

LEG. FINANCE - BILLS 1977 - 1978 879

HCR 118 thru HCR 130 879




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

COMMITTEE REPORT

HOUSE

FURTHER: _____

Date: _____

Mr. Speaker:

The Committee on FINANCE has had HCP 118
Directing the Legislative Council to create an Interim
Committee on Resources during the forthcoming interim.

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

recommends it do pass recommends it do not pass

recommends it do pass with attached amendment(s)

recommends it be replaced with CS for _____

and _____ new title same title

AND attaches a Letter of Intent New Fiscal Note

reports it back without recommendation

and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

new section 6

Introduced: 4/4/78
Referred: Finance

FINANCE
BY THE RESOURCES COMMITTEE

1 IN THE HOUSE

2 CS HOUSE CONCURRENT RESOLUTION NO. 118

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Directing the Legislative Council to create
6 an Interim Committee on Resources during
7 the forthcoming interim.

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

9 WHEREAS the Interim Committee on Resources prepared a report during the
10 interim between the first and second sessions of the Tenth Alaska State
11 Legislature; and

12 WHEREAS the report indicated that there is potential in Alaska for a
13 greatly expanded domestic utilization of fish species which are currently
14 underutilized by American fishermen; and

15 WHEREAS the interim committee indicated that several areas require
16 further study to clearly define the role the state should play in the develop-
17 ment of the bottomfish industry;

18 BE IT RESOLVED by the Alaska State Legislature that under the provisions
19 of AS 24.20.090 and Uniform Rule 48(c) the Legislative Council is directed
20 to create an Interim Committee on Resources after the adjournment of the
21 current session, and be it

22 FURTHER RESOLVED that the interim committee's duties shall be to

23 (1) investigate ways to utilize the bottomfish resources available
24 in the Northern Bering Sea and the Chukchi Sea;

25 (2) develop an economic analysis of the impact of the bottomfish
26 industry on Alaska's coastal communities with a community model for bottomfish
27 development;

28 (3) investigate ways to coordinate developing worldwide technology
29 with the needs of the bottomfish industry in Alaska;

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

(4) determine the extent to which foreign processors will be involved in the Alaska bottomfish industry;

(5) determine potential avenues of state involvement in the expansion of fishing technology and expertise.

(6) coordinate its activities with the Office of the Governor and other federal, state and municipal agencies, and with private entities to the extent this may be feasible, which are engaged in similar research and studies.

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS FOR HOUSE CONCURRENT RESOLUTION NO. 118
 Title Directing the Legislative Council to create an Interim Committee on
~~FINANCIAL~~ Resources during the forthcoming interim Date 5-12-78
 Requested by: Legislative Finance

II. FISCAL DETAIL

Agency Affected Legislative Affairs
 Program Category Affected General Government
 Budget Request Unit(s) Affected Council & Subcommittees

EXPENDITURES (Thousands of Dollars)

| | FY 77 | FY 78 | FY 79 | FY 80 | FY 81 | FY 82 |
|--------------------------|-------|-------|-------------|-------|-------|-------|
| 100 PERSONAL SERVICES | | | 24.5 | | | |
| 200 TRAVEL | | | 10.0 | | | |
| 300 CONTRACTUAL | | | 32.0 | | | |
| 400 COMMODITIES | | | | | | |
| 500 EQUIPMENT | | | | | | |
| 600 LAND & STRUCTURES | | | | | | |
| 700 GRANTS, CLAIMS, ETC. | | | | | | |
| TOTAL | | | 66.5 | | | |

FUNDING (Thousands of Dollars)


| | | | | | | |
|------------------------|--|--|------|--|--|--|
| <u>GENERAL FUND</u> | | | 66.5 | | | |
| <u>FEDERAL FUNDS</u> | | | | | | |
| <u>OTHER (Specify)</u> | | | | | | |
| | | | | | | |

POSITIONS

| | | | | | | |
|------------------|--|--|---|--|--|--|
| <u>FULL TIME</u> | | | | | | |
| <u>PART TIME</u> | | | | | | |
| <u>TEMPORARY</u> | | | 2 | | | |

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached.

IV. DATE 5/12/78 PREPARED BY 
 AGENCY Legislative Affairs
 PHONE 465-3850
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)



Official Business

Jack Wayne
Alaska State Legislature

House of Representatives

Committee on Resources

Pouch V
State Capitol
Juneau, Alaska 99811

TO: Rep. Mike Miller, Chairman
Legislative Council

FR: Rep. Alvin Osterback, Chairman
House Resources Committee

RE: Interim Committee Proposal



During 1977 the Interim Committee on Resource Matters prepared a Report on the Potential for an Alaskan Bottomfish Industry for the Alaska State Legislature. Basically, the Committee found that there is potential in Alaska for a greatly expanded domestic utilization of those fish species which are presently underutilized at least by American fishermen. The legislation which came from the Interim Resources Committee was concentrated on providing Alaskan fishermen with the capital needed for buying and equipping a bottomfish boat.

In the cover letter to the Legislative Council which accompanied the report to the Legislature, the Interim Resources Committee outlined several areas which require further study to clearly define the role the State should play in this developing industry:

- 1) An investigation of how to utilize the bottomfish resources available in the Northern Bering Sea and the Chukchi Sea
- 2) A clear economic analysis of the impact of this developing industry on Alaska's coastal communities with a community model for bottomfish development
- 3) An effort to find a way to coordinate developing world-wide technology with the needs of the developing industry in Alaska
- 4) Accurate figures for foreign processors' involvement
- 5) Possible state involvement of the expansion of fishing technology and expertise

There were two especially promising directions the research of last year's Interim Committee took. The first was the legislation

Rep. Mike Miller
10 March 1978
Page Two

revising the Commercial Fishing Loan Fund. The refining of that legislation should happen during this session along with evidence of how it will be plugged into the Permanent Fund. A second major direction of last Interim's research was the idea of creating an entity for the marketing of bottomfish. The present low price for most species of bottomfish is a major reason many Alaskan fishermen have been reluctant to begin harvesting bottomfish. The creation of a marketing board with many of the features of the British White Fish Authority seems one possible way of working to improve the situation. The idea of a marketing board is a good example of results from last Interim's research which needs further work.

The next few years will decide whether the bottomfish resources available in Alaskan waters will continue to be harvested and processed by foreign fleets and then sold back to the United States or whether American fishermen and the American consumer will at last have the benefits of the domestic utilization of a domestic resource. It is my contention that the role the State of Alaska plays in developing this industry will be vital to whether it ever gets off the ground.

KO/sh

PROPOSED BUDGET

Interim Committee on Resource Matters
Continuation of Bottomfish Project

July 15 - December 15, 1978

| | | |
|---|----------|-------------------|
| Project Director | \$15,000 | (at \$2400/month) |
| Secretary | 9,498 | (at \$1583/month) |
| Contractual Services | 30,000 | |
| Travel | 10,000 | |
| Miscellaneous (Postage, telephone, etc.) | 2,000 | |
| | <hr/> | |
| Total | \$66,498 | |

Introduced: 4/4/78
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 HOUSE CONCURRENT RESOLUTION NO. 118

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Directing the Legislative Council to create
6 an Interim Committee on Resources during
7 the forthcoming interim.

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

9 WHEREAS the Interim Committee on Resources prepared a report during the
10 interim between the first and second sessions of the Tenth Alaska State
11 Legislature; and

12 WHEREAS the report indicated that there is potential in Alaska for a
13 greatly expanded domestic utilization of fish species which are currently
14 underutilized by American fishermen; and

15 WHEREAS the interim committee indicated that several areas require
16 further study to clearly define the role the state should play in the develop-
17 ment of the bottomfish industry;

18 BE IT RESOLVED by the Alaska State Legislature that under the provisions
19 of AS 24.20.090 and Uniform Rule 48(c) the Legislative Council is directed
20 to create an Interim Committee on Resources after the adjournment of the
21 current session; and be it

22 FURTHER RESOLVED that the interim committee's duties shall be to

23 (1) investigate ways to utilize the bottomfish resources available
24 in the Northern Bering Sea and the Chukchi Sea;

25 (2) develop an economic analysis of the impact of the bottomfish
26 industry on Alaska's coastal communities with a community model for bottomfish
27 development;

28 (3) investigate ways to coordinate developing worldwide technology
29 with the needs of the bottomfish industry in Alaska;

1 (4) determine the extent to which foreign processors will be
2 involved in the Alaska bottomfish industry;

3 (5) determine potential avenues of state involvement in the expan-
4 sion of fishing technology and expertise;

5 (6) coordinate its activities with the ^{state and municipal,} ~~state and municipal,~~ ^{and} ~~with~~ ^{with}
6 of the governor and other agencies, ~~both~~ ^{both} ~~public~~
7 private entities to the extent this may be feasible, ~~at~~ ^{and} ~~the~~ ^{and} ~~public~~
8 ~~and~~ ^{and} ~~private,~~ ^{private,} which are engaged in similar
9 research and studies.

Introduced: 4/4/78
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 HOUSE BILL NO. 914

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Legisla-
7 tive Council for the continuation of a bottomfish pro-
8 ject; and providing for an effective date."

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

10 * Section 1. The sum of \$66,498 is appropriated from the general fund to
11 the Legislative Council for continuation of a bottomfish project by the
12 Interim Committee on Resources.

13 * Sec. 2. The unexpended and unobligated portion of this appropriation
14 lapses into the general fund June 30, 1979.

15 * Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-
16 070(c).

17

18

19

20

21

22

23

24

25

26

27

28

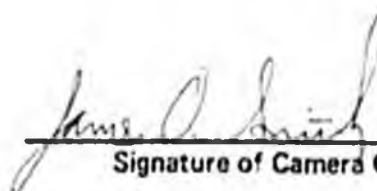
29



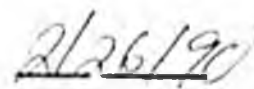
RECORDS CERTIFICATION



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

COMMITTEE REPORT
SENATE

FURTHER: _____

5/15/78

Date: June 17, 1978

Mr. President:

The Committee on FINANCE has had HCR 120 approving amendments to the royalty oil sales agreement between State of Alaska & Golden Valley Electric Association

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

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

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

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Chairman

7/10/78

April 5, 1978

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

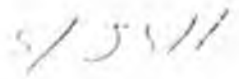
Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a concurrent resolution approving amendments to the "Royalty Oil Sales Agreement" between the State of Alaska and the Golden Valley Electric Association dated April 12, 1977.

The amendments were negotiated by the commissioner of the Department of Natural Resources under AS 38.05.183, and approved by the Alaska Royalty Oil and Gas Development Advisory Board under AS 38.06.050. The amendments will make the terms of the agreement between the state and Golden Valley Electric Association consistent with the terms of other agreements for the sale of the state's royalty oil, agreements which currently are before the legislature for approval or are under negotiation and will be submitted for approval in the near future.

In the past, there have been questions raised over the constitutionality of the legislature's approval of an executive act by the means of a concurrent resolution. In an effort to avoid raising that issue by submitting this contract for approval, I insisted that a clause requiring legislative approval be placed in the contract itself. I did so to insure that legislative approval in this instance could be sustained on the basis of a contractual provision rather than raise a constitutional debate over legislative power to require such approval.

Sincerely,



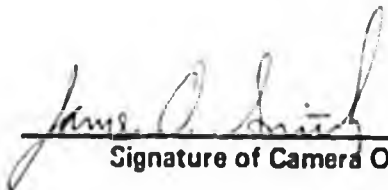
Jay S. Hammond
Governor



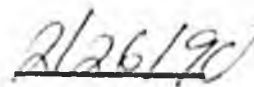
RECORDS CERTIFICATION



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

COMMITTEE REPORT
SENATE

FURTHER: _____

5/15/76

Date: June 19, 1976

Mr. President:

The Committee on FINANCE has had HCR 120 approving amendments to the royalty oil sales agreement between State of Alaska & Golden Valley Electric Association

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

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

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

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Chairman

7/12/20

April 5, 1978

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, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a concurrent resolution approving amendments to the "Royalty Oil Sales Agreement" between the State of Alaska and the Golden Valley Electric Association dated April 12, 1977.

The amendments were negotiated by the commissioner of the Department of Natural Resources under AS 38.05.183, and approved by the Alaska Royalty Oil and Gas Development Advisory Board under AS 38.06.050. The amendments will make the terms of the agreement between the state and Golden Valley Electric Association consistent with the terms of other agreements for the sale of the state's royalty oil, agreements which currently are before the legislature for approval or are under negotiation and will be submitted for approval in the near future.

In the past, there have been questions raised over the constitutionality of the legislature's approval of an executive act by the means of a concurrent resolution. In an effort to avoid raising that issue by submitting this contract for approval, I insisted that a clause requiring legislative approval be placed in the contract itself. I did so to insure that legislative approval in this instance could be sustained on the basis of a contractual provision rather than raise a constitutional debate over legislative power to require such approval.

Sincerely,

S/JS/11

Jay S. Hammond
Governor

71-R 120

AMENDMENT TO
ROYALTY OIL SALES AGREEMENT

THIS AMENDMENT, entered into by and between the Commissioner of Natural Resources of the State of Alaska, acting pursuant to AS 38.05.183, hereinafter referred to as "Seller", and Golden Valley Electric Association, an Alaskan Non-Profit Corporation, hereinafter referred to as "Buyer",

W I T N E S S E T H:

THAT WHEREAS, Seller and Buyer entered into that certain agreement entitled "Royalty Oil Sales Agreement" (Agreement), dated the 12th day of April, 1977; and,

WHEREAS, Buyer and Seller believe that certain amendments to that Agreement are in the best interests of the parties:

NOW, THEREFORE, in consideration of the foregoing and in consideration of the mutual covenants and agreements herein contained, Buyer and Seller covenant and agree as follows:

A. ARTICLE VII

Article VII of the Agreement shall be amended by the deletion thereof in its entirety and substitution of the following:

020.2

PRICE

7.1 As to oil sold and delivered hereunder out of the Leases, the price to be paid by Buyer to Seller shall be equal to the sum the Seller would have received from the Lessees had Seller received its royalty in value instead of taking the quantity of royalty oil delivered hereunder as its royalty in kind (amount). Seller and Buyer recognize that the method and basis of computing the royalty due Seller from Lessees under the Leases is currently a matter of dispute and litigation among the Seller and its Lessees, said litigation being entitled State of Alaska, et al., v. Amerada Hess Corp., et al., (No. CA 77-847, Superior Court of the State of Alaska, First Judicial District at Juneau). Pending resolution of said dispute among Seller and Lessees, by judicial decision or settlement in the above-referenced case, the in value royalty under the Leases, and therefore the price hereunder, shall be computed in accordance with Exhibit "C", attached hereto and by reference made a part hereof. After such time as said dispute shall be resolved among Seller and its Lessees, the parties hereto will be bound by the terms of such resolution, judicial or otherwise. Seller and Buyer expressly recognize that adjustment in prices previously paid may be necessary following said

resolution and said adjustment shall be duly made, with interest, pursuant to the applicable provisions of Article VIII. Any settlement agreement which agrees to the imposition of costs which are reimbursable by Buyer to Seller under Article 7.2, however, shall not be final and binding upon Buyer, unless Buyer has consented in advance to such settlement.

7.2 In addition to the price stated in Article 7.1, Buyer shall also reimburse Seller for Seller's pro rata share of (i) any basic sediment and water removal costs if Seller is required to pay such costs as a result of Seller's election to take its royalty oil in kind; and (ii) any other direct costs reasonably incurred and paid by Seller which would not have been incurred by Seller had the Seller taken its royalty in value rather than in kind and if such costs under Article 7.2(i) and (ii) were not previously reflected in applicable computations of value for payments of royalty in value. Seller shall use its best efforts to minimize any such costs incurred by Seller by reason of Seller's taking royalty oil in kind; such best efforts shall include, but not be limited to, litigation in cooperation with, and at the request of, Buyer, at Buyer's cost, to the extent necessary to contest the imposition of unwarranted or improper charges; provided, however, that Seller shall in no event be required

to advocate legal positions or adopt legal strategies which it, in its discretion, deems contrary to its own interests, in any such litigation. Seller at this date does not know of any potential costs to be incurred by it as a result of its taking in kind rather than in value other than the costs stipulated in this Article 7.2(i) above.

7.3 If at any time during the term of this Agreement, Seller sells royalty oil of comparable grade, quality and quantity to that taken in kind and produced from the Leases from the Prudhoe Bay Unit to some other Buyer or Buyers at a price which is less than the price to be received from Buyer hereunder, the prices to be paid to Seller hereunder shall be adjusted accordingly.

B. ARTICLE VIII

Article VIII of the Agreement shall be amended by the addition of the following:

8.7 Due to the potentially large sums of money involved, any adjustments to any billing under the provisions of this Article VIII by Seller made more than sixty (60) days after such billing was initially rendered shall be paid to or refunded by Buyer or Seller over the same period over which such adjustments accrued or thirty-six (36) months, whichever is longer, beginning with the first payment next

following the date such adjustment has been determined; provided, however, no such payment extension permitted hereunder shall extend beyond the term stipulated in Article 9.2, and accordingly, the full balance of any unpaid adjustments shall become due and payable on the termination date hereof.

C. ARTICLE XI

Article XI of the Agreement shall be amended by the deletion of Article 11.2 thereof in its entirety and substitution of the following:

11.2 Buyer shall provide security in the form of a bond attached hereto and made a part hereof as Exhibit "D", executed by the Buyer, as principal, and a corporate surety agreed to by the Commissioner and authorized to write such bonds in the State of Alaska, as surety for a sum which shall substantially reflect the amounts owed by Buyer to Seller plus an amount equal to the value of any oil delivered by Seller to Buyer and not yet billed pursuant to Article VIII; provided, that whenever Seller has reasonable grounds for asserting and does assert any claims against Buyer in excess of the penal sum of the bond of Buyer then in effect hereunder, Buyer, after being so requested by Seller, shall either increase the penal sum of such bond to an amount reasonably sufficient to cover the claim of Seller and all

expenses which may be incurred by it in connection therewith or shall furnish other security satisfactory to Seller, regardless of whether the Buyer does or does not recognize the validity of the Seller's claim (so long as reasonable grounds for asserting such claim exist). Buyer may at any time and from time to time deposit and maintain with the Commissioner at Buyer's expense in lieu of any such bond, either (i) an irrevocable letter or letters of credit addressed to the Commissioner issued by a state or national banking institution of the United States which is a member of the Federal Deposit Insurance Corporation, having an aggregate capital and surplus of not less than \$10,000,000, or the National Rural Utilities Cooperative Finance Corporation (CFC), or (ii) marketable securities which are approved by the Commissioner, and which shall be transferable by the Commissioner or by delivery by stock power attached or other means, such letter or letters of credit to be in an aggregate amount, or such marketable securities to be of an aggregate then fair market value, of not less than the amount then required for Buyer's bond hereunder, any such letter or letters of credit and marketable securities, together with any proceeds thereof, to be held by the Commissioner for the security and benefit of the Seller, and such letter or

letters of credit or marketable securities along with instruments of transfer to be in form and substance approved by the Seller. The amount of said letter or letters of credit or marketable securities shall be subject to increase in the same manner that the face amount of the bond is subject to increase. If marketable securities are so furnished, other marketable securities which meet the requirements of this Article 11.2 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 Buyer hereunder. Buyer may, in lieu of any other security, provide other security which, in the opinion of the Commissioner, is of equal value to the security above described.

D. ARTICLE XIII

Article XIII of the Agreement shall be amended by the addition of the following:

13.2 Upon initiation of deliveries pursuant to Article IV and/or V, Seller, in addition to all other quantities of crude oil deliverable hereunder, shall deliver

to Buyer on or prior to the date of first delivery, a sufficient quantity of crude oil for Buyer to fulfill its tariff obligations to supply TransAlaska Pipeline System ("TAPS") pipeline fill. Buyer shall pay for such quantity of oil on the date of termination pursuant to any of the provisions of this Agreement, at the price stipulated in Article VII, as if such oil had been delivered to Buyer at the point of delivery forty-five (45) days prior to the said date of termination. In the event Buyer suspends its purchase of oil from the Leases after having initiated deliveries and after Seller has delivered the pipeline fill as provided by this Article 13.2, Buyer shall pay for such quantity of oil as if it had been delivered at the point of delivery on the date Buyer suspended its purchases. Thereafter Seller shall be obligated to provide pipeline fill upon Buyer's reinitiation of deliveries of oil out of the Leases as provided by other provisions of this Agreement.

E. PATIFICATION

In all other respects, except as expressly changed herein, the original Agreement shall continue in full force and effect as originally written.

F. APPROVAL OF ALASKA STATE LEGISLATURE REQUIRED

If the Tenth Alaska State Legislature, Second Session, shall not have approved this Amendment to the

Agreement by a concurrent resolution concurred in by a majority of the members of each House, and this Amendment to the Agreement shall not have been executed by the State of Alaska in force and effect, then this Amendment shall be null and void and of no further force or effect, the same as it if had never been made.

IN WITNESS WHEREOF, the Seller has caused this Amendment to Royalty Oil Sales Agreement 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 Buyer has caused this Amendment to be executed by its duly authorized officer, all in duplicate originals, on the date set forth hereinbelow.


"Buyer"
GOLDEN VALLEY ELECTRIC
ASSOCIATION, INC.

By: 
President

ATTEST:

By: 

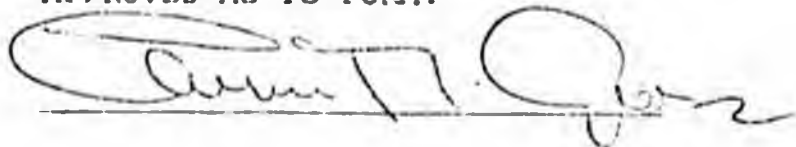
"Seller"
THE STATE OF ALASKA

By: 
Commissioner
Department of Natural Resources

ATTEST:

By: _____

APPROVED AS TO FORM:



I, SANDRA ROSENBERG, certify that I am the Secretary of the corporation named as Buyer in the above Amendment; that ALFRED J. LOMEN, who signed said Amendment on behalf of Buyer, was then President of said corporation; that said Amendment 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.



(CORPORATE SEAL)

Sandra Rosenberg
Sandra Rosenberg, Secretary

STATE OF ALASKA)
4th JUDICIAL DISTRICT) ss.:

THIS IS TO CERTIFY that on the 17th day of March, 1978, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn as such, personally appeared ALFRED J. LOMEN, to me known to be the President of GOLDEN VALLEY ELECTRIC ASSOCIATION, INC., a corporation, and known to me to be the person who executed the within instrument on behalf of the corporation herein named, and acknowledged to me that the same was signed as a free act and deed of the said corporation for the uses and purposes therein stated and pursuant to its Bylaws or a resolution of its Board of Directors.

WITNESS my hand and notarial seal the day and year first above written.

Elizabeth K. Sprunger
Notary Public in and for Alaska
My commission expires Dec 27, 1980

STATE OF ALASKA

)

: ss.:

First JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on the 29th day of March, 1978, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn as such, personally appeared Robert E. Lakesche, to me known to be the Commissioner of Natural Resources for the State of Alaska, and known to me to be the person who executed the within instrument on behalf of the State of Alaska, and acknowledged to me that the same was signed as a free act and deed of the State of Alaska for the purposes and uses therein stated.

WITNESS my hand and notarial seal the day and year first above written.



Jennie Boston

Notary Public in and for Alaska

My commission expires: Nov. 2, 1980

EXHIBIT "C"

Calculation of monthly in value royalty under the Leases and leases (all calculations shall be rounded to the nearest \$0.001)

STEP 1: Calculate each producer's weighted average value per barrel at Point of Delivery for all oil sold by each producer during the month, as follows:

Example, Producer Y

| (1) <u>Destination</u> | (2) <u>Volume Sold</u> | (3) <u>Sales Price at Destination</u> | (4) <u>Shipping Costs</u> | (5) <u>Pipeline Tariff</u> | (6) <u>Point of Delivery Value</u> | (7) <u>Weighted Average Value</u> |
|---------------------------|---------------------------|--|------------------------------|-------------------------------|---------------------------------------|--------------------------------------|
| 1 | 2,000,000 | \$12.500 | \$ -0- | \$4.770 | \$7.730 | - |
| 2 | 4,000,000 | 13.370 | 1.110 | 4.750 | 7.510 | - |
| 3 | 5,000,000 | 13.440 | 3.830 | 4.750 | 4.860 | - |
| | | | | | | <u>\$6.345</u> |

Columns 2, 3, 4 and 5 shall be computed from actual data as reported by each producer and filed with the State of Alaska for royalty purposes and severance tax purposes.

STEP 2: The "weighted average value" per barrel of each producer (column 7 above) at the Point of Delivery shall then be used in column (9) below in calculating the applicable in value price for each producer (column 11 below), the weighted average of which shall be the In Value Price to Buyer (column 12), as follows:

-continued-

Example, all producers:

| (8) Producer and Quantity | (9) Wtd. Avg. Value at Point of Delivery (Col. 7) | (10) Wtd. Avg. Price Received by all other Producers | (11) Applicable Price for In Value Calculation | (12) In Value Price to Buyer |
|------------------------------------|--|---|---|---------------------------------------|
| X; 4,200,000 | \$6.920 | \$6.404 | \$6.920 | - |
| Y; 11,000,000 | 6.345 | 7.003 | 7.003 | - |
| Z; 500,000 | 7.700 | 6.504 | 7.700 | - |
| Weighted Avg. | <u>\$6.542</u> | | | <u>\$7.003</u> |

Notes:

- 1) Values in column 10 are the weighted average of all producers other than the producer for which the calculation is being made.
- 2) Column 11 is the highest of the values in columns 9 or 10 for each producer.
- 3) Column 12 is the weighted average of values in column 11.
- 4) Buyer shall not pay any reimbursable costs under Article 8.2 until such costs are judicially determined as owing.
- 5) There is no posted price. "Market" or "field" value shall not be used in calculating the "In Value price to Buyer" unless and until the methodology of determining same is judicially decided.
- 6) Subject to later adjustment under Article 9.5.

EXHIBIT "D"

FORM OF BOND

The bond shall be in a form submitted by Buyer and shall contain such terms and conditions as are approved by the Commissioner.

Introduced: 4/5/78
Referred: The Special
Committee on Sale of Royalty
Oil and Gas

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2

HOUSE CONCURRENT RESOLUTION NO. 120

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

TENTH LEGISLATURE - SECOND SESSION

5

Approving amendments to the royalty

6

oil sales agreement between the

7

State of Alaska and Golden Valley

8

Electric Association

9

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

10

WHEREAS, the State of Alaska and the Golden Valley Electric Associa-

11

tion entered into an agreement entitled "Royalty Oil Sales Agreement,"

12

dated April 12, 1977; and

13

WHEREAS, the commissioner of the Department of Natural Resources and

14

the Golden Valley Electric Association have negotiated certain amendments

15

to the agreement; and

16

WHEREAS, the Alaska Royalty Oil and Gas Development Advisory Board has

17

approved those amendments as required by AS 38.06.050; and

18

WHEREAS, these amendments will make the terms of the agreement con-

19

sistent with the terms of other agreements for the sale of the state's

20

royalty oil currently before the legislature for approval or under negotia-

21

tion; and

22

WHEREAS, the amendments are in the best interests of the State of

23

Alaska;

24

BE IT RESOLVED by the Alaska State Legislature that the amendments are

25

approved under AS 38.06.055.

26

27

28

29




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

COMMITTEE REPORT
HOUSE

FURTHER: _____

Date: 5/19/77

Mr. Speaker:

The Committee on FISANCE has had NOV 120
relating to the Anchorage Recreation Area.

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

- recommends it do pass () recommends it do not pass
() recommends it do pass with attached amendment(s)
() recommends it be replaced with CS for _____
and _____ () new title () same title
() AND attaches a Letter of Intent () New Fiscal Note
() reports it back without recommendation
() and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Chairman

Introduced: 5/3/78
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE

2 HOUSE CONCURRENT RESOLUTION NO. 129

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Relating to the Anchorage Recreation Area.

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

7 WHEREAS the present expanding population of the Municipality of
8 Anchorage has occurred at such a pace and under conditions which have placed
9 stress on neighborhood recreational opportunities; and

10 WHEREAS it is the responsibility of government to provide reasonable and
11 appropriate avenues to citizens to participate and enjoy available open space
12 for recreational use; and

13 WHEREAS such land is available through the various state agencies,
14 namely the Department of Transportation and Public Facilities, division of
15 aviation, and the Department of Natural Resources, in the area designated as
16 Spenard Lake, Point Woronzof/Point Campbell, and Connors Lake in the
17 Anchorage Bowl; and

18 WHEREAS sections of Spenard Lake and Connors Lake as well as Point
19 Woronzof/Point Campbell are being used presently through lease arrangements
20 with the Municipality of Anchorage and other private, nonprofit corporations
21 for swimming, cross-country skiing, and snowmobiling; and

22 WHEREAS the Municipality of Anchorage and the division of aviation,
23 Department of Transportation and Public Facilities, have each worked on plans
24 for the area which will take into account recreational uses; and

25 WHEREAS the suggested land use is already in effect through various
26 municipal agreements and management contracts;

27 BE IT RESOLVED by the Alaska State Legislature that a comprehensive
28 study be made of the land designated as Spenard Lake, Point Woronzof/Point
29 Campbell, and Connors Lake in the Anchorage Bowl to determine what land is

1 available, or could be available to be placed within a newly created
2 Anchorage Recreation Area; and that this study be made by the division of
3 aviation with the cooperation of the Municipality of Anchorage and the divi-
4 sion of parks, Department of Natural Resources, with the prime responsibility
5 for compiling and completing this study resting with the division of avia-
6 tion; and be it

7 FURTHER RESOLVED that the Governor is respectfully requested to direct
8 the division of aviation of the Department of Transportation and Public
9 Facilities to undertake and review its present and future needs on the land
10 specified in this resolution; the purpose of this review shall be to identify
11 the land that is found unnecessary for the execution of the division of
12 aviation safety and administrative responsibilities; and be it

13 FURTHER RESOLVED that the Administration submit its evaluation and
14 recommendations to the First Session of the Eleventh Legislature.

Introduced: 5/3/78
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE

2 HOUSE CONCURRENT RESOLUTION NO. 129

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Relating to the Anchorage Recreation Area.

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

7 WHEREAS the present expanding population of the Municipality of
8 Anchorage has occurred at such a pace and under conditions which have placed
9 stress on neighborhood recreational opportunities; and

10 WHEREAS it is the responsibility of government to provide reasonable and
11 appropriate avenues to citizens to participate and enjoy available open space
12 for recreational use; and

13 WHEREAS such land is available through the various state agencies,
14 namely the Department of Transportation and Public Facilities, division of
15 aviation, and the Department of Natural Resources, in the area designated as
16 Spenard Lake, Point Woronzof/Point Campbell, and Connors Lake in the
17 Anchorage Bowl; and

18 WHEREAS sections of Spenard Lake and Connors Lake as well as Point
19 Woronzof/Point Campbell are being used presently through lease arrangements
20 with the Municipality of Anchorage and other private, nonprofit corporations
21 for swimming, cross-country skiing, and snowmobiling; and

22 WHEREAS the Municipality of Anchorage and the division of aviation,
23 Department of Transportation and Public Facilities, have each worked on plans
24 for the area which will take into account recreational uses; and

25 WHEREAS the suggested land use is already in effect through various
26 municipal agreements and management contracts;

27 BE IT RESOLVED by the Alaska State Legislature that a comprehensive
28 study be made of the land designated as Spenard Lake, Point Woronzof/Point
29 Campbell, and Connors Lake in the Anchorage Bowl to determine what land is

1 available, or could be available to be placed within a newly created
2 Anchorage Recreation Area; and that this study be made by the division of
3 aviation with the cooperation of the Municipality of Anchorage and the divi-
4 sion of parks, Department of Natural Resources, with the prime responsibility
5 for compiling and completing this study resting with the division of avia-
6 tion; and be it

7 FURTHER RESOLVED that the Governor is respectfully requested to direct
8 the division of aviation of the Department of Transportation and Public
9 Facilities to undertake and review its present and future needs on the land
10 specified in this resolution; the purpose of this review shall be to identify
11 the land that is found unnecessary for the execution of the division of
12 aviation safety and administrative responsibilities; and be it

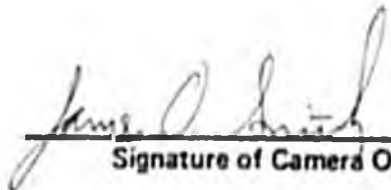
13 FURTHER RESOLVED that the Administration submit its evaluation and
14 recommendations to the First Session of the Eleventh Legislature.
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



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

COMMITTEE REPORT

SENATE

FURTHER: _____

3/30/78

Date: June 12, 1978

Mr. President:

The Committee on FINANCE has had HCR 130
sale of royalty oil to Arctic Resources Company of Alaska

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

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

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

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Chairman

Introduced: 5/5/78
Referred: The Special Committee
on the Sale of Royalty Oil &
Gas

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO. 130

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Approving the sale of royalty oil
6 to Earth Resources Company of
7 Alaska

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

9 WHEREAS, the State of Alaska has the right under AS 38.05.180 and its
10 oil and gas leases to take its royalty of crude oil production removed or
11 sold from said leases either in value (money) or in kind (oil); and

12 WHEREAS, the legislature has by enactment of AS 38.06 and AS 38.05.182
13 established a policy favoring the taking of that royalty in kind (referred
14 to as "royalty oil"); and

15 WHEREAS, the State of Alaska entered into a certain agreement entitled
16 "AGREEMENT FOR THE SALE AND PURCHASE OF STATE ROYALTY OIL" ("Agreement")
17 for the sale of royalty oil with Earth Resources Company of Alaska; and

18 WHEREAS, under its duties and powers as set out in AS 38.06, the
19 Alaska Royalty Oil and Gas Development Advisory Board has considered and,
20 on March 27, 1978, approved the Agreement; and

21 WHEREAS, the commissioner of natural resources has fulfilled the
22 statutory prerequisites necessary to selling the royalty oil which is the
23 subject of the Agreement and has obtained approvals from the Alaska Royalty
24 Oil and Gas Development Advisory Board, to the extent required under AS
25 38.05 and 38.06; and

26 WHEREAS, the Agreement contains a provision stating that it takes
27 effect on the date on which it has been approved by a concurrent resolution
28 by a majority of each house of the Tenth Alaska State Legislature; and

29 WHEREAS, under AS 38.06.055(a), no sale of royalty oil may be made by

1 the commissioner of natural resources without the prior approval of the
2 legislature by a concurrent resolution concurred in by a majority of the
3 members of each house; and

4 WHEREAS, the commissioner of natural resources submitted the Agreement
5 to the legislature for consideration and approval; and

6 WHEREAS, the legislature has reviewed and evaluated the Agreement, and
7 has conducted public hearings or otherwise received background information,
8 expert advice, and expressions of public opinion sufficient to make a
9 reasoned determination with respect to the Agreement; and

10 WHEREAS, the legislature finds the Agreement to be in the best interests
11 of the State of Alaska and its citizens, and further finds that the Agree-
12 ment is in compliance with all applicable constitutional directives and
13 requirements of law;

14 BE IT RESOLVED by the Alaska State Legislature that the Agreement
15 entitled "AGREEMENT FOR THE SALE AND PURCHASE OF STATE ROYALTY OIL," between
16 the State of Alaska, acting through its commissioner of natural resources,
17 and Earth Resources Company of Alaska, is hereby approved.

COMMITTEE REPORT
SENATE

5/26/78

FURTHER: FINANCE

Date: 5/26/78

Mr. President:

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

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

recommends it do pass () recommends it do not pass

() recommends it do pass with attached amendment(s)

() recommends it be replaced with CS for _____

and _____ () new title () same title

() AND attaches a Letter of Intent () New Fiscal Note

() reports it back without recommendation

() and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Signature]

[Signature]

Pete Meland

[Signature]

[Signature]

J. R. Poland
Chairman

5/25/78

COMMITTEE REPORT

SENATE

5/25/78

FURTHER: RESOURCES

FINANCE

Date: 5/25

Mr. President:

SPECIAL COMMITTEE TO CONSIDER

The Committee on ROYALTY OIL SALES PROPOSALS has had HCR 130 sale of royalty oil to Earth Resources Company of Alaska

under consideration and (a majority of the committee) (the committee reports it back as follows) *with ind. recs.*

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

and _____ () new title () same title

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

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Mike Gallotta

Bill Hammer

R. Poland

Mike Gallotta

 Chairman

STATE OF ALASKA

RAY S. PALMISTO, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

11TH FLOOR, STATE OFFICE BUILDING
ANCHORAGE - ALASKA 99504

May 17, 1978

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

RECEIVED
MAY 18 1978
NORTH POLE REFINING
11:00 am

Dear Mr. DeLong:

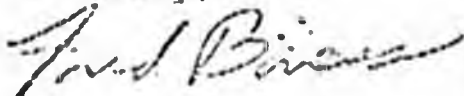
During Legislative hearings on the contract between the State and Earth Resources Company of Alaska a question was raised concerning the relationship between North Pole's right to take royalty oil from lessees other than Prudhoe Bay and the similar provision in the Alpetco contract. I responded that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

I, therefore, checked earlier drafts of the Agreement. In the March 16, 1973, draft the words "if such oil is available and unobligated." conclude the first sentence of Article 2.1.2. These words are dropped in the March 27, 1978, draft, however, my working copy of that draft contains a penned notation that these words are missing and should be added.

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

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

Sincerely,



Frederick H. Boness
Deputy Commissioner

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

Done as per 107

GEORGE C. SILIDES, ENGINEERING ASSOCIATES

P. O. BOX 716 - FAIRBANKS, ALASKA 99707

CONSULTING ENGINEERS PLANNERS SURVEYORS

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

May 19, 1978

Dear Mr. DeLong,

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

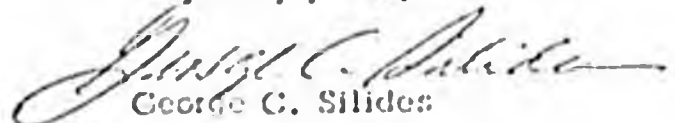
He is correct in saying that the words "if such oil is available and unobligated" were in the March 16, 1978 draft which was approved by both parties for presentation to the Royalty Oil Board on that date.

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

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

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

Very truly yours,


George C. Silides

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

130
May 5, 1975

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, Alaska Constitution, and in accordance with AS 24.30.000(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a concurrent resolution providing for legislative approval of the proposed contract between the State of Alaska and Earth Resources Company of Alaska.

The contract with Earth Resources Company of Alaska provides for the sale and purchase of between 5,000 barrels per day and 35,000 barrels per day of state royalty oil. In exchange for the oil, Earth Resources Company of Alaska guarantees that it will pay the state the sum the state would have received from the producers if royalty were paid in value. Earth Resources Company of Alaska also promises to process the oil in-state at its refinery near North Pole, Alaska. The contract may be terminated by Earth Resources Company of Alaska upon eight months notice to the state. A copy of the contract is attached.

This resolution is being concurrently submitted to both the Senate and House in order to expedite consideration.

In the past, there have been questions raised over the constitutionality of the legislature's approval of an executive act by the means of a concurrent resolution. In an effort to avoid raising that issue by not letting this contract for approval, I insisted that a clause requiring legislative approval be placed in the contract itself. I did so to insure that legislative approval in this instance could be sustained on the basis of a contractual provision rather than raise a constitutional

The Honorable Hugh Malone
May 2, 1977

Page 2

debate over legislative power to require such approval.

I hope that you agree that this sale is in the best interest of all Alaskans, and I urge your prompt approval.

Sincerely,

Jay S. Hammond
Governor

1157 12.6

AGREEMENT FOR THE SALE AND PURCHASE

OF

STATE ROYALTY OIL

EARTH RESOURCES COMPANY OF ALASKA
an Alaskan corporation

THE STATE OF ALASKA
Department of Natural Resources

March 27, 1978

TABLE OF CONTENTS

| | Page |
|--|------|
| I. INTRODUCTION | 1 |
| 1.1 Commissioner | 1 |
| 1.2 Date of First Delivery | 1 |
| 1.3 Day | 1 |
| 1.4 Lessee | 1 |
| 1.5 Leases | 2 |
| 1.6 Month | 2 |
| 1.7 Nominations | 2 |
| 1.8 Oil or Crude Oil | 2 |
| 1.9 Return Oil | 2 |
| 1.10 Royalty Oil | 2 |
| II. SALE OF ROYALTY OIL | 3 |
| 2.1 Quantity From Leases in Exhibit "A" | 3 |
| 2.1.1 Additional Quantity From Leases in Exhibit "A" | 3 |
| 2.1.2 Quantity From Other Leases | 3 |
| 2.1.3 Maximum Quantity | 4 |
| 2.1.4 Minimum Quantity | 4 |
| 2.1.5 Termination for Failure to Take Minimum Quantity | 4 |
| 2.1.6 Oil Not Nominated | 5 |
| 2.2.1 Initiation of First Delivery | 5 |
| 2.2.2 Nominations, Increases and Decreases of Crude Oil | 5 |
| 2.2.3 Advance Approval of Termination of "Supplier/Purchaser Relationship" | 6 |
| 2.4 Return Oil | 6 |
| 2.5 Quality | 7 |
| 2.6 Price of Oil Delivered Out of the Leases | 7 |
| 2.6.1 Reimbursement of Certain Costs of Seller | 8 |
| 2.7 Passage of Title | 9 |
| 2.7.1 Purchaser's Responsibility | 9 |
| 2.8 Point of Delivery | 9 |
| 2.9 Delivery of TANK OIL by Seller | 9 |
| III. REPRESENTATIONS AND OBLIGATIONS OF PURCHASER | 10 |
| 3.1 Good Standing | 10 |
| 3.2 Purchase | 11 |
| 3.3 In-State Processing | 11 |
| 3.3.1 Export | 11 |
| IV. REPRESENTATIONS AND OBLIGATIONS OF SELLER | 11 |
| 4.1 Seller's Royalty Oil | 11 |
| 4.2 Title | 11 |
| 4.3 Sale | 11 |
| V. MISCELLANEOUS AND OTHER | 12 |

| ARTICLE | | PAGE |
|---------|---|------|
| VI | PAYMENTS AND ACCOUNTING | 13 |
| | 6.1 Billing | 13 |
| | 6.2 Payments | 14 |
| | 6.3 Late Payment Charge | 14 |
| | 6.4 Adjustments to Billings | 15 |
| | 6.5 Cancellation in Event of Non-Payment | 16 |
| VII | TERMS | 17 |
| VIII | APPROVAL OF CONTRACT BY STATE OF ALASKA AND EFFECTIVE DATE | 17 |
| IX | TRADE OR EXCHANGE OF CRUDE | 17 |
| X | SUPPLIER-PURCHASER RELATIONSHIP | 18 |
| XI | DEFAULT OR TERMINATION | 19 |
| | 11.1 Default | 19 |
| | 11.2 Termination by Purchaser | 19 |
| XII | DISPOSITION OF OIL | 20 |
| | 12.1 Disposition of Oil Upon Default or Termination | 20 |
| | 12.2 Inability to Receive Oil | 20 |
| XIII | WAIVER | 21 |
| XIV | VALIDITY | 22 |
| XV | FORCE MAJEURE | 22 |
| | 15.1 Effect of Force Majeure | 22 |
| | 15.2 Responsibility | 23 |
| XVI | NOTICES | 23 |
| | 16.1 Method | 23 |
| | 16.2 Change of Address | 23 |
| XVII | RULES AND REGULATIONS | 24 |
| XVIII | SOVEREIGN POWER OF STATE | 25 |
| XIX | SECURITY | 25 |
| | 19.1 Creation of Security Interest | 25 |
| | 19.2 Alternative Security | 27 |
| XX | EQUAL EMPLOYMENT OPPORTUNITY | 28 |
| | 20.1 Discrimination | 28 |
| | 20.2 Advertisements of Equal Employment Opportunity | 29 |
| | 20.3 Notices to Unions | 29 |
| | 20.4 Inclusion to Equal Opportunity Provisions in Contracts & Sub-Contracts | 29 |
| | 20.5 Cooperation with Agencies of Seller | 30 |

| <u>ARTICLE</u> | | <u>PAGE</u> |
|----------------|---|-------------|
| XIII | FORCE MAJEURE | 30 |
| XIV | ASSIGNMENT OF LEASE | 31 |
| XV | ASSIGNMENT | 33 |
| XVI | SUCCESSORS AND ASSIGNS | 33 |
| | 24.1 Successors and Assigns | 33 |
| | 24.2 Transfer of Title | 33 |
| | 24.3 General Prohibition | 33 |
| XVII | HEADINGS | 33 |
| XVIII | OIL SPILL CLEANUP AND CONTINGENCY PLANS | 34 |
| XIX | RECORDS | 34 |
| | 27.1 Preservation of Records | 34 |
| | 27.2 Inspection of Records of Parties | 35 |
| | 27.3 Financial Statements | 35 |
| | EXECUTION OF CONTRACT | 35 |

Exhibits

- "A" Description of Leases
- "B" Calculation of Monthly In-value Royalty Under the Leases and Leases
- "C" Department of Energy, Division of Interpretations, Interpretation No. 1972-1
- "D" Form of Bond

THIS AGREEMENT entered into as of the 3rd day of May, 1978, by and between the STATE OF ALASKA, hereinafter called the "Seller", acting by and through its Commissioner of Natural Resources pursuant to AS 35.05.133 and EARTH RESOURCES COMPANY OF ALASKA, an Alaskan corporation, hereinafter called the "Purchaser",

W I T N E S S E T H:

Whereas, Seller has the right under each of the leases identified in Exhibit "A" to this Agreement to take a royalty of twelve and one-half percent (12 1/2%) in kind (amount) of the crude oil production removed or sold from the lands covered by each such lease; and

Whereas, Seller is authorized by AS 35.05.133 to sell such royalty oil; and

Whereas, Seller desires to sell royalty oil to Purchaser and Purchaser desires to purchase royalty oil from Seller under the terms and upon the conditions hereinafter set forth:

NOW, THEREFORE, in consideration of the representations, covenants and conditions hereinafter contained, Seller and Purchaser agree as follows:

ARTICLE I

DEFINITIONS

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

- 1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources, except as used in Article XIX. "Commissioner" as used in Article XIX shall mean the Commissioner of the Alaska Department of Revenue.
- 1.2 "Date of First Delivery" means the first date the oil sold hereunder passes the Point of Delivery.
- 1.3 "Day" means a period of twenty-four (24) consecutive hours beginning at 12:01 a.m., Alaska Standard Time.
- 1.4 "Lessee" means any Person owning a working interest in any of the Leases.
- 1.5 "Leases" means the oil and gas leases which are described in Exhibit "A" attached hereto and made part hereof.
- 1.6 "Month" means the period beginning at 12:01 a.m. Alaska Standard Time, on the first day of the calendar month and ending at the same time on the first day of the next succeeding calendar month.
- 1.7 "Nomination" means notice by Purchaser of the quantity of royalty oil to be purchased by it from Seller during a specific period of time under this Agreement.
- 1.8 "Oil" or "crude oil" shall have the same meaning as the word "oil" under the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between the Seller and the Lessees.
- 1.9 "Return Oil" means that portion of the crude oil in-take which after processing in Purchaser's facility is not normally distributable to the local market, and which would still be acceptable for reinjection into the T&S pipeline for mingling with the common stream if tendered to the pipeline for transportation.
- 1.10 "Royalty oil" means the oil which the Seller may take in kind (amount) as its royalty under the Leases.

ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity From Leases In Exhibit "A". Seller agrees to sell to Purchaser and Purchaser agrees to buy from Seller during any calendar month, on an average daily basis, the quantity nominated by Purchaser. Provided, however, that such daily quantity shall not exceed fifteen (15) percent of the total amount of Seller's royalty oil out of the crude oil production received or sold from the Leases which the Seller has the right to take, and is available to the Seller for taking in-kind, minus the amount of oil Seller is obligated to deliver under its present contract with Golden Valley Electric Association, Inc., and minus that minimum quantity of oil which the Seller, during the term of this Agreement, must continue taking and receiving in-value rather than in-kind as a requirement to Seller's obtaining a report of the in-value price from each Lessee.

2.1.1 Additional Quantity From Leases In Exhibit "A". Subject to all other terms and conditions hereunder provided, Purchaser may nominate to purchase additional quantities of oil in excess of the quantities specified above, when additional oil is available to Seller from the Leases, for such period of time as such oil is unobligated and available.

2.1.2 Quantity From Other Leases. Subject to all other terms and conditions hereunder provided, if purchaser presents to Seller sufficient evidence of contracts between Purchaser and third parties requiring Purchaser to supply products for consumption in Alaska (excluding return oil) in excess of the quantity of products which Purchaser is able to produce from the oil from the Leases in Exhibit "A" and Purchaser is unable to purchase crude oil from other producers in

Alaska, then purchaser may nominate to purchase additional quantities of oil from other leases from which Seller has the right to take royalty oil in kind. Provided however, that the additional quantity nominated by Purchaser from other leases shall be that additional quantity of oil required to produce sufficient products for Purchaser to fulfill its contract obligations.

2.1.3 Maximum Quantity. Purchaser agrees that in no event shall the total quantity of oil supplied by Seller under Article 2.1 and 2.1.1 and Article 2.1.2 exceed an average daily quantity of 35,000 barrels.

2.1.4 Minimum Quantity. Purchaser agrees to nominate and purchase a minimum average daily quantity of 5,000 barrels of oil per calendar day, after initiation of first delivery hereunder.

2.1.5 Termination For Failure to Take Minimum Quantity. If Purchaser fails to take the minimum quantity specified in Article 2.1.4 for a period of three (3) consecutive months, the Seller, at its option may terminate this Agreement unless failure to take oil is due to force majeure and Seller has been able to cancel delivery of nominated quantities under the provision of Article 12.2.

2.1.6 Oil Not Nominated. Purchaser recognizes and agrees that if Purchaser has not nominated the full quantity of oil to which Purchaser is entitled under Article II, then Seller may sell or otherwise dispose of such oil as Seller deems provided such action of Seller does not impede Seller's ability to deliver oil to Purchaser upon proper notice (nomination) by Purchaser to receive some or all of the oil to which Seller is entitled to receive Under Article II.

2.2.1 Initiation of First Delivery. Seller, within the thirty (30) day after (i) fulfillment of the condition precedent stated in Article 2.3, (ii) receipt of a written notice from the Purchaser stating the quantity of oil desired to be purchased, and (iii) receipt of an opinion from the Department of Energy that the Advance Termination provisions in this Agreement are valid and enforceable, shall deliver notice to all its Lessees that it is exercising its right to take its royalty oil in-kind and stating the quantity to be delivered. Purchaser nomination shall not exceed the amount specified in Article II. Initiation of First Delivery thereafter shall occur as soon as Seller is able to receive royalty oil in-kind from its Lessees.

In the event Seller shall obtain a modification of the Prudhoe Bay Unit Agreement to reduce the time period required under the (six) 6 month's notice provision, the Date of First Delivery under this Agreement shall be reduced accordingly.

2.2.2 Nominations, Increases, and Decreases of Crude Oil. After the Date of First Delivery and from time to time thereafter, Purchaser shall have the right upon notice to Seller to require Seller to exercise its right under the Prudhoe Bay Unit Agreement to increase or decrease, by the terms of said Unit Agreement the quantity of royalty oil to be delivered to Seller, and the quantity of royalty oil to be delivered to and purchased by Purchaser under this Agreement shall be so adjusted, subject to the quantity limitations of Article II.

In addition to the time for notice in the preceding paragraph, Purchaser agrees to give Seller an additional thirty (30) days notice of its nomination under this paragraph. Nominations shall be made not more than once every thirty (30) days. After the date of First Delivery, if no nomination is given to the Seller by the Purchaser for any particular month, the nomination shall be considered as being the same as the preceding month.

2.3 Advance Approval of Termination of "Supplier/Purchaser Relations"

Prior to the Purchaser requesting initiation of first delivery under Article 2.2.1, Purchaser agrees to obtain and deliver to Seller a letter that Interpretation No. 1978-1, issued January 25, 1978 by the Division of Interpretations, United States Department of Energy, attached hereto as Exhibit "C", is applicable to this Agreement between Seller and Purchaser hereunder.

2.4 Return Oil. To assist the state in other sales of royalty oil, Purchaser hereby offers for sale to any other third party purchaser of royalty oil any return oil attributable to the royalty oil sold hereunder, on fair and reasonable terms to be negotiated between Purchaser and said third party purchaser. Provided however, that said third party purchaser offers to take Purchaser's return oil within sixty (60) days following the effective date of this Agreement, or the Agreement between the State and such third party purchasers, whichever is later, but prior to September 1, 1978.

Purchaser hereby offers for sale to any other purchaser of royalty oil other available return oil attributable to oil produced from Prudhoe Bay that Purchaser is selling (or could sell) to other buyers, on the same terms described in the paragraph immediately above.

2.5 Quality. The royalty oil sold hereunder shall be the same quality as the oil delivered by the working interest owners from the Leases and the Leases to the Seller at the Point of Delivery. Except for the foregoing, there is no guarantee, representation, or warranty by Seller, either express or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the oil delivered hereunder. There are no warranties, representations or agreements which extend beyond the description of the oil set forth in this Article.

2.6. Prices of Oil Delivered Out of the Leases. As to oil sold and delivered hereunder, the prices to be paid by Purchaser to Seller shall be equal to the actual sum the Seller would have received had Seller received its royalty in value instead of taking the quantity of royalty oil delivered hereunder as its royalty in-kind (amount). Seller and Purchaser recognize that the method and basis of computing the royalty due Seller from Lessees under the Leases is currently a matter of dispute and litigation among the Seller and its Lessees, said litigation being entitled State of Alaska, et al vs. Amerada Hess Corp. et al., (CA No. 77-847, Superior Court of the State of Alaska, First Judicial District at Juneau). Pending resolution of said dispute among Seller and Lessees, by judicial decision or settlement in the above-referenced case, the in value royalty under the Leases shall be computed in accordance with Exhibit "B", attached hereto and by reference made a part hereof. After such time as said dispute shall be resolved among Seller and its Lessees, the parties hereto will be bound by terms of such resolution, judicial or

otherwise. Seller and Purchaser expressly recognize that adjustment in prices previously paid may be necessary following said resolution and adjustment shall be duly made, with interest, pursuant to the applicable provisions of Article VI. Any settlement agreement which agrees to the imposition of costs which are reimbursable by Purchaser to Seller under Article 2.6.1, however, shall not be final and binding upon Purchaser, unless Purchaser has consented in advance to such settlement.

2.6.1 Reimbursement of Certain Costs of Seller. In addition to the price stated in Article 2.6, Purchaser shall also reimburse Seller for Seller's pro rata share of (i) any basic sediment and water removal costs if Seller is required to pay such costs as a result of Seller's election to take its royalty oil in kind; and (ii) any other direct cost legally incurred and paid by Seller which would not have been incurred by Seller had the Seller taken its royalty in value rather than in kind and if such costs under Article 2.6.1 (i) and (ii) were not previously reflected in applicable computations of value for payments of royalty in value. Seller shall use its best efforts to minimize any such costs incurred by Seller by reason of Seller's taking royalty oil in kind; such best efforts shall include but not be limited to litigation in cooperation with and at the request of Purchaser, at Purchaser's cost, to the extent necessary to contest the imposition of unwarranted or improper charges; provided, however, that Seller shall in no event be required to advocate legal positions or adopt legal strategies which it, in its discretion, deems contrary to its own interests, in any such litigation. Seller at this date does not know of any potential costs legally to be incurred by it as a result of its taking in kind rather than in value other than the costs stipulated in this Article 2.6.1 (i) above.

2.7 Passage of Title. Title to the royalty oil to be sold hereunder shall pass from Seller to Purchaser at the same point that Seller receives title to the oil from the lessors, or the lessees.

2.7.1 Purchaser's Responsibility. Purchaser shall be responsible for the oil to be sold hereunder after passage of title hereunder. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages, expenses or causes of action as a result of any loss, injury, or damage incurred by any party as a result of any transaction or event which relates to the crude oil after title thereto has passed to Purchaser. Purchaser shall make all necessary arrangements for transporting the oil sold hereunder from the Point of Delivery to its refinery.

2.8 Point of Delivery. Seller shall deliver the oil to Purchaser at the point at which Seller receives delivery of its royalty oil from its lessors, or lessees.

2.9 Delivery of TAPS Fill by Seller. Upon initiation of deliveries pursuant to Article 2.2.1, Seller in addition to all other quantities of crude oil deliverable hereunder shall deliver to Purchaser on or prior to the Date of First Delivery a sufficient quantity of crude oil for Purchaser to fulfill its tariff obligations to supply Trans-Alaska Pipeline System pipeline fill except line fill required for Purchaser's return oil. Purchaser shall pay for such quantity of oil on the date of termination pursuant to any of the provisions of this Agreement, at the price stipulated in Article II and VI, as if such oil

had been delivered to Purchaser at the Point of Delivery forty-five (45) days prior to the said date of termination. In the event that Purchaser suspends its purchase of oil from the Leases after having initiated deliveries and after Seller has delivered the pipeline fill as provided by this Article 2.9, Purchaser shall pay for such quantity of oil as if it had been delivered at the Point of Delivery on the date Purchaser suspended its purchases. Thereafter Seller shall be obligated to provide pipeline fill upon Purchaser's reinitiation of deliveries of oil out of the Leases as provided by other provisions of this Article II.

ARTICLE III

REPRESENTATIONS AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing. Purchaser is, and at all times hereafter shall remain, a corporation qualified to do business in, and in good standing with, the State of Alaska.

3.2 Purchase. Purchaser will buy and receive such royalty oil as it has nominated, and has been delivered according to the terms set forth in this Agreement.

3.3 In-State Processing. Purchaser agrees that any and all royalty oil purchased under this Agreement shall be processed at Purchaser's refinery which is located near North Pole, Alaska; except that, as provided in Article IX, and XII, Purchaser may dispose of the royalty oil in accordance with those Articles.

3.3.1 Export. From time to time Purchaser will consult with the Commissioner of Natural Resources to ensure that any products (exclusive of return oil) produced from the royalty oil sold hereunder are surplus to the State of Alaska's needs, prior to export thereof.

ARTICLE IV

REPRESENTATIONS AND OBLIGATIONS OF SELLER

Seller warrants, represents and agrees:

4.1 Seller's Royalty Oil. Under the Leases, Seller has the right to take its royalty in-kind (amount), which royalty oil is twelve and one-half percent (12 1/2%) of the crude oil production removed or sold from the Leases, unless otherwise specified in Exhibit A.

4.2 Title. Seller has good and marketable title to the royalty oil sold by it hereunder and its right to sell the same. All such oil is owned by Seller free from all third party liens, encumbrances and all adverse claims.

4.3 Sale. Seller will sell and deliver to Purchaser hereunder royalty oil under the terms set forth in this Agreement.

ARTICLE V
MEASUREMENTS AND TESTS

5.1 Testing Standards and Procedures. The quantity and quality of the crude oil sold and purchased from the 10000 shall be determined at Lessees' A.C.T. meters at Pump Station No. 1, Prudhoe Bay, Alaska. The quantity and quality of the crude oil sold and purchased from the other leases shall be determined at the lessee's point of delivery. All measurements hereunder shall represent one hundred percent (100%) volume, consisting of United States barrels of forty-two (42) gallons, the quantity and gravity of which shall be adjusted to a temperature of sixty degrees (60°) Fahrenheit. Full deduction shall be made for all basic sediment and water content according to the ASTM Standard Method then in effect. Unless agreed otherwise between Purchaser and Seller or set forth herein, procedures for measuring and testing and for metering the crude oil shall be completed in accordance with standard oil field practices. Procedures for metering deliveries under the leases shall be in accordance with accepted oil field practices in effect at Prudhoe Bay, Alaska. At the direction of Purchaser, Seller shall direct the lessees or lessees to test the accuracy of their measuring equipment if and to the extent that the provisions of the Prudhoe Bay Unit Agreement or any other agreement between Seller and Lessees or lessees permit Seller to make such request. Notice of the time and nature of each test of lessees' or lessees' measuring equipment shall be given by Seller to Purchaser sufficiently in advance to permit convenient arrangement for Purchaser's representative to be present. Tests and adjustments shall be made in the presence of representatives of Purchaser if present at the time scheduled for such test and adjustment. At Purchaser's election and subject to obtaining the permission of any necessary third parties, Purchaser may also install equipment to measure or gauge all oil received by Purchaser hereunder at the Point of Delivery, and Purchaser shall bear the entire acquisition, calibration, maintenance and operating cost of any such loading, measuring or testing equipment required by Purchaser.

ARTICLE VI
PAYMENTS AND ACCOUNTING

6.1 Billing. Seller will furnish Purchaser monthly, on or before the tenth (10th) business day of each month after the first (1st) month of delivery of crude oil, a statement of account of all crude oil estimated to have been delivered through and measured at the Point of Delivery during the immediately preceding month according to the best information available to Seller, the price or prices estimated as applicable thereto according to the best information available to Seller, the basis for computation of the applicable estimated price or prices in full detail and the total net amount due. Seller shall render its billings to Purchaser based upon the values, receipts, costs and computations reported by the Lessees and the lessees to Seller. Seller shall thereafter adjust its initial billing pursuant to Article 6.4. To the extent not contrary to law Purchaser and its authorized agents shall be permitted access during reasonable business hours to Seller's books and records pertinent to this Agreement to determine the correctness of the billings of Seller.

6.2 Payment. Purchaser will make payment on or before the the fifth day of the calendar month in which such statement is rendered or fifteen (15) days after rendition of the invoice called for by Article 6.1, whichever is later, by direct wire transfer of Federal Reserve funds through the Federal Reserve Bank wire transfer system to the following address or such other address as Seller may designate upon seven (7) days prior written notice:

Bank of America, NT & SA

San Francisco, California

Securities Department 3255

Credit to: State of Alaska Investment Account

All other payments to be made under this Agreement shall be paid in the same manner. If payment is to be made on a Saturday, Sunday, or legal holiday, under the preceding provisions hereof, payment shall be made on the next following business day.

6.3 Late Payment Charge. Should Purchaser fail to make timely payment to Seller of any amount due hereunder, including any payment delayed by a bona fide dispute which is later determined to be validly owing, or should Purchaser be required to pay any amount which is later determined not to be validly payable to Seller, interest shall accrue and be payable on said sum from the date when such payment was due or was paid, as the case may be, until the same is paid, at a rate per annum equal to the prime rate then being charged by Chemical Bank of New York, New York, plus one and one-quarter percent (1 1/4%) per annum.

6.4 Adjustments to Billing. Seller shall cause to be prepared a statement of accounts to reflect the actual amounts delivered and the price or price realized thereon. Seller shall cause to be prepared subject to prior billing, to reflect adjustments necessitated as a result of (i) a final judgment or settlement entered in any pending litigation between Seller and the Lessees styled State of Alaska, et. al. vs. Amerada Hess Corporation, et. al., CA No. 77-567, in the Superior Court of the State of Alaska, First Judicial District at Juneau; (ii) adjustments necessitated as a result of the filing with the Seller by the Lessees or lessees of more current reports applicable to the billing period in question; (iii) actual adjustments necessitated as a result of changes to values, receipts, costs and computations previously reported by the Lessees or lessees and utilized by Seller as a basis for billing under Article 6.1, if such adjustments are based upon actual later severance tax or royalty oil payments by or refunds to the Lessees or lessees; or (iv) adjustments required as a result of clerical or arithmetical errors in the billings of Lessees or lessees, or of Seller; provided, however, that no adjustments, whether credits or debits, under Articles 6.4 (ii) through 6.4 (iv) shall be made by Seller or demanded by Purchaser more than twelve (12) months after billing except as to matters which are the subject of (v) pending litigation by either party, (vi) pending regulatory proceedings (or appeals thereof) whether or not Seller or Purchaser is a party thereto, or (vii) bona fide audits by Seller which audits have been terminated or completed by Seller within twelve (12) months after initiation of same.

Due to the potentially large sums of money involved, any adjustments to any billing under the provisions of this Article VI by Seller shall more than sixty (60) days after such billing was initially rendered shall be paid to or refunded by Purchaser or Seller over the same period over which such adjustments accrued or thirty-six (36) months, whichever is longer, beginning with the first payment next following

the date such adjustment has been determined; provided, however, no such payment extension permitted hereunder shall extend beyond the term stipulated in Article 7.1, and accordingly, the full balance of any unpaid amounts shall be due and payable on the termination date hereof.

6.5 Cancellation in Event of Non-Payment. Except for amounts disputed in good faith, should Purchaser fail to make any payment due to Seller hereunder, Seller shall have the right to cancel this Agreement by giving written notice of cancellation to Purchaser prior to receipt of such payment. Cancellation shall be effective thirty (30) days from the date of the notice unless full payment is made.

ARTICLE VII

TERM

7.1 Term. Subject to the other conditions, covenants and obligations contained in this Agreement, this Agreement shall become effective on the Effective Date defined in Article 8 hereof and shall continue and remain in full force and effect until December 31, 2003.

ARTICLE VIII

APPROVAL OF CONTRACT BY STATE OF ALASKA AND EFFECTIVE DATE

8.1 Condition Precedent. This Agreement shall take effect on the date on which this Agreement is approved by a concurrent resolution of a majority of each house of the Tenth Alaska Legislature ("Effective Date").

ARTICLE IX

TRADE OR EXCHANGE OF CRUDE

9.1 Conditions. Purchaser may enter into agreements to trade or exchange any or all of the royalty crude oil for other Alaska crude oil or products. Purchaser agrees that such trade or exchange shall not reduce the price to be paid to Seller under Article 3 hereof, and such trade or exchange shall be at no cost or expense to Seller. Purchaser further agrees that oil or oil product received in trade or exchange will be substituted for the royalty oil with respect to its obligations under Article 3.1 and 3.1.1.

SUPPLIER-PURCHASER RELATIONSHIP

10.1 Advance Termination. In the event that this Agreement is cancelled or terminated by any party, Purchaser hereby agrees to waive any rights which it may have in a continuation of any supplier-purchaser relationship that may have been established with respect to the royalty oil for purposes of any federal mandatory crude oil allocation program. Specifically, the Purchaser expressly consents that the consent given in the immediately preceding sentence is such a consent to the termination of any supplier-purchaser relationship between the Seller and the Purchaser which may be deemed to exist under the Federal Mandatory Petroleum Allocation Regulations (10 C.F.R., Part 211) as is provided in 10 C.F.R. 211.63 (c)(1)(i) of such Regulations.

Purchaser agrees that any subsequent contracts for the sale, trade, exchange or other disposition of the State of Alaska royalty crude oil or products refined therefrom that may be entered into by the Purchaser herein will include the advance written consent of the Purchaser, exchange or trade partner, or other recipient of the crude oil or said products to the termination of any supplier-purchaser relationship which may be deemed to exist with respect to royalty oil or products therefrom for purposes of any mandatory crude oil allocation program upon the expiration, termination or cancellation of the underlying contractual agreement for the sale, trade, exchange or other disposition of the oil or products, or in the event that this Agreement between the Seller and the Purchaser for the sale and purchase of the royalty oil is terminated for any reason, including termination for default as stated in Articles VI and XI. Purchaser also agrees to include in any contracts for the sale, trade, exchange or other disposition of the royalty oil or products therefrom an agreement by the purchaser, exchange or trade partner or other recipient of the royalty oil or products to include identical waiver provisions. All subsequent sales, trades, exchanges, or other disposition of the royalty oil or products by that purchaser, exchange or trade partner or other recipient and by any subsequent purchaser, exchange or trade partner or other recipient.

ARTICLE XI
DEFAULT OR TERMINATION

11.1 Default. If

(i) Seller or Buyer shall fail to perform any of its covenants or obligations imposed upon it by this Agreement, except where such failure shall be excused under the force majeure provisions of Article X, or

(ii) Purchaser becomes insolvent or commits any act constituting an act of bankruptcy, or

(iii) Purchaser involuntarily files an action under the United States Bankruptcy Act, or

(iv) Purchaser fails to obtain the dismissal of any involuntary bankruptcy proceeding filed against it under the provisions of the United States Bankruptcy Act within sixty (60) days of the filing thereof,

then and in any such event, the other party may, at its option and without waiving any other remedy for breach hereof, indicate such party's election to cancel this Agreement by notice in writing specifying in detail wherein the default has occurred. Except for the instances stipulated in Articles 11.1 (ii) through (iv) above, and except for payment by Purchaser to Seller, which shall be governed by Article 6.5, the party in default shall have thirty (30) days from the receipt of such notice to remedy such default and to pay the other party for all loss or damage incurred as a result of such default and indemnify such party against future claims or loss arising out of such default. Upon failure of the defaulting party to remedy its breach within the time stipulated above, this Agreement may be cancelled by the non-defaulting party by service of written notice thereof upon the defaulting party. Any cancellation under Article 6.5 or this Article 11.1 shall not prejudice the right of the party not in default to collect any amounts due it hereunder for any damage or loss suffered by it and shall not waive any other remedy to which the party not in default may be entitled for breach of this Agreement.

11.2 Termination by Purchaser. Purchaser shall have the right to terminate this Agreement, at its discretion, upon giving Seller eight (8) months notice.

ARTICLE XII
DISPOSITION OF OIL

12.1 Disposition of Oil Upon Termination or Cancellation. Following termination of this Agreement for default or under any other termination provision contained herein, unless Seller is released from the six (6) month notice provision of the Production Unit Agreement, Purchaser shall have an obligation to continue to take and purchase Seller's royalty oil for up to seven months following termination of the Agreement, in such quantities as Purchaser has elected pursuant to the nomination procedure set forth in this Agreement during the six (6) months preceding termination or cancellation of this Agreement, if Seller, in its discretion, so requires. Seller shall use its best efforts to secure a waiver from the six (6) month notice provision of the Unit Agreement.

12.2 Inability to Receive Oil. If for reasons of force majeure or otherwise Purchaser is unable to receive into Purchaser's facility the oil hereunder as made available to Purchaser pursuant to Purchaser's nomination at the Point of Delivery, Purchaser shall be responsible for the disposal of said oil in accordance with Article 3.3, and for paying the Seller for the oil nominated as though it had been received into Purchaser's facility, unless Seller through an understanding with lessees or leasees is able to cancel delivery of quantities called for in said nomination of Purchaser. Seller agrees that it will use its best efforts to negotiate with lessees or other parties to accept delivery of the Seller's royalty oil if Purchaser is unable to receive the royalty oil.

ARTICLE VIII

WAIVER

13.1 Waiver. The failure of Seller or Purchaser to insist upon strict performance of any provision hereof shall not constitute a waiver of, or estoppel against asserting, the right to require such performance in the future; a waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise; and a course of performance established by a party shall likewise not estop the other party from complaining of a later breach similar in nature.

ARTICLE XIV

VALIDITY

14.1 Validity. If any provision or clause of this Agreement or application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provision or application.

ARTICLE XV

FORCE MAJEURE

15.1 Effect of Force Majeure. Except for Purchaser's obligations to make payment of money for royalty oil delivered hereunder and except for Purchaser's obligation to take oil nominated by it, neither party shall be liable for any failure to perform the terms of this Agreement when such failure is due in whole or in substantial part to "force majeure" as hereinafter defined, except that if said force majeure continues for a period of four (4) years, so as to prevent substantial performance of a party's obligations under this Agreement, the party not claiming "force majeure" shall have the right to terminate this Agreement, provided such right is exercised before the force majeure ceases to exist. Other remedies otherwise available for default or breach in the event of termination after such four year period shall not thereby be affected. The term "force majeure" as employed in this Agreement shall mean acts of God, strikes, lockouts or industrial disputes or disturbances, civil disturbances, arrests and restraint from rulers or people, interruptions by government or court orders, or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reason of allocations promulgated by authorized governmental agencies, epidemics, pandemics, lightning, earthquakes, fires, storm, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, destruction or significant malfunction of Purchaser's

refinery, the making of repairs or alterations to pipelines or pipelines including Purchaser's refinery, or any other event or condition, whether of the kind herein enumerated or otherwise, nor within the reasonable control of the party claiming "force majeure".

15.2 Responsibility. Upon the occurrence and discovery of an event constituting force majeure, the party claiming that the event is force majeure shall notify the other party hereto of its claim of force majeure. Upon the occurrence of an event constituting "force majeure" the same shall, so far as possible, be remedied with all reasonable dispatch, and the obligations of the disabled party to perform under this Agreement, insofar as they are affected by such force majeure shall be suspended from the time such force majeure occurs and for so long as the disability so caused should have continued had the party claiming the existence of the force majeure met its remedial obligations under this Article 15.2, and for no longer. The settlement of strikes or lock outs or industrial disputes or disturbances shall be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with due diligence shall not require the settlement of strikes, lockouts or industrial disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole discretion of the disabled party.

ARTICLE XVI

NOTICES

16.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally to the party to be notified or may be sent by registered or certified United States mail, postage prepaid, with a return receipt requested to such party. Notice deposited in the mail in the manner hereinafore described shall be effective upon the expiration of seven (7) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For purposes of notice the addresses of the parties hereto shall be as follows:

If to Sellers: State of Alaska
Commissioners of Natural Resources
Pouch "5"
Juneau, Alaska 99811

and
Commissioner of Revenue
Pouch "5"
Juneau, Alaska 99811

and
Director, Division of Minerals
and Energy Management
323 East Fourth Avenue
Anchorage, Alaska 99501

If to Purchasers: President, North Pole Refining
P. O. Box 5026
North Pole, Alaska 99705

16.2 Change of Address. Each party may change its address for notice by the giving of notice thereof.

ARTICLE XVII

RULES AND REGULATIONS

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

ARTICLE XVIII

SOVEREIGN POWER OF STATE

18.1 Sovereign Power of State. This Agreement and the provisions contained herein shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether conferred on the State by constitution, statute or regulation.

ARTICLE XIX

SECURITY

19.1 Creation of Security Interest. To secure payment of all amounts due Seller for oil sold hereunder, Seller retains and Purchaser hereby grants a purchase money security interest in all of the oil delivered and to be delivered to Purchaser hereunder and in all oil obtained by Purchaser in exchange for oil purchased hereunder; the products made or processed from any such oil, including all substances, if any, commingled therewith, or added thereto, and in the proceeds of the sale of any such oil or products, including the accounts receivable of Purchaser arising from its sales of oil or products manufactured therefrom. The security interest shall attach to the oil at the time and Point of Delivery but shall terminate as to oil or products therefrom sold to a bona fide purchaser of Purchaser in the ordinary course of Purchaser's business, provided however, that the said security interest shall attach to the accounts receivable arising therefrom. Notwithstanding the provisions of this Article 19.1 Seller agrees that (1) the security interest in the oil shall not attach at the same time and Point of Delivery but instead at the time the oil arrives and is delivered to Purchaser at the outlet flange numbering device of

TAPS at North Pole, Alaska as to any oil shipped under any tariff pertaining to the TAPS which contains a prohibition against carriage of oil on which a lien of a party other than the carrier thereof exists or which grants to any carrier the right to reject carriage of oil on which such a lien exists if Purchaser has provided Seller a bond, letter of credit, negotiable securities or other security as described in Article 19.2 in an amount or of a value equivalent to the value of oil of Purchaser in the TAPS on which no lien of Seller exists, unless Seller or Purchaser has obtained and furnished for Purchaser evidence that such prohibition or right of rejection has been effectively terminated or waived and is unenforceable; and (ii) no lien shall attach to any oil or products produced therefrom or accounts receivable created from the resale thereof as to which payments to Seller have been made for the account of Purchaser if (a) such payments are not derived from the sale of property otherwise subject to the security interest of the Seller and (b) such payments are secured or are to be secured by such oil, such products or such accounts receivable. Seller agrees that any document filed to perfect Seller's purchase money security interest described in this Article 19.1 shall contain an exclusion to the effect set forth in the next preceding sentence.

Purchaser agrees that it shall not agree, or consent to, or permit the filing of, any lien or security interest in the oil other than the liens of a TAPS carrier nor shall it transfer title thereto prior to its arrival and delivery to Purchaser at the outlet flange measuring device of the TAPS at North Pole, Alaska, or prior to the attachment of Seller's security interest thereon upon such delivery. Purchaser further agrees that it will not grant or consent to any security interest in the oil or other security in favor of any third party unless such third party agrees in writing prior thereto that such security interest is subordinate to the security interest of the Seller, except for the lien of a TAPS carrier or as provided otherwise in Article 19.1 (ii). Purchaser

agree to execute and file all documents necessary to perfect Seller's said security interest in the oil, proceeds from the oil and accounts receivable referred to above. "Proceeds of the sale" shall include proceeds derived from insurance or other payment resulting from damage to or destruction of the oil or other property covered by the security interest. To secure such payment Purchaser shall cause all policies of insurance on the oil or other property to which the security interest attaches to name the Seller as coinsured as its interests may appear.

19.2 Alternative Security. In lieu of the security interest provided in Article 19.1, Purchaser may provide alternative security in the form of a bond attached hereto and made part hereof as Exhibit "D", executed by the Purchaser, as principal, and a corporate surety agreed to by the Commissioner and authorized to write such bonds in the State of Alaska, as surety for a sum which shall substantially reflect the amounts owed by Purchaser to Seller plus an amount equal to the value of any oil delivered by Seller to Purchaser and not yet billed pursuant to Article VI; provided that whenever Seller has reasonable grounds for asserting and does assert any claims against Purchaser in excess of the sum of the bond of Purchaser then in effect hereunder, Purchaser after being so requested by Seller shall either increase the sum of such bond to an amount reasonably sufficient to cover the claim of Seller and all expenses which may be incurred by it in connection therewith or shall furnish other security satisfactory to Seller, such as a renewed security interest in the oil or a portion thereof sold hereunder, regardless of whether the Purchaser does or does not recognize the validity of the Seller's claim (so long as reasonable grounds for asserting such claim exist). Purchaser may at any time and from time to time deposit and maintain with the Commissioner at Purchaser's expense in lieu of any such bond, either (i)

of such letter or letters of credit addressed to the Commissioner issued by the state or national banking institution of the United States which is a member of the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than \$10,000,000 or (10) marketable securities which are approved by the Commissioner, and which shall be transferable by the Commissioner or by delivery by stock power attached or other means, such letter or letters of credit to be of an aggregate amount, or such marketable securities to be of an aggregate then fair market value, of not less than the amount then required for Purchaser's bond hereunder any such letter or letters of credit and marketable securities, together with any proceeds thereof, to be held by the Commissioner for the security and benefit of the Seller; and such letter or letters of credit and marketable securities, along with instrument of transfer to be in form and substance approved by the Seller. The amount of said letter or letters of credit or marketable securities shall be subject to increase in the same manner that the face amount of the bond is subject to increase. If marketable securities are so furnished, other marketable securities which meet the requirements of the Subparagraph (c) 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 herein. Purchaser may, in lieu of any other security provide other security which in the opinion of the Commissioner is of equal value to the security above described.

ARTICLE XX

EQUAL EMPLOYMENT OPPORTUNITY

20.1 Discrimination. In the operation of its refinery at which it processes royalty oil, Purchaser will not discriminate against any employee or applicant for employment because of race, color, religion,

national origin, ancestry, age or sex. The Purchaser shall take affirmative action to insure that applicants are considered for employment, 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 Buyer agrees to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause.

20.2 Advertisement of Equal Employment Opportunity. The Purchaser shall state, in all solicitations or advertisements for employees to work at said refinery that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin, ancestry, age or sex.

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

20.4 Inclusion of Equal Employment Opportunity Provisions in Contracts and Sub-Contracts. The Purchaser will include the provisions of Article 20.1 through 20.3 in its contracts pertaining to the construction and operation of said refinery and will require the inclusion of these provisions in every sub-contract entered into by any of its contractors, so that such provisions will be binding upon each sub-contractor of Purchaser.

20.5 Cooperation with Agencies of Seller. The Purchaser agrees that it 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 Agreement, and Purchaser will comply promptly with all reasonable requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practice. Full cooperation as expressed above 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 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 said refinery site during and after the construction; and promptly complying with 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.

ARTICLE XXI

LOCAL HIRE

21.1 Local hire. (1) Purchaser will comply with all applicable Alaska statutes and regulations in effect at the time this Agreement becomes effective as well as all amendments thereto and subsequent enactments, providing for local or resident hire.

(2) In addition, and subject to compliance with other requirements of state or federal law or regulation, Purchaser will give preference to hiring qualified and available residents over nonresidents for all work to be performed in the operation and maintenance of said refinery. Purchaser will not discriminate against Alaska residents by differentiating between residents and nonresidents in payment of wages, salaries, fringe benefits, and working conditions. Nothing shall prohibit the Purchaser from hiring Alaska residents through private sources. However, if private sources are unable to supply qualified Alaska residents, Purchaser shall then attempt to seek qualified Alaska residents through the Alaska Department of Labor prior to the employment of nonresidents. The Purchaser shall allow said Department of Labor two days, excluding Saturday, Sunday and state holidays, to produce qualified resident workers prior to the employment of nonresidents. If suitable resident workers are not provided within the specified time period, the Purchaser may hire nonresidents possessing the qualifications necessary to perform the work, on an emergency basis for the duration of the emergency, as casual or intermittent employees if their employment will not exceed thirty (30) working days, or as specially skilled employees when the Department of Labor agrees in advance that such specially skilled persons are unavailable within the State.

(3) Purchaser will use its best efforts to incorporate in any and all collective bargaining agreements into which it enters with labor unions covering work to be performed in the operation and maintenance of said refinery and associated facilities and operations, a provision requiring the union's dispute resolution procedures to be established and operated in a manner which will assure that qualified Alaska residents will be employed to perform said work.

(4) Purchaser will incorporate in and all agreements it enters with contractors and sub-contractors provisions requiring the employment of qualified Alaska residents, as set forth in Article 21.1 and utilization of the contractors' or sub-contractors' best efforts to obtain agreements with labor unions, as specified in Article 21.1 (3).