royalty crude
8 oil taken in-kind

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 WHEREAS, under AS 38.06.055(a), each house of the legislature must
11 approve by concurrent resolution all sales of state-owned royalty oil
12 before the sale may be consummated; and

13 WHEREAS, the State of Alaska has the right under AS 38.05.180 and its
14 oil and gas leases to receive royalty oil either in-kind or in-value from
15 fields in the Cook Inlet area; and

16 WHEREAS, the state entered into an agreement entitled "AGREEMENT FOR
17 THE SALE AND PURCHASE OF STATE OF ALASKA ROYALTY OIL" ("agreement") with
18 Alaskan Oil and Refining Company as of January 31, 1969; and

19 WHEREAS, Tesoro-Alaskan Petroleum Company is the legal successor to
20 the rights, duties and obligations of Alaskan Oil and Refining Company
21 under the agreement; and

22 WHEREAS, beginning on January 1, 1970, the state has sold royalty oil
23 to Tesoro-Alaskan Petroleum Company under the agreement; and

24 WHEREAS, the commissioner of natural resources has determined that
25 additional information is needed before negotiating the best possible long
26 term agreement; and

27 WHEREAS, the commissioner of natural resources has entered into an
28 agreement to extend the agreement for the sale of royalty crude oil from
29 fields in the Cook Inlet area to Tesoro-Alaskan Petroleum Company for

1 one year; and

2 WHEREAS, the Alaska Royalty Oil and Gas Development Advisory Board
3 approved the extension of the agreement for the sale of royalty crude oil
4 from fields in the Cook Inlet area to Tesoro-Alaskan Petroleum Company for
5 one year; and

6 WHEREAS, the legislature has reviewed this extension and conducted
7 hearings and otherwise received public input on this extension; and

8 WHEREAS, the legislature finds this extension to be in the public
9 interest of Alaska and its people, and further finds that this extension is
10 in compliance with all requirements of law;

11 BE IT RESOLVED by the Alaska State Legislature that the "Extension of
12 Agreement For The Sale and Purchase of State Royalty Oil" dated March 8,
13 1977, with the Tesoro-Alaskan Petroleum Company and the commissioner of
14 natural resources, for the sale and purchase of royalty crude oil from
15 fields in the Cook Inlet area is hereby approved.

STATE
of ALASKA**MEMORANDUM**DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONERTO: Members, Alaska Royalty Oil and Gas
Development Advisory Board

DATE February 22, 1977

FROM: Guy R. Martin
CommissionerSUBJECT: Extension of Tesoro-Alaskan
contract for purchase of
Cook Inlet crude oil.

Under the statute creating the Alaska Royalty Oil and Gas Development Advisory Board, the Board must grant its prior written approval to a sale of royalty oil or gas. The Board must also give its consent or approval to several other matters related to a sale. This memorandum is intended to present a formal request to the Board for all approvals necessary to effectuate a sale in compliance with the statutory obligations of AS 38.05 and AS 38.06.

1. Pursuant to AS 38.06.050(c) and AS 38.05.133(a) and (c), I ask this Board to waive the requirement that royalty crude oil from the Cook Inlet Basin be offered for sale by competitive bid.
2. Pursuant to AS 38.05.182 and AS 38.05.183 and AS 38.06.050(a), I hereby ask this Board to grant its consent to take royalty crude oil from the Cook Inlet Basin in-kind and to approve the sale of that crude oil to Tesoro-Alaska Petroleum Corporation pursuant to the terms of the agreement entitled "Agreement for the Sale and Purchase of State Royalty Oil" dated 31st January, 1969 between the State of Alaska and Alaskan Oil and Refining Company and the Extension Agreement between the State of Alaska and Tesoro-Alaska Petroleum Corporation (legal successor to Alaskan Oil and Refining Company) dated February 22, 1977.

Page 2
Alaska Royalty Board
February 22, 1977

3. Pursuant to AS 38.06.050(b) I hereby ask the Board to grant approval of rejection of all other applications to purchase royalty crude oil from the Cook Inlet Basin leases which are inconsistent with the proposed sale.

I have, in the past, advised the Board of the status of negotiations for the extension of this agreement for the sale of royalty crude oil from the Cook Inlet Basin. All of the approvals which I am now requesting of the Board have been discussed by the Board in conceptual terms. I am prepared to present to the Board the specific policy basis and to answer any questions the Board members may have.

GRM:jl

Reason for Extension of Agreement for the
Sale and Purchase of State Royalty Oil to
Tesoro-Alaskan Petroleum Corporation

This is regarding the extension of the agreement entitled "Agreement for the Sale and Purchase of the State Royalty Oil" dated 31st January, 1969 between the State of Alaska and Alaskan Oil and Refining Company. Tesoro-Alaskan Petroleum Corporation has become the legal successor to Alaskan Oil and Refining Company.

The effective date of the original agreement was January 1, 1970 (date of first delivery of crude) and ends eight (8) years from date of first delivery (January 1, 1978).

However, Article XII.3 of the original agreement states that "Purchaser is granted the right for two (2) successive three (3) year periods to extend this contract by giving the State written notice thereof not less than seven (7) months prior to the end of the then expiring term. Any such renewal shall be upon such terms and conditions as the parties may agree to." The intent of the original contract does provide for the extensions as stated, however, it is believed to be in the interest of both the State and Tesoro to rewrite the basic agreement to reflect future anticipated changes in the petroleum industry in Alaska, FEA price regulations, and considerations relating to the Mandatory Petroleum Allocation Regulations when they become

known during the next year. At the present time, there is not believed to be sufficient incentive for the State to take any other course than to extend the current agreement for a short time.

The Federal Energy Administration currently controls the ceiling price of all domestic crude oil, including that produced in the Cook Inlet. The Extension Agreement provides for the maximum known price which could be obtained under these regulations.

During the next year the State will learn much more about the future price or value of Cook Inlet crude as a result of the marketing of North Slope crude and related Federal price regulations. It is not currently known whether the price or value of North Slope crude will affect the price or value of Cook Inlet crude. An important consideration is that Cook Inlet crude is a much higher quality than North Slope crude. The State should have this information available before negotiating a new long term contract with Tesoro to insure that the best price possible is obtained and the interests of the State are protected.

The State presently receives the following for its royalty oil produced in the Cook Inlet Basin:

Base Price for 40.0+ Degree API Crude

East Side (Old Oil) \$5.26 per Barrel

West Side (Old Oil) \$5.035 per Barrel

Adjustment for each full

degree API Gravity below 40.0 -\$0.05 per Barrel

Adjustment for all oil over

15,000 BPD +\$0.02 per Barrel

Adjustment for all oil

classified as New Oil +\$5.85 per Barrel

Adjustment for transportation

all oil -\$0.056 per Barrel

Note: Cleaning and dehydration charge 2.5¢/Bbl 1976

(Paid by Tesoro) 5.85¢/Bbl 1977

The Federal price controls allow for a gravity adjustment reduction of 3¢ per Barrel for each full degree of API gravity below 40.9 API gravity. However, the original agreement calls for the 5¢ per Barrel indicated above which is the basis for the current payment. The State has received gravity adjustment as specified under the Federal Price controls for the Extension agreement.

Should the State allow the contract to expire and take the oil in value, it is possible that it would not be allowed to do so if Tesoro-Alaskan objected since they would claim relief

from FEA under the Mandatory Petroleum Allocation Regulations in that crude oil Buyer/Seller relationships are currently frozen unless the Buyer desires to terminate the agreement. Certainly, Tesoro does not wish to terminate their supply of crude oil.

Tesoro-Alaskan is also the largest refiner in the State and supplies a large portion of the petroleum market. It may be considered that it is in the State's interest to assure them an adequate crude supply. Tesoro currently supplies a larger quantity of products to the State than royalty oil purchased.

The extension for one (1) year gives the State needed time to determine its best course since further information will be available to develop a contract in the best interest of the State, particularly since there is little advantage to do otherwise. The State needs one full year lead time to complete a contract due to the requirement in the lease form to give six months notice to producers for the State to take oil and gas in-kind and an additional six months allowance for Royalty Board and Legislative approval.

This extension will also allow time for the Department of Natural Resources to determine if this oil should be disposed of by competitive bid if another bidder for the oil for in-state use can be obtained. Presently no other known qualified bidder exists.

TESORO-ALASKAN PETROLEUM COMPANY

Extension of the Agreement to Purchase State
Royalty Crude Oil

Findings and Conclusions of the Commissioner
Pursuant to Alaska Statute 38.05.183(c)

Alaska Statute, AS 38.05.183(c), requires that the Commissioner of Natural Resources make public, in writing, the specific findings and conclusions upon which a determination not to use competitive bid procedures is based for a sale of Alaska royalty oil or gas. Publication is to follow approval of the determination by the Alaska Royalty Oil and Gas Development Advisory Board. On March 8, 1977, the Royalty Board did approve the Commissioner's determination to waive the competitive bidding requirement for sale of royalty oil to the Tesoro-Alaskan Petroleum Company by extending for one (1) year the agreement entitled "Agreement for the Sale and Purchase of State Royalty Oil" dated 31st January 1969 between the State of Alaska and Alaskan Oil and Refining Company. (Tesoro-Alaskan Petroleum Corporation has become the legal successor to Alaskan Oil and Refining Company.) Accordingly, these written findings and conclusions are submitted in fulfillment of the requirements of AS 38.05.183(c).

Article X11.3. of the agreement provides that "Purchaser is granted the right for two (2) successive three (3) year periods to extend this contract by giving the State written notice thereof not less than seven (7) months prior to the end of the then expiring term. Any such renewal shall be upon such terms and conditions as the parties may agree to." The effective date of this agreement is January 1, 1970 (date of first delivery of crude) and ends eight (8) years from date of first delivery (January 1, 1978).

As stated above, the original contract provides for extensions, however, it is believed to be in the interest of both the State and Tesoro to rewrite the basic agreement to reflect anticipated changes in the petroleum industry in Alaska, FEA price regulations, and considerations relating to the Mandatory Petroleum Allocation Regulations. Therefore, it is recommended that this agreement be extended for one (1) year instead of three (3) years to allow for the development of this information.

The State has three alternatives which are:

1. Allow the contract to expire and take the oil in value.
2. Renegotiate the complete contract on a long term basis.
3. Extend current contract.

Should the State allow the contract to expire and take its royalty in value, it is likely that it would not be allowed to do so if Tesoro-Alaskan objected since they could claim relief from FEA under the Mandatory Petroleum Allocation Regulations in that crude oil Buyer/Seller relationships are frozen unless the Buyer desires to terminate the agreement. Should this occur, there would be no purpose of a competitive bid since FEA could force the sale to continue to Tesoro-Alaskan.

Tesoro-Alaskan is also the largest refiner in the State and supplies a large portion of the petroleum market, therefore, it may be considered that it is in the State's interest to assure them an adequate crude supply. Tesoro supplies a larger quantity of products to the State than royalty oil purchased. There is no known refiner in Alaska who could purchase royalty crude oil and deliver the needed products to the Alaskan market.

The need for competitive bid has been greatly reduced due to the FEA crude oil price controls. The extension agreement allows for the maximum price which could be obtained. During the next year the State will learn much more about the future price or value of Cook Inlet crude as a result of the marketing of North Slope crude and related Federal price regulations.

The State should have this information available when negotiating a new long term contract to insure that the best price possible is obtained and the interests of the State are protected.

The State presently receives the following for its royalty oil produced in the Cook Inlet Basin:

Base Price for 40.0+ Degree API Crude

East Side (Old Oil)	\$5.26 per Barrel
West Side (Old Oil)	\$5.035 per Barrel
Adjustment for each full degree API Gravity below 40.0	-\$0.05 per Barrel
Adjustment for all oil over 15,000 BPD	+\$0.002 per Barrel
Adjustment of all oil classified as New Oil	+\$5.85 per Barrel
Adjustment for transportation all oil	-\$0.056 per Barrel

Note: Cleaning and dehydration charge 2.5¢/Bbl 1976
(Paid by Tesoro) 5.85¢/Bbl 1977

The Federal price controls allow for a gravity adjustment reduction of 3¢ per Barrel for each full degree of API gravity below 40.9 API gravity. However, the original agreement calls for the 5¢ per Barrel indicated above which is the basis for the

current payment. The State has obtained gravity adjustment as specified under the Federal Price controls for the Extension agreement.

The extension for one (1) year gives the State needed time to determine its best course since further information will be available to develop a contract in the best interest of the State, particularly since there is little advantage to do otherwise. The State needs one full year lead time to complete a contract due to the requirement in the lease form to give 6 months notice to producers for the State to take oil and gas in-kind and an additional 6 months allowance for Royalty Board and Legislative approval.

APPROVAL OF THE EXTENSION OF THE AGREEMENT
FOR THE SALE AND PURCHASE OF STATE ROYALTY
OIL BETWEEN THE STATE OF ALASKA AND THE
TESORO-ALASKA PETROLEUM CORPORATION

WHEREAS, Alaska Statutes 38.06.050(a) and 38.05.183 require that the Alaska Royalty Oil and Gas Development Advisory Board ("Board") grant to the Commissioner of Natural Resources ("Commissioner") written approval for the sale, exchange or other disposition of royalty oil or gas, and

WHEREAS, Alaska Statute 38.05.182 requires that the Board grant its consent to the taking of royalty oil or gas in-kind, and

WHEREAS, the Board has been advised by the Commissioner of the progress of negotiations and has heard testimony, both in public sessions and working sessions, from the purchaser, and

WHEREAS, the Commissioner has now concluded his negotiations with the purchaser and has presented to this Board for its approval an Extension Agreement for the sale of royalty crude oil from the Cook Inlet Basin (which crude oil is identified more specifically in the contract), and


WHEREAS, This Board has carefully reviewed the proposed extension agreement and has received public comment on the extension agreement, and

WHEREAS, This Board finds that the taking of royalty crude oil in-kind to meet the obligations under the agreement will serve an important public purpose and be of general benefit to the public interest,

NOW THEREFORE, the Alaska Royalty Oil and Gas Development Advisory Board hereby grants its approval of the Extension Agreement between the State of Alaska and Tesoro-Alaska Petroleum Corporation and further approves the taking in-kind of the royalty crude oil dedicated to this contract.

Approve

Disapprove



Joseph P. Rodenbeck

John R. Sullivan

W. M. Taylor

W. M. Taylor

Date: 3-8-77

APPROVAL OF REQUEST OF COMMISSIONER
OF NATURAL RESOURCES
TO REJECT APPLICATIONS

WHEREAS, Alaska Statute 38.06.050(b) prohibits the rejection of applications for the purchase of royalty oil or gas by the Commissioner of Natural Resources ("Commissioner") without the approval of the Alaska Royalty Oil and Gas Development Advisory Board ("Board"), and


WHEREAS, the Commissioner in conjunction with his request for the sale of royalty crude oil to Tesoro-Alaska Petroleum Corporation requests that he be allowed to reject applications in conflict with the proposed sale, and

WHEREAS, this Board has reviewed all other applications for the purchase of royalty crude oil and heard public comment thereon,

NOW THEREFORE, this Board hereby grants its approval to reject applications to the extent such applications are rendered infeasible or impossible by the contracts for the sale of royalty crude oil approved by this Board on this date.

Approve

Disapprove



John R. Roderick

Date:

3. 7. 77

APPROVAL OF REQUEST OF COMMISSIONER OF NATURAL RESOURCES
TO WAIVE REQUIREMENT OF COMPETITIVE BIDDING

WHEREAS, Alaska Statutes 38.06.050(c) and 38.05.183 (a) and (c) require the Alaska Royalty Oil and Gas Development Advisory Board ("Board") grant written approval to the Commissioner of Natural Resources ("Commissioner") to waive the requirement that royalty oil or gas be sold by competitive bid, and

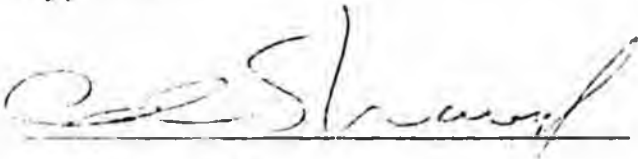
WHEREAS, the Commissioner has submitted to this Board a request to waive the requirement of public bidding with respect to royalty crude oil from certain leases which are known commonly as the Cook Inlet Basin leases, and

WHEREAS, this Board has considered the request of the Commissioner and finds the Commissioner's reasons sufficient to justify a waiver of the requirement for public bidding in the public interest;

NOW THEREFORE, the Alaska Royalty Oil and Gas Development Advisory Board hereby grants to the Commissioner of Natural Resources its approval of his request to waive public bidding.

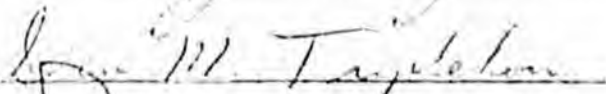
Approve

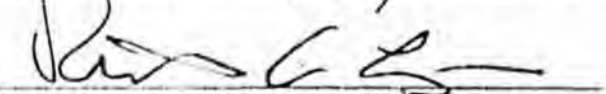
Disapprove



John R. Rodehorst







Date:

3-8-77

EXTENSION OF
AGREEMENT FOR THE SALE
AND PURCHASE OF STATE ROYALTY OIL

THIS EXTENSION, entered into by and between the STATE OF ALASKA ("STATE"), acting by and through its Commissioner of Natural Resources with the consent of the Alaska Royalty Oil and Gas Development Advisory Board pursuant to AS 38.05.182, AS 38.05.183 and AS 38.06 and TESORO-ALASKAN PETROLEUM COMPANY ("TESORO-ALASKAN").

W I T N E S S E T H :

WHEREAS, the STATE entered into that certain agreement entitled "AGREEMENT FOR THE SALE AND PURCHASE OF STATE OF ALASKA ROYALTY OIL" ("Agreement") with Alaskan Oil and Refining Company as of January 31, 1969; and

WHEREAS, TESORO-ALASKAN is the legal successor in due course to Alaskan Oil and Refining Company and the Alaskan Oil and Refining Company's rights, duties and obligations under the Agreement; and

WHEREAS, the paragraph numbered "1" of Article XII of the Agreement provides in pertinent part that the Agreement "shall continue and remain in full force and effect for a term beginning the date hereof and ending eight (8) years from the Date of First Delivery:" and

WHEREAS, the "Date of First Delivery" referred to in the aforesaid paragraph of the Agreement was January 1, 1970; and

WHEREAS, beginning on and since that date the STATE has sold royalty oil to TESORO-ALASKAN pursuant to the Agreement; and

WHEREAS, the STATE believes a one year extension of the sale of royalty oil to TESORO-ALASKAN for use in TESORO-ALASKAN'S Kenai Refinery is in the best interest of the STATE;

NOW THEREFORE, in consideration of the foregoing and in consideration of the mutual covenants and agreements herein contained, the STATE and TESORO-ALASKAN covenant and agree as follows:

ARTICLE I. EXTENSION

Article XII, Paragraph 1 of the Agreement shall be amended by the deletion thereof in its entirety and the substitution of the following:

1. The primary term of this contract shall extend to and include December 31, 1978, and shall be upon the same terms and conditions as provided herein, except, however, that the price to be paid by TESORO-ALASKAN to the STATE for royalty oil shall be in accordance with the provisions of Article II of this extension.

ARTICLE II. PRICE

Commencing January 1, 1978, TESORO-ALASKAN will pay to the STATE for royalty oil sold and delivered to it the highest price allowed under federal price controls for crude oil of like quality and gravity produced from fields in the Cook Inlet Area. It is understood and agreed that the highest price allowed under federal price controls, as referred to above, includes a premium of two cents (2¢) per barrel for up to 5000 barrels per day taken (pursuant to Paragraph 2 of Article II of the Agreement) in addition to the Contract Quantity of 15,000 barrels per day.

In the event the price of crude oil subject to this contract should cease to be regulated by the federal government during the period of time covered by this extension then and in that event TESORO-ALASKAN will pay to the STATE for the Contract Quantity of 15,000 barrels per day of royalty oil delivered to it in accordance with Article V of the Agreement. TESORO-ALASKAN shall pay to the STATE the price determined as immediately set forth, above, plus a premium of two cents (2¢) per barrel for all royalty oil delivered to it in excess of 15,000 barrels per day.

ARTICLE III. IN-STATE USE

TESORO-ALASKAN agrees that all oil purchased under the terms of this extension shall (a) be refined only in TESORO-ALASKAN'S Kenai Refinery or (b) shall be traded for an equal quantity of Alaskan crude oil which shall be refined in TESORO-ALASKAN'S Kenai Refinery.

ARTICLE IV. RATIFICATION

Except as hereinabove expressly modified, the Agreement (and all of its terms to the extent heretofore modified) shall remain in full force and effect.

ARTICLE V. APPROVAL OF ALASKA

STATE LEGISLATURE REQUIRED

If, on or before May 15, 1977, the Alaska State Legislature shall not have approved this Extension of the Agreement by a concurrent resolution concurred in by a majority of the members of each House, and this Extension of the Agreement shall not have been executed by the State of Alaska and in force and effect, as of such date, then this document

shall be null and void and of no force or effect, the same as if it had never been made.

IN WITNESS WHEREOF, the STATE has caused this Extension to be executed by its Commissioner of Natural Resources with the consent of the Alaska Royalty Oil and Gas Development Advisory Board (a copy of the resolution of the said Board consenting to this Extension is attached hereto as Exhibit A) and TESORO-ALASKAN has caused this Extension to be executed by its duly authorized officer, all in duplicate originals as of this 8th day of March, 1977.

THE STATE OF ALASKA

TESORO-ALASKAN PETROLEUM
COMPANY





~~v/ Guy R. Martin~~ JOHN R. RODERICK
ACTING Commissioner of Natural
Resources

Dennis F. Juren, President

AGREEMENT FOR THE SALE
AND PURCHASE OF STATE ROYALTY OIL

THIS AGREEMENT entered into as of the 31st day of January, 1969 by and between THE STATE OF ALASKA, hereinafter called the "State", acting by and through its Commissioner of the Department of Natural Resources and its Commissioner of the Department of Administration, and ALASKAN OIL AND REFINING COMPANY, a Texas corporation, hereinafter called the "purchaser";

W I T N E S S E T H

WHEREAS, the State, as lessor, is entitled to receive as royalty in kind certain oil produced from those certain State oil and gas in the Cook Inlet basin as said basin is more particularly described herein; and

WHEREAS, Alaskan Oil and Refining Company is constructing a refinery on the Kenai Peninsula of Alaska (hereinafter sometimes referred to as the "Refinery") and desires to insure for itself a firm and continuing supply of oil for the said Refinery; and

WHEREAS, the Department is authorized to enter into this contract by AS 44.07.020; and,

WHEREAS, it is in the best interest of the State of Alaska to encourage such development of manufacturing facilities within the State of Alaska;

NOW, THEREFORE, in consideration of the foregoing, and in consideration of the mutual covenants herein contained, the State of Alaska and Alaskan Oil and Refining Company hereby covenant and agree as follows:

ARTICLE I

Certain Definitions:

1. As used herein, the following terms shall have the following meanings:

(a) "Oil" means crude petroleum oil and other hydrocarbons, regardless of gravity, which are produced and

saved in liquid form at the well or its separator by ordinary production methods and this agreement does not cover natural gas or any liquefied products separated from natural gas by other than conventional lease oil and gas separators.

(b) "Date of First Delivery" means the first to occur of: (i) the date the first oil is run through Purchaser's Refinery or (ii) February 1, 1971.

(c) "Spot sales" means the total sales within the Cook Inlet Basin made by the State during any month to Third Party Purchasers (as defined in Article V. hereof) of oil taken in kind by the State when the cumulative total of all such sales during said month and the next preceding eleven (11) calendar months do not exceed ten per cent (10%) of the aggregate number of barrels of royalty oil credited to the State from the same fields, whether taken in kind or paid in value, during the same twelve (12) months period.

(d) "Spot purchases" means the total purchases within the Cook Inlet Basin of oil made by Purchaser during any month from Third Party Sellers (as defined in Article V. hereof) for the Refinery when the cumulative total of all such purchases during said month and the next preceding eleven (11) calendar months do not exceed ten per cent (10%) of the total oil run through Purchaser's said Refinery for the same twelve (12) months period.

(e) The "Cook Inlet Basin" means that geographical locality recognized as a tectonic and structural element bounded by the Kenai and Chugach Mountains on the east, the Talkeetna Mountains and Castle Mountains fault zone on the north, the Alaska Range to the west, and Shelikof Strait on the south.

ARTICLE 11.

Quantity:

1. Beginning on the date of First Delivery and continuing during the term and upon and subject to the terms

and conditions hereinafter provided, the State agrees to sell to the Purchaser, and Purchaser agrees to buy from the State, and if made available to Purchaser at a point of delivery herein provided and not taken by Purchaser, Purchaser nevertheless shall pay the State for, the total amount as and when produced of royalty oil which the State has the right to take, and is available to the State for taking, in kind, under the oil and gas leases producing into storage locations on the east side of the Cook Inlet Basin up to but not exceeding, during any calendar month, an average daily quantity of 15,000 barrels per day (the total quantity so available to the State during any such calendar month, up to but not exceeding an average daily quantity of 15,000 barrels per day, being hereinafter sometimes referred to as the "Contract Quantity"), provided that, whenever, during any calendar month the quantity of royalty oil available to the State for taking in kind from such State leases is less than an average daily quantity of 15,000 barrels per day, an average daily quantity of oil equal to the deficiency below 15,000 barrels per day shall be made up out of any royalty oil available to the State for taking in kind under the oil and gas leases producing into storage located on the west side of the Cook Inlet Basin, so that, to the extent available to the State for taking in kind, first out of the oil produced from the oil and gas leases producing into storage locations on the east side of the Cook Inlet Basin and next out of the oil produced from the oil and gas leases producing into storage locations on the west side of the Cook Inlet Basin, the State shall deliver to Purchaser, and Purchaser shall purchase and receive from the State, during each month, all of the State's share of such royalty oil (paid month up to but not exceeding an average daily quantity during any month of 15,000 barrels per day).

2. By giving the State notice in writing as provided

in Article IX. hereof, which notice may be given at any time and from time to time during the term of this contract, Purchaser, provided it is not then in default hereunder, shall be entitled to buy from the State and the State will sell to Purchaser, as and when available to the State for taking in kind and sale, such additional average daily quantity of royalty oil over and above the then Contract Quantity as may be specified in the Purchaser's said notice to the State, up to but not to exceed an aggregate of an additional 5,000 barrels per day, upon such terms and conditions as may be agreed upon between the State and Purchaser at, or within a reasonable time following, the giving of any such notice to the State of the Purchaser's desire to increase the Contract Quantity; and Purchaser, if then entitled to purchase such additional royalty oil pursuant to this paragraph, shall be entitled to terms and conditions no less favorable to Purchaser than those under which the State is then willing to sell a similar quantity of its in kind royalty oil to another purchaser then willing to purchase the same.

3. However, in connection with the foregoing paragraphs 1. and 2. of this Article II, it is recognized that the State may be required to take all of its royalty oil under any particular oil and gas lease in kind, if it elects to take any in kind, and may not have the right to take only the Contract Quantity of its royalty oil in kind with payment for the value of the remainder. In such event, the State shall endeavor (but shall not be obligated) to reach an agreement with the owners of the oil and gas lease subject hereto (herein sometimes called "lease owners") permitting the State to take only the Contract Quantity of its royalty oil in kind with payment for the value of the remainder, and in the event the State is unable to reach such an agreement with its lease owners prior to eight (8) months before the Date of First Delivery hereunder, then notwithstanding the provisions of the preceding paragraphs 1. and 2. of this Article

II., the Contract Quantity shall be increased to accommodate the additional royalty oil which must be taken by the State under such oil and gas leases.

4. Nothing herein contained shall preclude Purchaser from trading or exchanging any or all of the royalty oil to be purchased by it from the State for other Alaskan crude oil, provided that such trade or exchange shall not reduce the price provided for in Article V. hereof, and shall be at no cost or expense to the State, except that with respect to the deficiency, if any, referred to in paragraph 1 of this Article II. it is agreed as follows: (a) the parties shall attempt to eliminate or reduce the charges being made by Cook Inlet Pipe Line Company for the transportation of oil to the Drift River Terminal, or to otherwise avoid same, and (b) to the extent the parties are unable to eliminate or avoid such charges, the prices provided for in this Article II. shall be reduced by the amount of such charges.

5. Without in any manner relieving Purchaser of its obligations at all times to take and receive the Contract Quantity of oil hereunder as and when produced and available for taking in kind by the State and to pay the State therefor whether or not taken by Purchaser, it is agreed that if Purchaser shall for any reason fail to take and receive the Contract quantity of oil hereunder as and when produced and made available to the Purchaser, then except as hereinafter provided, the State may, at its election (and without being obligated so to do or giving any other remedy of the State with respect to such failure) sell or otherwise dispose of the oil not so taken by Purchaser on such terms and conditions as the State may deem in its sole will to be for the best interests of the State, and with respect to any oil so sold by the State, Purchaser shall be obligated to pay the State, after receipt by Purchaser of the State's invoice therefor, the deficiency (if any) of the net proceeds so received by

the State from such sales below the amount payable hereunder for the same quantities of oil, plus such additional expenses as may be incurred by the State in making such sales: provided, however, that if Purchaser's failure to take such oil is excused by the provisions of Article X. hereof, the State shall dispose of such oil for Purchaser's account as Purchaser may direct, and Purchaser's liability to the State hereunder shall then be limited to the deficiency in any of (i) the amount received by the State from such sale below (ii) the amount which the State would have received as royalties for oil from its Lease Owners producing the same if the State had not elected to take such oil in kind, except that in the event that Purchaser's failure to take such oil is the result of a strike, labor dispute or minor breakdown of machinery and equipment, Purchaser's liability to the State hereunder shall then be limited to the deficiency in any of (i) the amount received by the State from such sale below (ii) the amount which the State would have received as the price for such oil sold in accordance with Article V.

All sales by the State to others pursuant hereto shall be deemed the same as spot sales for the purpose of paragraph 3. of Article V.

ARTICLE III.

Quality:

Purchaser acknowledges and agrees that it is familiar with the kind and quality of oil which is being produced from the oil and gas leases subject hereto and that such oil is and shall be acceptable as to kind and quality for Purchaser's Refinery.

ARTICLE IV.

Points of Delivery:

Delivery and receipt of all royalty oil purchased hereunder shall be at the point or points where such oil is delivered to the State by its Lease Owners, subject to all

rights and obligations the State may have under any oil and gas lease subject hereto or other agreement hereafter made between the State and its Lease Owners; provided, however, nothing in this Article IV. shall authorize any reduction in the price to be paid by Purchaser pursuant to Article V. hereof, and no such other agreement hereafter made by the State and its Lease Owners shall diminish Purchaser's rights hereunder. Upon Purchaser's request, State agrees to exercise all rights it may have to require its Lease Owners to furnish storage for royalty oil free of charge to the extent provided in the oil and gas leases.

ARTICLE V.

Price:

1. Subject to the other terms and provisions hereof, Purchaser agrees to pay the State a price of \$3.06 per barrel for royalty oil of 40°-40.9° gravity, less 5¢ per barrel for each full degree of gravity under 40.9° delivered at the point or points of delivery specified in Article IV. hereof; provided, however, it is further agreed as follows:

A. In the event the arithmetical average of the (a) Signal Hill, California, (b) Oklahoma and Kansas (sweet), (c) West Texas (sweet), and (d) Texas Refugio (light) prices for any gravity of royalty oil being bought and sold pursuant to this agreement shall, in any "crude-oil prices, gravity schedule" presently published in the Oil and Gas Journal and appearing in any issue of the Oil and Gas Journal subsequent to the October 20, 1968 issue thereof (such October 20, 1968 schedule being attached hereto as Exhibit "A" and made a part hereof), increase or decrease by one cent (1¢) per barrel or more from that set forth in Exhibit "A", then effective the first day of the month following the date of such subsequent issue, the price herein specified shall increase or decrease by the same amount rounded off to the nearest one cent (1¢).

per barrel. In the event no price is specified in any such schedule for oil of a particular gravity (as, for example, in Exhibit "A" for Signal Hill, California crude oil above a gravity of 37.9°) then for the purpose hereof such price shall be deemed to be the same as the price set out in such schedule for the very next lower or higher gravity at which a price is listed. In the event such prices should for any reason not be published in the Oil and Gas Journal or its successor, then such arithmetical average shall be determined by the posted prices of the three largest purchasers in each of the areas above described.

2. If during any calendar month Purchaser purchases any oil for its Refinery from some other seller or sellers (herein sometimes referred to as a "Third Party Seller") at a weighted average price and gravity, determined as hereinafter provided (and herein sometimes referred to as "Third Party Price"), either delivered (a) at its Refinery or (b) to a point of delivery at no greater distance from its Refinery than the most distant delivery point hereunder, which Third Party Price is greater than the price then applicable under paragraph 1. of this Article V. for oil of the same gravity or, even if delivered to Purchaser at a delivery point more distant than (a) or (b), at a price which, after appropriate adjustment for all costs to be incurred by Purchaser in taking delivery at such delivery point over and above such as would have been incurred in taking delivery at (a) or (b), is greater than the price then applicable under Paragraph 1. of this Article V., then such Third Party Price, as adjusted for any such greater delivery point distance and further adjusted for gravity as hereinafter provided, shall likewise apply to all oil purchased by Purchaser hereunder from the State during such month. Such Third Party Price and the weighted average gravity to which it applies shall be determined by dividing the total number

of barrels purchased during any month by Purchaser from all Third Party Sellers, by the total amount paid by Purchaser for such oil, and then determining the weighted average gravity to which such weighted average price applies by (i) multiplying the quantity of oil purchased from each Third Party Seller by its gravity, (ii) totaling the products of such multiplication, (iii) dividing the result by the total number of barrels purchased, and (iv) then establishing the weighted average gravity thereof at the nearest full degree based on the result obtained from such division. When such Third Party Price has been determined for any month then, subject to the provisions of paragraph 4. of this Article V., if it is higher than the price then applicable under paragraph 1. of this Article for oil of the same gravity, then such Third Party Price for the weighted average gravity to which it applies shall be adjusted to the gravity of the oil purchased by Purchaser hereunder from the State during such month by adding to such Third Party Price five cents (5¢) per barrel for each full degree of gravity that such weighted average gravity is below the gravity of the oil purchased hereunder, and by subtracting from such Third Party Price five cents (5¢) per barrel for each full degree of gravity that such weighted average gravity is above the gravity of the oil purchased hereunder. The provisions of this paragraph 2. shall not apply during any month in which only spot purchases have been made by Purchaser from Third Party Sellers.

3. If during any calendar month the State sells any oil taken in kind by it and produced from any Field in the Cook Inlet Basin to some other purchaser or purchasers (herein sometimes called a "Third Party Purchaser") at a weighted average price (herein sometimes called "Third Party Price") and weighted average gravity, determined in the same manner as provided in paragraph 2. of this Article V. for determination of the weighted average price and gravity of

oil purchased by Purchaser (by substituting "Third Party Purchasers" for "Third Party Sellers", and by substituting "oil sold" for "oil purchased"), which Third Party Price is less than the price applicable under Paragraph 1. of this Article V. for oil of the same weighted gravity, then such Third Party Price, adjusted as hereinafter provided, shall likewise apply to all oil purchased by Purchaser hereunder from the State during the same month; provided that in determining whether any such Third Party Price is less than the price hereunder, appropriate consideration shall be given to and adjustment made for any costs or other economic burdens which the State may have hereunder but not thereunder or which are not borne by the Purchaser hereunder but are borne by the Third Party Purchaser. When any such Third Party Price has been determined for any month, then, subject to the provisions of Paragraph 4. of this Article V., if it is lower than the price then applicable under Paragraph 1. of this Article V. for oil of the same weighted average gravity, then such Third Party Price for the weighted average gravity to which it applies shall be adjusted to apply to the gravity of the oil purchased by Purchaser hereunder from the State during such month in the same manner as provided in the next to last sentence of Paragraph 2. of this Article V. The provisions of this Paragraph 3. shall not apply during any month in which only spot sales have been made by the State.

4. Whenever, during any month, there are both Third Party sales by the State and Third Party purchases by the Purchaser, the Third Party Price and the weighted average gravity to which it applies shall be determined by treating all such sales and purchases as "purchases" under Paragraph 2. of this Article V. and as "sales" under Paragraph 1. of this Article V., and (a) applying the provisions of Paragraph 3. of this Article V. If the Third Party Price so obtained is greater than the price then applicable under Paragraph 1. of this Article V. for oil of the same weighted average gravity,

and (b) applying the provisions of Paragraph 3. of this Article V. if the Third Party Price so obtained is less than the price then applicable under Paragraph 1. of this Article V. for oil of the same weighted average gravity.

5. For the purpose of Article II. and this Article V., the total quantity of oil received by Purchaser during any month shall be divided by the number of days in such month and the resulting daily average shall be considered as the actual quantity of oil received by Purchaser during each day of that month.

ARTICLE VI.

Measurements and Tests.

All measurements hereunder shall represent one hundred per cent (100%) volume, consisting of United States barrels of forty-two (42) gallons, the quantity and gravity of which will be adjusted to a temperature of sixty degrees (60°) Fahrenheit. Gravity shall be determined at the point at which custody of the oil is received by the Purchaser. Procedures for measuring and testing, except for delivery through positive displacement type liquid meters, shall be computed in accordance with the latest ASTM published methods then in effect. Procedures for such metered type deliveries shall be in accordance with ASME-API (Petroleum PD Meter Code) published methods then in effect. The royalty oil sold hereunder shall be merchantable oil of substantially the same quality as that presently being produced from the oil and gas leases subject hereto. Full deduction shall be made for all BS&W content according to the ASTM standard method then in effect. The State shall be notified in advance of and shall have the right to have a representative present to witness all measurements and tests. Purchaser shall measure and gauge all oil received by Purchaser hereunder, and shall bear the entire acquisition, installation, calibration, maintenance and operating cost of any loading, measuring or testing equipment required by Purchaser. Purchaser shall bear all dehydration and cleaning costs necessary to place the royalty oil in a

condition acceptable to Purchaser and if any such oil is cleaned or dehydrated by the State's Lessee prior to delivery of such oil to Purchaser, any costs therefor which are chargeable to the State under the applicable oil and gas lease shall be paid by Purchaser.

ARTICLE VII.

Payment:

The State shall invoice Purchaser on or before the twentieth day of each month for any amounts which may be due by Purchaser to the State under the provisions of Article II, hereof for the second preceding month on account of oil required to be taken and paid for by Purchaser (and paid for whether or not taken) but not so taken and paid for by it, or which may be due by Purchaser to the State under the provisions of Paragraph 5. of Article II., or the last sentence of this Article VII., and not theretofore paid by Purchaser. Purchaser shall make payment to the State on or before the last day of each calendar month for all oil received by Purchaser hereunder during the preceding calendar month (such payment to be accompanied by supporting run statements) and for all amounts, if any, for which the State has theretofore invoiced Purchaser in accordance with the preceding sentence hereof. All payments required to be made by Purchaser to the State under any of the provisions of this agreement shall be made to the State at the Division of Lands, Department of Natural Resources, State of Alaska, 114 Sixth Avenue, Anchorage, Alaska, 99501 (or at such other place in the State may from time to time designate by notice to the Purchaser), in cash or by the cashier's check or money order of a solvent bank which is a member of the Federal Deposit Insurance Corporation, payable to the order of the Department of Revenue, State of Alaska. All past due payments shall bear interest at the rate of eight per cent (8%) per annum; and in the event that Purchaser shall fail or refuse to pay the State currently

for oil purchased hereunder, or any other sums due the State hereunder, the State may, at its election, without waiving any other remedy which the State may have hereunder or by law, suspend deliveries of oil to Purchaser during any period of delinquency by Purchaser in payments hereunder, and during any such period or periods of suspension of deliveries, the State may further, at its election, sell oil produced from the oil and gas leases covered hereby to other purchasers, in the same manner and with the same effect and remedies as are provided in paragraph 5 of Article II. hereof with respect to oil not taken by Purchaser but within Purchaser's obligation to pay for whether or not taken hereunder.

ARTICLE VIII.

Transportation and Exchange Agreements:

Purchaser agrees to submit promptly to the Commissioner of the Department of Natural Resources two authenticated copies of any written agreements, and a full written explanation in duplicate of any oral agreements, covering the transportation or exchange of any oil covered hereby or the methods and costs of delivery and receipt of any of the oil covered hereby or any other oil received or to be received in exchange for any oil covered hereby.

ARTICLE IX.

Notices:

1. Purchaser acknowledges that State is required, pursuant to the terms of its oil and gas leases, to give at least six (6) months notice to its Lease Owners of the State's intention to take its royalty oil in kind. Therefore, Purchaser agrees to notify State at least seven (7) months in advance of:

(a) The date when Purchaser will commence the actual receipt of royalty oil pursuant to this agreement; and

(b) Any date upon which Purchaser desires to increase the amount of royalty oil to be

purchased pursuant to Paragraph 2. of Article
II. of this agreement.

2. All notices hereunder to the State shall be in writing and shall be delivered personally to the Commissioner of the Department of Natural Resources, or may be sent by registered or certified United States mail addressed to the Commissioner of the Department of Natural Resources, Pouch H, Juneau, Alaska 99801, provided that the State shall have the right to change its address for notice purposes by giving written notice thereof to the Purchaser.

3. Any notice hereunder by the State to the Purchaser shall be in writing and shall be delivered personally to the Purchaser or its representative, or may be forwarded by registered or certified United States mail addressed to the Purchaser at its registered office in the State of Alaska, with copy to Purchaser at 620 Commercial Bank Tower, Midland, Texas; provided that Purchaser shall have the right to change its address for notice purposes by giving written notice thereof to the State at another address for such purpose.

ARTICLE X.

Laws, Rules and Regulations; Force Majeure

Except as provided in Paragraph 3. of Article II, hereof, neither party hereto shall have or be under any liability in damages or otherwise to the other party by reason of failure or delay in the making or acceptance or deliveries of oil under the terms of this agreement to the extent that such failure or delay is due to any orders or regulations of any government, military authorities, governmental agencies, governmental interference, strike, labor difficulties, fires, explosions, failure of wells, breakdowns of machinery or equipment of any kind, the striking outing or delivering oil, floods, hurricanes, or other action of the elements, acts of God, or any other cause reasonably beyond the control of such party, whether or not

the same class or kind. In the event that either party shall be unable to perform hereunder, said party shall immediately give notice to the other party describing the nature of its disability and shall use all reasonable efforts to resume performance at the earliest possible date; provided, however, that neither party shall be required to settle strikes or other labor disputes except at such party's discretion. Nothing herein contained, however, shall be construed to relieve Purchaser of its obligation to make any payments due the State under this agreement in the amounts and at the times herein provided.

ARTICLE XI.

Default and Other Grounds for Termination:

It is agreed that if Purchaser fails to maintain itself as a corporation in good standing and duly permitted to transact business in the State of Alaska or if Purchaser becomes insolvent or commits any other act constituting an act of bankruptcy, then the State may, at its option, terminate this agreement by notice in writing to Purchaser. Likewise, in the event that Purchaser defaults in the performance of any obligation or commitment under the terms of this agreement and any such default continues for a period of more than thirty (30) days after the State has given notice in writing to Purchaser of such default and requested remedy thereof (or if the event of default is failure or refusal of Purchaser to make timely payment to the State for all taxes by Purchaser hereunder and such default continues for a period of more than ten (10) days after the State has given notice of such default), then the State may, without waiving or releasing any other rights which it may have with respect to Purchaser, terminate this agreement and be relieved of any further obligations to the Purchaser.

Every provision herein imposing an obligation upon Purchaser is a material inducement and consideration for the

execution of this agreement by State. No waiver by State of any breach of any provision of this agreement shall be deemed for any purpose to be a waiver of any breach of any other provision hereof nor of any continuing or subsequent breach of the same provision.

All remedies provided in this agreement shall be deemed cumulative and additional and not in lieu or exclusive of each other or of any other remedy available to State at law or in equity.

ARTICLE XII.

Term; Construction of Refinery:

1. Subject to the other terms, covenants and conditions hereof, this contract shall continue and remain in full force and effect for a term beginning the date hereof and ending eight (8) years from and after the date of first Delivery; provided that if Purchaser's refinery is not on stream by March 1, 1971, the State shall have the right to cancel and terminate this agreement by notice in writing to Purchaser given on or before April 15, 1971, or the State may enforce specific performance hereof. If any such notice of cancellation is given, and prior thereto, the State shall have given any of its Lease Owners notice of its intention to take its royalty oil in kind pursuant to Article X hereof and shall protect and save the State free and harmless from any loss or expense resulting therefrom to the extent that the State will realize no loss than the same net proceeds to the State of the royalty oil as it could have realized had such royalty oil never been sold. In the event the State is unable to enforce the specific performance of Paragraph 1 hereof, in any circumstances, the Purchaser shall be liable to the State for all costs and expenses incurred by the State, including but not limited to attorney's fees, of and for the State.

2. Purchaser shall protect and save the State free and harmless from any loss or expense resulting therefrom to the extent that the State will realize no loss than the same net proceeds to the State of the royalty oil as it could have realized had such royalty oil never been sold. In the event the State is unable to enforce the specific performance of Paragraph 1 hereof, in any circumstances, the Purchaser shall be liable to the State for all costs and expenses incurred by the State, including but not limited to attorney's fees, of and for the State.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

execution of this agreement by State. No waiver by State of any breach of any provision of this agreement shall be deemed for any purpose to be a waiver of any breach of any other provision hereof nor of any continuing or subsequent breach of the same provision.

All remedies provided in this agreement shall be deemed cumulative and additional and not in lieu or exclusive of each other or of any other remedy available to State at law or in equity.

ARTICLE XII.

Term; Construction of Refinery:

1. Subject to the other terms, covenants and conditions hereof, this contract shall continue and remain in full force and effect for a term beginning the date hereof and ending eight (8) years from and after the date of first Delivery; provided that if Purchaser's Refinery is not on stream by March 1, 1971, the State shall have the right to cancel and terminate this agreement by notice in writing to Purchaser given on or before April 15, 1971, or the State may enforce specific performance hereof. If any such notice of cancellation is given, and prior thereto, the State shall have given any of its Lease Owners notice of its intention to take its royalty oil in kind pursuant thereto, Purchaser shall protect and save the State free and harmless from any loss or expense resulting therefrom to the extent the State will realize no less than the same net return from its share of the royalty oil as it would have realized had the royalty oil never been sold. In the event the State elects to enforce the specific performance of Purchaser's obligations hereunder, the Purchaser shall be liable to the State for all costs and expenses so incurred by the State, including but not limited to attorneys' fees, if any, and court costs.

2. Purchaser shall proceed with and complete with reasonable diligence, the construction of its Refinery in

the end that the same will be on stream and ready to refine the oil to be purchased and sold hereunder on or before March 1, 1931.

3. Purchaser is granted the right for two (2) successive three (3) year periods to extend this contract by giving the State written notice thereof not less than seven (7) months prior to the end of the then expiring term. Any such renewal shall be upon such terms and conditions as the parties may agree to.

ARTICLE XIII.

Security:

State's performance of this contract is subject to Purchaser's performance of the following conditions:

1. This contract is a contract for the sale of goods to be sold by the State, as seller, to Purchaser, as buyer, and to secure payment of all amounts due hereunder for the oil so sold, the State hereby retains the vendors' lien and superior title with respect to all oil sold by it hereunder, which lien and superior title shall extend to all products made or processed therefrom, including all mixtures, if any, commingled therewith or added thereto, and the proceeds of the sale of all such oil and products, and which lien may be enforced at any time and from time to time the same as any other contract or statutory lien in Alaska, without prior notice to Purchaser, whenever the latter is in default in the payment of amounts due the State hereunder.

2. To further secure payment of all amounts due the State, the State retains and Purchaser hereby grants to the State an interest in all of the oil delivered and to be delivered to Purchaser hereunder and in all oil obtained by the State in exchange for oil purchased hereunder and the products made or processed from any such oil, including all mixtures, if any, commingled therewith, or added thereto, and in the proceeds of the sale of any such oil or products. The security interest shall attach to the oil at any time and place of delivery. Purchaser agrees to execute and file all documents

necessary to perfect State's security interest.

3. In addition, Purchaser will execute a mortgage in the form set out in Exhibit "B" attached hereto, which mortgage shall be a valid first and prior lien, upon all real property and interests in realty, whether owned in fee or by an estate of lesser duration, and all fixtures and improvements on or attached to such realty now owned or hereafter acquired by purchase in connection with its construction and operation of the Refinery, including but not limited to the Refinery site, as security for the performance of all of the Purchaser's obligations hereunder.

Purchaser will furnish the State:

(1) evidence of good title, including such title policies, opinions or other evidence of good title as may be required by the primary lending agency on any prior mortgage.

(2) A statement setting out the names and addresses of all officers, directors and stockholders of the Purchaser and the amount and type of stock owned by each and hereafter upon receiving notice thereof, the Purchaser shall promptly inform the State of any change in the names and addresses of its officers, directors, and stockholders or any change in ownership of any of its stock. Such statement shall be verified by the President or other officer of the Purchaser, duly authorized by its Board of Directors.

(3) Copies of all financial information furnished by Purchaser in order to obtain financing from any source for its Refinery in Alaska and such additional information as the State may request, reasonably necessary for determination or verification of the nature or value of Purchaser's assets and the amount or status of Purchaser's liabilities.

4. In lieu of the provisions of paragraphs 1., 2., and 3., Purchaser may provide alternative security as follows:

(a) A bond, in the form of bond attached hereto and made a part hereof as Exhibit "C", executed by the Purchaser, as principal, and a corporate surety, agreed to by the Commissioner of Administration and authorized to write such bonds in the State of Alaska, as surety, in the penal sum of \$2,500,000; provided that whenever the State has reasonable grounds for asserting and does assert any claim against Purchaser in excess of the penal sum of the bond of Purchaser then in effect hereunder, Purchaser, after being so requested by the State shall increase the penal sum of such bond to an amount reasonably sufficient to cover the claim of the State and all expenses which may be incurred by it in connection therewith, regardless of whether or not the Purchaser does or does not recognize the validity of the State's claim; provided further that the Purchaser may at any time and from time to time deposit and maintain with the Commissioner of Natural Resources in lieu of any such bond, either (i) an irrevocable letter or letters of credit addressed to the Commissioner of Natural Resources, State of Alaska, issued by a National banking Institution of the United States, which is a member of Federal Deposit Insurance Corporation and has an adequate capital and surplus of not less than \$25,000,000, or (ii) marketable securities, which are approved by the Commissioner of Administration, and which shall be transferable by the Commissioner as hereinafter by stock, bond attached or other means, or (iii) a letter of credit to be issued by a corporate issuer, or such marketable securities, to the extent of approval then fair market value, of not less than the amount required for Purchaser's bond agreement, and such letter or letters of credit and securities.

securities, together with any proceeds thereof, to be held by the Commissioner for the security and benefit of the State; and either of (i) or (ii) to be in form and substance approved by the State. If marketable securities are so furnished, other marketable securities which meet the requirements of this subparagraph (a) may be substituted at any time and from time to time for any previously furnished marketable securities, and the marketable securities so furnished shall be increased if at any time the fair market value of the securities then held by the Commissioner is less than, or may be reduced if the fair market value thereof exceeds, the amount of the bond then required of Purchaser hereunder, or (iii) security which in the opinion of the Commissioners of Natural Resources and Administration of the State of Alaska is of equal value of the security above described.

ARTICLE XIV.

Successors and Assigns:

This agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto; provided, however, an assignment or transfer of any kind (by operation of law or otherwise) of Purchaser's rights hereunder shall (without the prior written consent of the State) relieve the original Purchaser named herein of its obligations hereunder and provided further that in the event Purchaser or any successor of it shall make a voluntary assignment to creditors or be finally adjudged a bankrupt in federal bankruptcy proceedings, the State shall have no further obligation to such assigning or bankrupt party thereafter to perform hereunder, unless the State shall then so elect to continue to be obligated hereunder.

ARTICLE XV.

Appendix AA, attached hereto and made a part hereof.

sets forth additional general contract provisions of this contract.

ARTICLE XVI.

1. Entire Agreement: This agreement constitutes the entire agreement between the State and Purchaser relating to the subject matter of this agreement; and all prior writings and oral undertakings, if any, have been integrated into and made a part of this agreement. This agreement may not be altered or amended in any respect except in writing duly executed by or in behalf of the State and Purchaser.

2. Topical Headings: The topical headings used herein are inserted for convenience only, and shall not be construed as having any substantive significance or meaning whatsoever, or as indicating that all of the provisions of this agreement relating to any particular topic are to be found in any particular article.

IN WITNESS WHEREOF, the State has caused this agreement to be executed by its Commissioner of Natural Resources and Commissioner of Administration; and the Purchaser has caused this agreement to be executed by its President, thereunto duly authorized, by its Board of Directors in accordance with the certified copy of the resolution of said Board attached hereto, and its corporate seal, duly attested, to be affixed hereto, all in Duplicate Originals as of the day and year first above written.

THE STATE OF ALASKA

By [Signature]
Commissioner
Department of Administration

By [Signature]
Commissioner
Department of Natural Resources

- The State -

APPROVED AS TO FORM:

[Signature]
Attorney General
State of Alaska

ALASKA OIL AND REFINING COMPANY

By [Signature]
President

- Purchaser -

I, Richard M. Hamilton, III, certify that
I am the Assistant Secretary of the corporation named as
Purchaser in the attached contract; that Leslie R. Hill
who signed said contract on behalf of the Purchaser, was
then President of said corporation; that said
contract was duly signed for and in behalf of said corporation
by authority of its governing body, and is within the scope
of its corporate powers.

Richard M. Hamilton, III [Corporate Seal]

APPENDIX AA

Article A - 1. Inspection and Reports.

(a) The Department shall have the right to inspect, in such manner and at all reasonable times as it deems appropriate, all activities of the Purchaser arising in the course of its undertakings under this contract.

(b) The Purchaser shall make progress and other reports in such manner and at such times as the Department may reasonably require.

Article A - 2. State Saved Harmless.

The Purchaser shall hold and save the State, its officers, agents and employees, harmless from liability of any nature or kind, including cost and expenses, for or on account of any or all suits or damages of any character whatsoever resulting from injuries or damages sustained by any person or persons or property by virtue of performance of this contract.

Article A - 3. Equal Employment Opportunity.

(a) The Purchaser will not discriminate against any employee or applicant for employment because of race, color, religion, national origin, ancestry, age, or sex. The Purchaser will take affirmative action to insure that applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, ancestry, age, or sex. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Purchaser agrees to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause.

(b) The Purchaser shall state, in all solicitations or advertisements for employees to work on State of Alaska contract jobs, that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin, ancestry, age, or sex.

(c) The Purchaser will send to each labor union or representative of workers with which the Purchaser has a collective bargaining agreement or other contract or understanding a notice advising the said labor union or workers' representative of the Purchaser's commitments under this section, and shall post copies of the notice in conspicuous places available to all employees and applicants for employment.

(d) The Purchaser will include the provisions of Paragraphs (a) through (c) of this Section in every contract, and will require the inclusion of these provisions in every sub-contract entered into by any of its sub-contractors, so that such provisions will be binding upon each sub-contractor, as the case may be.

(e) The Purchaser agrees that he will fully cooperate with the office or agency of the State of Alaska which seeks to deal with the problem of unlawful or invidious discrimination, and with all other State efforts to guarantee fair Employment practices under this contract, and said Purchaser will comply promptly with all requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practice.

(f) Full cooperation as expressed in clause (e) foregoing shall include, but not be limited to, being a witness in any proceeding involving questions of unlawful or invidious discrimination if such is deemed necessary by any official or agency of the State of Alaska, permitting

employees of said Purchaser to be witnesses or complainants in any proceeding involving questions of unlawful or invidious discrimination, if such is deemed necessary by any official or agency of the State of Alaska, participating in meetings, submitting periodic reports on the equal employment aspects of present and future employment, assisting in inspection of the construction site, and promptly complying with all State directives deemed essential by any office or agency of the State of Alaska to insure compliance with all Federal and State laws, regulations and policies pertaining to the prevention of discriminatory employment practices.

(g) Failure to perform any of the above agreements pertaining to equal employment opportunities shall be deemed a material breach of the contract.

The responsible officer overseeing compliance with such fair practice and non-discrimination provision shall be the executive head of such department or other agency of the State of Alaska as is a party to the contract. Such responsible officer shall report to the State Commission for Human Rights whenever discriminatory practices are brought to his attention.

Article A - 4. Construction.

The Contract shall not be construed for or against either party hereto on the basis that such party did or did not author it.

EXHIBIT "B"

MORTGAGE

This mortgage, made this _____ day of _____, 1969, by ALASKAN OIL AND REFINING COMPANY, a Texas corporation, (or its successor in interest), mortgagor, and THE STATE OF ALASKA, mortgagee,

WITNESSETH, That the mortgagor mortgages to the mortgagee the following described property situated in the Kenai Recording District, State of Alaska:

Lot 4, Southeast quarter of Northwest Quarter, Section 22, Township 17 North, Range 12 West, Seward Meridian, Third Judicial District

together with the attachments, tenements, hereditaments, and appurtenances now or hereafter belonging or appertaining thereto, and all the rents, issues, and profits of the above-described property (provided, however, that the mortgagor shall be entitled to collect and retain the rents, issues, and profits until default hereunder), and all fixtures now or hereafter attached to or used in connection with the premises herein described.

This mortgage is to secure mortgagor's performance of the AGREEMENT FOR THE SALE AND PURCHASE OF STATE ROYALTY OIL, (hereinafter referred to as "contract"), entered into between the mortgagor and mortgagee and dated January 31, 1969. The sums secured by this mortgage shall be an amount equivalent to all damages direct and indirect, suffered and incurred by mortgagee in the event of mortgagor's breach, non-performance, or default of said contract, up to the sum of \$2,500,000. Mortgagee's damages in such event shall include, but not be limited to the following: (1) those arising out of mortgagor's failure to pay the contract price for royalty oil delivered to it by mortgagee; (2) those arising out of mortgagor's inability or refusal to accept and pay for royalty oil acquired by mortgagee as a result of

mortgagee's reliance upon mortgagor's performance under said contract; (3) attorney's fees and court costs.

This mortgage shall be foreclosed in the manner provided in AS 09.45.170 and following.

Mortgagor covenants that he is lawfully seized of an estate in fee simple herein; that the premises are free of any encumbrances, except as herein otherwise recited; that he warrants the usual covenants to the same extent as a statutory warranty deed under the laws of the State of Alaska and all covenants herein made, and that he will defend against any breach of any or all of the same.

Mortgagor further agrees to insure the premises covered by this mortgage against loss by fire in an amount equal to the fair market value of the premises. Such insurance shall be in a company or companies satisfactory to the mortgagee and the mortgagee shall be named as beneficiary of said insurance policy as its interest may appear, but in no event in an amount less than \$2,500,000. Mortgagor shall deposit with mortgagee copies of the insurance policy required by this paragraph.

Mortgagor agrees to pay the premiums of the insurance and all taxes and assessments upon the mortgaged premises when they become due, and failure to pay such premiums, taxes and assessments shall constitute a default under the agreement for the sale and purchase of royalty oil.

This deed applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. In this deed, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural.