

LEG. FINANCE - BILLS 1981 - 1982 1739

SB 880 - SB 881 ✓ 239

COMMITTEE REPORT

SENATE

4/12/82

FURTHER: Judiciary

Date: 4/15/82

Mr. President:

The Committee on FINANCE has had SB 880
sale of royalty oil by the State of Alaska to Boyon, Ltd.

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for SB 880 (RES) same title
do pass with attached amendments new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

CHAIRMAN

SENATE AMENDMENT

By The Finance Committee

To: CS for SENATE BILL No. 880 (Resources)

To: HOUSE BILL No.

PAGE: 1

LINE: 15 and lines 18 through 21

Line 15: Change date from September 1, 1982 to October 1, 1982.

Lines 18 through 21: Delete the last sentence of Section 1, specifically:

"The agreement provides that it is void if Doyon, Ltd., or its assignee purchases or gains a controlling interest in either the Mapco Alaska refinery or the royalty oil contract with Mapco Alaska by May 1, 1982."

Original sponsor: Rules/Governor

Offered: 4/12/82
Referred: Finance and
Judiciary

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 880 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the sale of royalty oil by the
7 State of Alaska to Doyon, Ltd.; and providing for an
8 effective date."

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

10 * Section 1. The "Agreement for the Sale and Purchase of Royalty Oil
11 between the State of Alaska and Doyon, Ltd." (dated February 26, 1982) which
12 is referred to in the Department of Natural Resources' "Review of Alaska
13 Royalty Oil Policy and Findings for Proposed Disposition of Royalty Oil"
14 (dated February 26, 1982) as "Doyon I," is approved and ratified provided
15 that on or before ^{October} ~~September~~ 1, 1982, the commissioner of natural resources
16 decides that the agreement should be approved based on the securing of ade-
17 quate financing by Doyon, Ltd., and based on the continued observance by
18 Doyon, Ltd., of the terms of the agreement. ~~The agreement provides that it~~
19 ~~is void if Doyon, Ltd., or its assignee purchases or gains a controlling~~
20 ~~interest in either the Mapco Alaska refinery or the royalty oil contract with~~
21 ~~Mapco Alaska by May 1, 1982.~~

22 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-
23 070(c).

Introduced: 3/29/82
Referred: Resources and
Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 880

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

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13 Royalty Oil Policy and Findings for Proposed Disposition of Royalty Oil"
14 (dated February 26, 1982) as "Doyon I," is hereby approved and ratified.
15 That agreement provides that it is void if Doyon, Ltd. or its assignee pur-
16 chases or gains a controlling interest in either the Mapco Alaska refinery or
17 the royalty oil contract with Mapco Alaska by May 1, 1982.

18 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.
19 070(c).



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 29, 1982

The Honorable Jalmar Kerttula
President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting two bills which provide legislative approval of royalty oil contracts. One bill covers the contract between the state and Tesoro Alaska Petroleum Company, and the other bill covers the contract between the state and Doyon, Ltd.

These contracts are described in great detail in the 238-page "Review of Alaska Royalty Oil Policy and Findings for Proposed Disposition of Royalty Oil," issued by the Department of Natural Resources on February 26, 1982. Copies of these findings and a 14-page summary of these findings have previously been made available to the legislature and individual legislators for review. The Doyon contract submitted for approval is a contract referred to in the findings as "Doyon I."

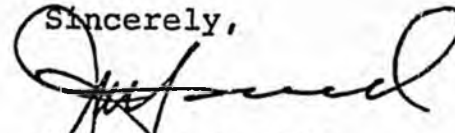
These contracts are being submitted for legislative approval for two reasons. First, although this administration has always taken the position that the statutory requirement of legislative approval of royalty oil contracts is unconstitutional (AS 38.06.055), as a matter of comity I have always respected the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, these contracts contain provisions requiring approval by the legislature before they become effective. Second, these bills would ratify the agreements for the sale of oil. This ratification would cure any procedural defect that may have occurred in the process of entering into these contracts.

Although we believe that all necessary steps have been taken, the statutes and regulations governing the disposal of royalty oil represent often conflicting desires and goals, both procedural and substantive. For example, even

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if statutorily requiring legislative approval were constitutional, the present statutes provide, on the one hand, that the legislature is to approve the contract by enacting legislation (AS 38.06.055(a)), but, on the other hand, they also provide that a report of the Royalty Board "shall be submitted for legislative review at the time of (sic) resolution for legislative approval of a proposed disposition of royalty oil and gas is introduced in the legislature" (AS 38.06.070(c)). Since legislative approval is required anyway as a matter of contract, I believe it only prudent to present these contracts for legislative approval and ratification at this time.

Sincerely,



Jay S. Hammond
Governor

TESTIMONY OF TIM WALLIS
PRESIDENT, DOYON, LIMITED

ROYALTY OIL CONTRACT
Juneau, Alaska
April 7, 1982

My name is Tim Wallis and I am president of Doyon, Limited.

Thank you Mr./Madam Chairman and members of the Committee for the opportunity to testify on SB 880 and HB 889 concerning ratification of the royalty oil sales contract between the State of Alaska and Doyon, Limited.

Our contract represents the first concrete attempt by an Alaska-owned company to break into the in-state refining business. As such, the issues inherent in your decision to ratify are straight forward. It is my intent today to provide you with a status report of our project and to answer all your questions. Hopefully, this will assist you in your decision-making process. And, it will assist Doyon in proceeding with the most beneficial project underway in the interior today.

PROJECT STATUS

By way of background, Mr. Chairman, during the past 20 months, Doyon has been actively investigating various oil and gas projects in order to find a way to minimize the impact

of fuel costs to residents throughout the interior region of Alaska. Our investigations and studies have included new refineries at the Yukon River, Valdez, Fairbanks and the Lower 48. We investigated acquiring existing refineries. We've conducted detailed feasibility studies on methane distribution for Fairbanks and we've advanced what we view as the only common sense approach to moving natural gas liquids from Prudhoe Bay to processing sites in Alaska. It was not without considerable preparation that we committed to the present refinery project at North Pole.

In November, 1981, Doyon, Limited signed a lump sum, turnkey contract with Litwin Engineering and Constructors for construction of a distillation refinery with a throughput of 30,000 to 35,000 BPD. Furthermore, the key components, i.e., crude tower and furnace, are sized for 50,000 BPD. The product slate will be JP-4, commercial jet fuel, gasoline, home heating oil and diesels. The economic feasibility of the project is in large part based upon the absence of gasoline manufacturing

north of the Alaska Range, and small business set asides for certain Defense Fuel Supply Center contracts, especially JP-4.

In addition to these key product markets, Doyon anticipates capturing a modest share of the other refined product markets.

The project was scheduled for fast track completion in December, 1982. However, primarily due to Chevron USA and the state not reaching an agreement on the return oil, and rapid readjustment of crude supply prices, we have rearranged the priorities of the tasks to complete the project by assigning priority to the sale of the return oil from the refinery. This rearrangement is partly dictated so that long-term financing can be negotiated under such advantageous terms as will benefit Doyon and our customers.

Engineering and design are 90% complete. Doyon presently owns all of the key refinery components which are, for the most part, skid mounted and ready for shipment to Alaska. Doyon also owns the refinery site, a 75-acre tract at North Pole, adjacent to the trans-Alaska pipeline and an existing refinery. All work

has been completed for environmental permits. The final air permit is expected to be issued in the next 10 days. This represents a substantial investment by Doyon and a strong financial commitment to the project.

GENERAL CONCERNS

During the period of time from November, 1981 through February, 1982, Doyon negotiated with the Department of Natural Resources to arrive at the contract that is before you.

CHANGED CIRCUMSTANCES

It cannot be over-emphasized that Doyon plans to proceed with its refinery project. When we signed the royalty contract on February 26, 1982, our completion date was December, 1982. Now it is June, 1983 -- an 18-month construction schedule instead of the fast tracked 12-month schedule. On March 6, it was reported that we put the project on "hold." This was a poor choice of words. It has been interpreted to mean that we stopped all work on our project when in fact we have not. We simply changed emphasis on the tasks needed to complete

the project. Even at this moment, work is being completed on the reformer, heat exchangers and crude skids which include the main processing unit. A better choice of words would have been that our change in emphasis necessitated an extension of the schedule for project completion from December until June. The change of emphasis resulted from various circumstances.

Foremost, our contract was predicated on the Department of Natural Resources' desire to sell our return oil to Chevron. By the time we learned that the Chevron contract would not be signed, the world oil surplus and rapid price decline made it much more difficult to sell the return oil.

Consequently, Doyon is presently negotiating with several companies to sell the return oil. But because we are dealing in a current "buyer's market," it is more difficult than it was six months ago.

The return oil and the state contract are the most important factors in financing our project. In order to successfully negotiate the sale of the return oil, it is imperative that we have it to sell. This is why any suggestion that the contract not be approved until financing is in place is a Catch-22 situation. The fact is that the contract requires Doyon's refinery to be operational by December, 1983. Nothing has changed to prevent Doyon from complying with this requirement. For the aforementioned reasons, we've slipped the schedule to a more nearly normal time line. And this time line is within the scope envisioned in the contract.

It appears that the length of the construction schedule is being confused with the depth of commitment Doyon has made to the refinery. We should not be penalized for not meeting a fast track schedule that was achievable only if all things fell into place, including the sale of return oil.

In summary, Mr. Chairman, it is the nature of projects of this magnitude that all of its elements are interdependent. Financing is dependent on cash flow. Cash flow is dependent on sales contracts. Sales contracts are dependent on supply contracts. They are all dependent on a business organization with the skill to unify the diverse requirements for each element. The absence of any one element only serves to make achievement of the other elements more difficult. If the royalty oil contract is not approved and deferred until next year, then it may be impossible to complete the other interdependent elements. It costs the state nothing to approve the contract, but disapproval may cost the people of the state all that could be gained from a competitive Alaskan-owned refinery.

In keeping with the legislature's and administration's policy to encourage in-state use of royalty oil, I request your approval and passage of H.B. 889 and/or S.B. 880.

4/7
SB 880

AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL

THIS AGREEMENT entered into as of the 26 day of February, 1982, by and between the STATE OF ALASKA ("Seller") and DOYON, LTD., an Alaskan corporation ("Purchaser"),

ARTICLE I

DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources.

1.2 "Day" means a period of twenty-four (24) consecutive hours beginning at 12:01 a.m., Alaska Standard Time.

1.3 "Leases" means the oil and gas leases which are subject to the terms of the Unit Agreement.

1.4 "Lessee" means any person owning a working interest in any of the Leases.

1.5 "Mapco-Alaska contract" means the "Agreement for the Sale and Purchase of State Royalty Oil" dated March 27, 1978, between Earth Resources Company of Alaska and Seller, and, as of February 15, 1982, held by Mapco-Alaska, Inc.

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 "North Pole Refinery" means that refinery located at North Pole, Alaska and, as of February 15, 1982, owned by Mapco-Alaska, Inc.

1.8 "Oil" or "crude oil" shall have the same meaning as the word "oil" under the Unit Agreement.

1.9 "Point of Delivery" shall have the meaning set out in Article 2.4.

1.10 "Royalty Oil" means the oil which the Seller may take in-kind (amount) as its royalty under the Leases whether or not Seller has elected to take or is taking that royalty in-kind.

1.11 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees each day.

1.12 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between Seller and the Lessees, as it may be amended from time to time.

ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser and Purchaser agrees to buy from Seller up to that quantity of oil equal to 9.067% of the Daily Royalty Oil ("Maximum Quantity"). Upon at least nine (9) months written notice to Seller, Purchaser may increase or decrease the amount of oil to be tendered by Seller at the Point of Delivery, but the amount tendered by Seller under this Agreement shall not

exceed the Maximum Quantity. Seller will tender Royalty Oil under this Agreement, or Purchaser may request that Royalty Oil be tendered by Seller under this Agreement, if and only if Seller will concurrently be tendering the maximum quantity of Royalty Oil that may be tendered under Article 2.1 of the Mapco-Alaska contract (which is 15% of Daily Royalty Oil less amounts delivered to Golden Valley Electric Association, Inc. and less those minimum quantities Seller must take in order to receive royalty reports from the Lessees). It is understood and agreed that the volume of Daily Royalty Oil available to Seller will vary and may be interrupted from time-to-time, and depends upon a variety of factors, including the rate of production from the Leases. Seller disclaims and Purchaser waives any representation, covenant or warranty, express or implied, as to the specific quantity or the total or daily, monthly, average, or aggregate volume of Royalty Oil to be sold or tendered under this Agreement. Seller warrants that it has good title to the oil tendered under this Agreement. Seller shall hold the Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Royalty Oil at the time the Royalty Oil is tendered to the Purchaser.

If Purchaser has not taken the Maximum Quantity of oil within five (5) years after the effective date of this Agreement, Seller, at its option, may permanently decrease the Maximum Quantity to the lesser of: (1) the greatest percentage of Daily Royalty Oil tendered by Seller within

that five-year period, or (2) the maximum amount of oil that can be processed at Purchaser's refinery minus an amount equal to 15% of the Daily Royalty Oil. The State's option to decrease the Maximum Quantity under this Article 2.1 does not affect the amount of Royalty Oil to be tendered under the Mapco-Alaska contract. Purchaser may permanently decrease the Maximum Quantity or terminate this Agreement upon nine (9) months written notice to Seller.

If Seller underlifts or stores Royalty Oil at Prudhoe Bay, or if Seller recovers underlifted or stored Royalty Oil, the quantity of Royalty Oil tendered under this Agreement shall be calculated as if no Royalty Oil was underlifted or stored or recovered.

2.2 Quality. The Royalty Oil sold shall be the same quality as the oil delivered by the Lessees to the Seller at the Point of Delivery. It is understood and agreed that the quality of the Royalty Oil sold may vary from time to time. Seller disclaims, and Purchaser waives, any guarantee, representation, or warranty, either expressed or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the oil delivered under this Agreement or as to any specific, average or overall quality or characteristic of Royalty Oil to be sold or tendered under this Agreement.

2.3 Price of the Royalty Oil. The price for the oil tendered under this Agreement shall be equal to the amount that Seller would have received from its Lessees for

the Royalty Oil tendered if that royalty had been payable in money (taken in value) rather than taken in kind, plus the Field Cost Allowance incurred by that oil as determined under the Prudhoe Bay Royalty Settlement Agreement (dated April 1, 1980 for reference purposes only), which was entered as part of a final judgment dated August 13, 1980 in State of Alaska, et al. v. Amerada Hess Corp., et al., (Superior Court for the State of Alaska, First Judicial District at Juneau) ("Amerada Hess") ("Settlement Agreement") ("Purchase Price"). The Purchase Price shall be determined by Seller based upon the reports submitted by the Lessees for royalty purposes or, when those reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, as may be adjusted from time to time as provided in this Agreement. Buyer will only be entitled to review or request material or information which is not confidential under state law or regulation.

The method, basis and amount of royalty due Seller when it takes its royalty in value from the Leases is presently the subject of litigation in Amerada Hess. One of the issues involved is the proper method to be used by the Lessees in calculating the state's royalty when that royalty is payable in money (in value). Until there is a resolution of that dispute through judicial resolution or settlement, the Purchase Price will be based upon the calculation of an amount per barrel equal to the per barrel volume weighted

average of the in-value prices reported by the Lessees to Seller for royalty purposes or, when the royalty reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, plus the Field Cost Allowance as determined under the Settlement Agreement. Upon resolution of each of the various issues that are or will be involved in Amerada Hess, adjustments will be made to previous payments in accordance with each resolution. If additional amounts are owed by Purchaser to Seller, interest on those amounts will be paid at a variable interest rate which is the higher of: (1) the prime rate as may be announced from time to time by The Bank of America, San Francisco, California plus three per cent (3%); or (2) the rate of return as is realized from time to time in the investment of the State of Alaska's general fund. Amounts owed from Seller to Purchaser shall be repaid at the rate set out in Article 5.6. Buyer will not voluntarily intervene or otherwise participate in Amerada Hess unless Seller expressly consents to that participation in writing. A settlement of Amerada Hess will be binding upon Buyer whether or not Buyer agrees with or consents to the terms of that settlement.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will, in the judgment of Seller, operate to prohibit or prevent Seller from receiving the full amount due under the above provisions, Buyer's obligation to pay the amount of

the Purchase Price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for Seller to comply with that law, rule or regulation.

2.4 Point and Time of Delivery. Simultaneous with receipt of its Royalty Oil from its Lessees, Seller shall tender the oil to Purchaser at the point at which Seller receives the Royalty Oil from its Lessees. That point as presently agreed to by Seller and its Lessees in Article 2.3 of the Settlement Agreement is the custody transfer meters into the Trans Alaska Pipeline System at Prudhoe Bay.

2.5 Passage of Title and Risk of Loss. Title and risk of loss to the Royalty Oil sold under this Agreement shall pass from Seller to Purchaser for all purposes when Seller tenders the oil at the Point of Delivery.

2.6 Purchaser's Responsibility. Purchaser shall be responsible for the oil after passage of title. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential 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 has passed to Purchaser.

2.7 Transportation Arrangements. Purchaser shall make all necessary arrangements for transporting the oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage

tank bottom requirements of the Trans Alaska Pipeline System, if any. If and as requested by the Seller, and at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangement it has made for transportation of the Royalty Oil sold under this Agreement through and away from the Trans Alaska Pipeline System and for the resale or other disposal of the Royalty Oil. Such information may include the specific tenders of oil made to the Trans Alaska Pipeline System and identification of tankers which will transport the Royalty Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Royalty Oil subject to this Agreement. Failure to provide information, evidence or assurances requested will, at Seller's election by notice to Purchaser, be a material default under this Agreement.

2.8 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the Royalty Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Purchaser, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.9 Date of First Delivery. On December 1, 1982, or seven months after statutory approval as set forth in

Article VI, whichever is later, Seller will tender to Purchaser at the Point of Delivery the Maximum Quantity unless Purchaser, under the provisions of Article 2.1, decreases the amount of Royalty Oil to be tendered.

2.10 Performance Guaranty and Reservation Fee. If Purchaser does not take the Maximum Quantity on the Date of First Delivery, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to 1.25% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Purchaser ("Actual Quantity") for each day Purchaser does not take the Maximum Quantity on and after the Date of First Delivery. The payment of this fee shall end on the day that Purchaser accepts delivery of the Maximum Quantity. When Purchaser accepts the Maximum Quantity, all of the amounts paid under this Article 2.10 will be allowed to be credited against future payments for oil tendered under this Agreement except for an amount to be retained by Seller equal to .75% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the Actual Quantity for each day Purchaser did not take the Maximum Quantity on and after the Date of First Delivery. If Purchaser should thereafter decrease the amount of Royalty Oil to be tendered under this Agreement, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to .75% of the Purchase Price per barrel per day after the date that the decrease in the

amount of Royalty Oil to be tendered by Seller takes effect on the difference between the Maximum Quantity and the Actual Quantity.

2.11 In-state Processing. Purchaser agrees that any and all of the Royalty Oil tendered under this Agreement shall be processed through Purchaser's refinery near North Pole, Alaska, or shall be exchanged for other crude oil which shall be processed at that refinery. "Process" means producing oil products in significant quantities, but which quantities may be less than 32% of the volume of Royalty Oil tendered under this Agreement. "Exchange" means: (1) direct trades of equal volumes of crude oil; (2) trades of crude oil involving either cash or volume adjustments, or both, provided that those adjustments relate solely to quality or location differences; (3) sequential transactions in which Purchaser receives back crude oil from a party other than the party which receives the Royalty Oil in a trade from Purchaser; or (4) matching purchases and sales of crude oil. The terms under which Purchaser receives crude oil in any exchange shall not differ in any significant term from the terms under which Purchaser delivered Royalty Oil except for terms which adjust for differences in quality and location. Purchaser agrees that any trade or exchange shall not reduce the price to be paid to Seller and that trades or exchanges shall be at no cost or expense to Seller.

Purchaser's obligation to process Royalty Oil or exchanged oil in-state may only be suspended or excused under the provisions of Articles VIII and XI.

If Purchaser and Seller agree to implement Article 2.14, then "process" shall mean producing oil products in significant quantities, but which may be less than 80% of the volume of Royalty Oil tendered under this Agreement.

Seller may, at its option, waive the in-state processing requirement in whole or in part, if Seller is satisfied that Purchaser is using its best efforts to process the Royalty Oil tendered or the oil exchanged for Royalty Oil tendered under this Agreement at Purchaser's refinery and that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

2.12 Best Efforts. Purchaser agrees to use its best efforts to produce and market in Alaska an amount of crude oil products from the Royalty Oil tendered under this Agreement not less in volume than 32% of the Royalty Oil tendered under this Agreement. "Crude oil products" does not include oil or oil products which are reinjected into the Trans Alaska Pipeline System. Purchaser also agrees to use its best efforts to nominate no more than that amount of Royalty Oil that will be necessary to produce and market crude oil products in Alaska at least equal in volume to 32% of the Royalty Oil that will be tendered under this Agreement from the Royalty Oil tendered under this Agreement. On or before the 20th day after the end of each month

of the term of this Agreement, the Purchaser shall provide to the Seller an affidavit certified by the Purchaser stating the quantity of crude oil products produced and marketed in the State of Alaska from in-state processing of the Daily Royalty Oil tendered under this Agreement.

If Purchaser and Seller agree to implement Article 2.14, then the above best efforts obligations shall apply to nominating, producing and marketing crude oil products in Alaska in an amount not less in volume than 80% of the Royalty Oil tendered under this Agreement.

A determination of "best efforts" under this Article shall include consideration of Purchaser's capabilities and the surrounding business circumstances. Purchaser's obligation to use its best efforts include reasonable, diligent, and good faith efforts, but shall not require Purchaser to produce and market crude oil products in Alaska at a loss. "Best efforts" would, however, require Purchaser to produce and market products in Alaska even though Purchaser could make a greater profit by another disposition of the Royalty Oil or the products refined from that oil.

2.13 Future Dispositions of Royalty Oil. Seller recognizes that AS 38.05.183, which governs disposition of Royalty Oil by the State of Alaska, establishes a statutory preference for dispositions proposing (1) in-state processing of Royalty Oil and (2) in-state supply of products generated from processing of Royalty Oil, in that

order. Seller represents that, in conjunction with future dispositions of Royalty Oil, Purchaser will be afforded the consideration contemplated by AS 38.05.183.

2.14 Exchange of Return Oil. Seller, concurrently with this Agreement, is entering or attempting to enter into arrangements with other parties for the purchase of Royalty Oil. At the date of the signing of this Agreement all of the parties involved, including Purchaser, are Doyon, Ltd. [Doyon], Chevron U.S.A., and Tesoro Alaska Petroleum Co., or their respective assignees.

It is understood and agreed that Doyon's refinery will not be able to convert crude oil to product on a one-to-one ratio. Rather, it is expected that the total amount of oil run through Doyon's refinery ["Gross Charge"] will be significantly greater than the volume of oil products produced. (Under the original arrangement contemplated by the rest of this Article 2.14, the amount of oil tendered to Doyon by Seller will be less than Doyon's Gross Charge). That volume of oil left after the products have been produced ["Return Oil"] will be reinjected into the Trans Alaska Pipeline System ["TAPS"]. This Return Oil may have a significantly lower API gravity and other quality differences than the Royalty Oil delivered by the Lessees to Seller.

Because different oils with different quality are inextricably intermixed during shipment, all oil transported through TAPS arrives at Valdez in the same condition. Thus

a person reshipping the lower quality Return Oil will end up with oil of a higher quality at Valdez, and shippers of higher quality oil will end up with oil of a lower quality at Valdez. Consequently, the Return Oil may be required to pay an adjustment fee relating to the different and lower quality of the Return Oil. ["Quality Adjustment"].

Since the Return Oil would otherwise probably be resold to a third party for export from Alaska, Seller intends to have the Return Oil used in-state if it is possible to do so. Therefore, in order to satisfy all of the purchasers' requirements consistent with the public interest, Seller intends to dispose of a volume of oil equal to 150% of the amount of Daily Royalty Oil tendered by Seller to Doyon ["Exchange Oil"] to Chevron U.S.A.

It is recognized that arrangements for the transportation of oil through TAPS may vary over time, and that the exact form of the disposition of the Exchange Oil may vary. Whatever form the transaction takes in its details, however, it is the intent and understanding of the parties to the Agreement that:

1. Chevron U.S.A. must be placed in a situation analogous to it buying Royalty Oil in volumes equal to the Exchange Oil at the Point of Delivery;

2. Doyon must not be exposed to paying more than the Purchase Price plus (a) if necessary, Quality Adjustments on the Return Oil that is Exchange Oil and (b) the tariff to Fairbanks on the non-Exchange Oil purchased by

Doyon, and, in addition, Doyon may choose the carrier for the Royalty Oil tendered by Seller to Doyon; and

3. If possible, Seller is legally included as a party in any transaction that involves the transfer of Exchange Oil from Doyon to Chevron U.S.A., but at the same time Seller is not placed at risk in any transaction occurring after the Point of Delivery, and that the specific day-to-day arrangements are handled by Doyon and Chevron U.S.A.

It is recognized that Doyon has the flexibility to increase or decrease tenders of Royalty Oil or terminate its agreement prior to the end of its 12 year term, while Chevron U.S.A. may not change the amount of oil to be tendered by Seller, nor may Chevron U.S.A. terminate its agreement prior to the end of its 12 year term. In the event that Doyon decreases the quantities to be tendered to it by Seller, Seller will make up the lesser quantities of Exchange Oil sold to Chevron U.S.A. with additional volumes of Royalty Oil. Except for the terms of the immediately following paragraph, Seller agrees to cause the same terms as is set forth in this Article 2.14 to appear in Chevron U.S.A.'s agreement.

Therefore, if Purchaser notifies Seller prior to May 1, 1982, and Seller agrees (at its sole option) Seller and Purchaser agree to exchange an equal volume of crude oil at the Fairbanks Off-Take Point. If Purchaser so notifies Seller, then for the period ending December 1, 1994, the

amount of Royalty Oil delivered to Purchaser under Article II of the Mapco-Alaska contract shall not exceed 6% of the Daily Royalty Oil, and the Maximum Quantity under this Agreement shall not exceed 3.627% of the Daily Royalty Oil. The volume of oil exchanged shall be equal to 150% of the amount of Daily Royalty Oil tendered to Purchaser at the Point of Delivery ("Exchange Oil") under both the Mapco-Alaska contract and this Agreement. It is understood that the volume transferred from Purchaser to Seller may be Return Oil. Any payment, fees, or other amounts owed to any person or entity by either Purchaser or Chevron U.S.A. on account of a Quality Adjustment shall be paid by Purchaser. In addition, if Chevron U.S.A. does not take the Exchange Oil then, upon at least seven (7) months notice to Purchaser, Seller, at its option, may (1) cancel the exchange, (2) increase the Maximum Quantity under this Agreement to 9.067% of the Daily Royalty Oil, and (3) reinstate Article II of the Mapco-Alaska contract. Seller may cancel the exchange and increase the Maximum Quantities to be delivered under this paragraph only once. If Seller exercises this option, then Purchaser, within 10 days of notice of the exercise of this option, may decrease the quantity of Royalty Oil to be tendered by Seller in any amount on the date the option is to take effect, provided that Seller has at least 181 days notice of the decrease in the amount of oil to be tendered by Seller. If Chevron U.S.A. fails to take the Exchange Oil and Seller does not cancel the

exchange and increase the Maximum Quantities, then Seller will continue the exchange under the same terms and conditions as set forth in this Article 2.14, except that the obligations and responsibilities of Chevron U.S.A. may be assumed by another entity capable of performing those tasks. If there is a period of time between the failure of Chevron U.S.A. to take the Exchange Oil and the assumption of Chevron U.S.A.'s obligations by another entity, Seller will, at the option of Purchaser on reasonable notice, tender the Exchange Oil to Purchaser at the Point of Delivery.

Seller may delegate the responsibility for Seller's obligations to arrange for the exchange of oil under this section to another of Seller's purchasers of Royalty Oil. Further, Purchaser agrees that it will accept a delegation from Seller of the responsibility of arranging Seller's obligation to exchange crude oil under this section at the Fairbanks Off-Take Point to another purchaser from Seller of Royalty Oil as long as the responsibility does not attach to a different volume than the volume of Exchange Oil.

The purpose of the above arrangement is to provide Doyon with sufficient volumes to be able to produce crude oil products up to the amount of Royalty Oil tendered to Doyon at the Point of Delivery. The additional volumes needed to enable Doyon to produce those products will be sold to Chevron U.S.A. at the Point of Delivery. The

exchange at the Fairbanks Off-Take Point will be a double exchange of Royalty Oil from Chevron U.S.A. to Seller which Seller will in turn exchange with Doyon. Seller will receive an equal volume of Return Oil from Doyon, which Seller will in turn exchange to Chevron U.S.A.. The above exchanges will occur at the Fairbanks Off-Take Point. The "Fairbanks Off-Take Point" is that point or points immediately outside TAPS within the North Star Borough where crude oil may be withdrawn from TAPS or reinjected into TAPS. That point or points will be designated by Doyon, provided that the point or points designated by Doyon will meet all requirements that may be imposed by the interstate and intrastate tariffs of TAPS for the removal and reinjection of oil. The designation of that point or points by Doyon will be made sufficiently in advance so that Seller and Chevron U.S.A. will have sufficient time to make transportation arrangements considering the procedures set by TAPS. If any dispute arises in the designation of a point or points by Doyon, Seller shall expeditiously designate a point or points after consultation with the affected parties.

It is the intent of the parties that Chevron U.S.A. and Doyon are third party beneficiaries of the exchange obligations of the other parties, and that each party will be liable to the other for damages suffered by the failure of a party to carry out an exchange obligation including, but not limited to (1) damages suffered by Doyon

because of a default by Chevron U.S.A. which causes Seller to require Doyon to take and dispose of the Exchange Oil; and (2) damages suffered by Chevron U.S.A. because of the failure of Doyon to exchange the Exchange Oil with Seller. In addition, Purchaser agrees to indemnify Seller for any damage, loss, or payment to third parties borne by Seller if Purchaser, for any reason, is unable to make the exchange or, if the responsibility to arrange the exchange is delegated to Purchaser, if Purchaser fails to adequately carry out that responsibility.

If, for any reason, the specific arrangement either for exchanging the Exchange Oil or for the payment of the Quality Adjustment by Doyon either is not concluded by the signing of this Agreement or, because of changed circumstances, becomes impracticable at any time thereafter, Purchaser agrees to use its best efforts to negotiate an alternative arrangement which places all parties in a position equivalent to the position described previously in this section. If after sixty (60) days a satisfactory arrangement is not concluded then, at the option of any affected party, the matter shall be submitted to the Commissioner for resolution along the principles expressed previously in this section. The Commissioner's resolution will be subject to the provisions of Article XXIII.

ARTICLE III

REPRESENTATION AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Purchaser is, and at all times during the operation of this Agreement shall remain, a corporation qualified to do business in, and in good standing with, the State of Alaska. Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Purchaser's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to Seller is complete and correct and fairly presents Purchaser's financial condition at the time the information was submitted to Seller. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business and properties of Purchaser have not been materially adversely affected in any way. Purchaser agrees to inform Seller immediately if during the term of this Agreement there is any material adverse change in the condition, business, or properties of Purchaser which would have an appreciable adverse effect on Purchaser's performance under this Agreement. Purchaser, in addition, will immediately

inform Seller of any significant change in ownership of either the Purchaser or any of its affiliates or parent company, and of any change in Purchaser's operations or agreements which would appreciably affect Purchaser's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Purchaser, and in any event within 120 days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, complete financial statements in the form filed with the Securities and Exchange Commission.

3.4 Option to Purchase Resid. If Purchaser and Seller do not agree to implement Article 2.14 of this Agreement, then, subject to Purchaser's existing contracts, Purchaser grants to Seller an option to purchase all, or any quantity, of the residual oil ("resid") produced or refined from the Royalty Oil sold hereunder or the oil exchanged for the Royalty Oil. Seller shall exercise this option by giving Purchaser written notice nine (9) months in advance of purchase by Seller. The notice shall specify the quantity Seller will purchase. Thereafter Seller may increase, decrease, or terminate the quantity of resid by giving written notice nine (9) months in advance, and Seller may again, subject to Purchaser's existing contracts, commence purchases after having terminated such purchase by giving written notice nine (9) months in advance of Seller's purchase. Seller shall take the resid for a period of at

least nine (9) months unless the Royalty Oil is run in Purchaser's refinery for a period of less than nine (9) months. In that case, Seller shall be obligated to purchase resid only for that shorter period of time.

This option shall remain in effect for the term of this Agreement. Failure to exercise this option for any period of time shall not affect Seller's right to exercise the option at a later time. This option, in whole or in part and for any term, shall be freely assignable by Seller and such assignment shall release Seller from all obligations to receive or pay for the resid sold under this option; provided, however, that Purchaser shall have the right to demand of an assignee of Seller reasonable security for the resid sold to that assignee. If authorized in an assignment by Seller, an assignee shall have the further right freely to assign that option, however, that assignment shall not release that assignee (or any subsequent assignee) of any responsibilities or liabilities to Purchaser unless agreed to by Purchaser in writing.

Seller shall pay the same price for resid as the highest price the Purchaser is offered for the same product from any other bona fide buyer of the resid. In the event Purchaser has no similar offer to buy from a bona fide buyer, the price shall be Purchaser's posted price for a like grade of resid in effect on date of delivery at its North Pole, Alaska, refinery, provided, however, that at no time shall the price be more than the cost of the Royalty

Oil purchased hereunder plus actual transportation cost to North Pole, Alaska. Purchaser shall have the right to supply a comparable or better quality of resid from any source, domestic or foreign, so long as the laid-in cost of the resid at Seller's intended destination does not exceed the laid-in cost based upon Seller purchasing the resid at North Pole, Alaska. If Seller exercises its option under this Article 3.4, then Purchaser shall not be responsible for any quality adjustment, if any, for the resid.

3.5 Petroleum Coke. Purchaser agrees that if it modifies or expands its refinery at North Pole, Alaska so that the refinery is able to produce and handle petroleum coke, Purchaser will at that time enter into good faith negotiations with Seller for an option to purchase that petroleum coke.

ARTICLE IV

MEASUREMENTS AND TESTS

4.1 Measurement Standards and Procedures. The quantity and quality of the crude oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the oil sold under this Agreement shall be in accordance with the practices then in effect at Prudhoe Bay, Alaska.

ARTICLE V

PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or

before the tenth (10th) business day of each month after delivery of Royalty Oil, an invoice statement of account of all Royalty Oil estimated to have been measured at the custody transfer meter into the Trans Alaska Pipeline System and tendered to Purchaser under this Agreement during the immediately preceding month according to the best information available to Seller, the estimated price or prices applicable to those deliveries, and the total amount due ["initial billing"]. The estimates will be made by Seller according to the best information reasonably available to Seller. Seller may render its initial billing to Purchaser based in part upon information reported by the Lessees to Seller and information published by the U.S. government. Seller shall thereafter adjust its initial billing under this Article as soon as more accurate information concerning the quantity and price or prices of Royalty Oil delivered each month is available. Seller, however, shall not be required to adjust the initial billing prior to the sending of the next month's invoice statement of account.

5.2 Initial Adjustment. After the monthly invoice under Article 5.1, the subsequent monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding calendar month, in accordance with any additional or more accurate information which may have become available to Seller. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Article 5.5.

5.3 Payment. Purchaser will make payment of that amount billed under this Article within ten (10) days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding in immediately available funds to Seller at the following address:

Bank of America, NT & SA
San Francisco, California
Securities Department 3255
Credit to:
State of Alaska Investment Account

Payment may be made in such other manner or to such other address as Seller may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business day. It is recognized that Seller may bill, and that Purchaser will pay, amounts that are based upon confidential information held or received by Seller. If confidential information is used as the basis for a billing, then upon request Seller will furnish Purchaser with the certified statement of the Commissioner that the amounts billed are correct based upon the best information available to Seller. Except for obvious clerical mistakes, if a dispute concerning a bill arises, it is agreed that Purchaser will pay the full amount billed by Seller pending final resolution of the dispute. Upon final resolution, the amount paid will be

refunded to the Purchaser with interest, if such a refund is appropriate.

5.4 Payment to Lessee. Purchaser, at the request of Seller in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by Seller of that payment required to be made to one or more of the Lessees at an address or addresses and in the manner designated by Seller. The payment will be made within the time limit specified in Article 5.3. Seller may authorize and designate a third party to make the request and designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payment for subsequent months, shall be made in accordance with Article 5.3.

5.5 Subsequent Adjustments. Purchaser acknowledges that more accurate information concerning the quantity of or Purchase Price for Royalty Oil tendered may subsequently become available to Seller. In the event that any such information should subsequently become available to Seller, Seller shall promptly furnish a corrected invoice statement of account to Purchaser and the parties will adjust the amount billed and pay or refund the amount of those adjustments.

In the event that Seller should render a corrected invoice to Purchaser, the parties will adjust the amount previously billed accordingly. Any amount to be refunded from Seller to Purchaser or paid from Purchaser to Seller

will be paid within fifteen (15) days after the date of the corrected invoice. The time for paying an adjustment will be different, however, when the adjustment concerns an amount last invoiced more than sixty (60) days before the corrected invoice, in which case the amount will be paid by Purchaser or refunded by Seller, as the case may be, in equal monthly installments over the same period of time as that over which the adjustment accrued or six (6) months, whichever is the shorter period. No adjustment will be made more than twelve (12) months after the date of the last original invoice to which the adjustment relates, except for adjustments resulting from (i) regulatory or court proceedings (including appeals) commenced or pending during that twelve (12) month period, whether or not Seller or Purchaser is a party to the proceeding, or (ii) bona fide audits by Seller of any Lessee(s) commencing at any time during the period six (6) years after the date of the last invoice to which such adjustment relates, or any resolution of disputes arising out of those audits. Adjustments due to audits or regulatory proceedings or court proceedings may be made at any time. The provisions of this Article 5.5 will survive any termination of this Agreement.

5.6 Interest. Except for adjustments made upon resolution of Amerada Hess under Article 2.3, the amount of all sums which are not paid when due under this Agreement or which are subsequently determined to be due under an adjustment under Article 5.5, or refunds, shall bear interest from

the date accrued until paid in full at a variable rate per annum equal to the prime rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum.

5.7 Late Payment Penalty: Except for unintentional failures to pay, including clerical mistakes or occurrences not within the reasonable control of Purchaser, or insignificant underpayments, if Purchaser fails to make payment within one day of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of payment, Purchaser will pay an amount equal to one percent (1%) of the amount owed.

5.8 Payment to Third Parties. Seller may direct that Purchaser pay any amount due or which may become due directly to a third party in the manner and time as may be directed by Seller in written notice to the Purchaser if, in the Seller's sole discretion, the payment to the third party will assist Seller in monitoring or enforcing this Agreement.

ARTICLE VI

TERM

6.1 Term. This Agreement shall become effective upon execution by the parties and (1) after enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement and (2) Purchaser has purchased or otherwise acquired a controlling interest in

the North Pole Refinery or Purchaser has gained or acquired a controlling interest in the Mapco-Alaska contract. This Agreement shall be null and void if it is not so approved by September 1, 1982, or if, by May 1, 1982, Purchaser has not purchased or acquired a controlling interest in the North Pole Refinery or Purchaser has not gained or acquired a controlling interest in the Mapco-Alaska contract. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin seven (7) months after the above approval or December 1, 1982, whichever is later, and end December 1, 1994.

ARTICLE VII

DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at Seller's option, Seller may terminate or suspend its obligation to tender and sell Royalty Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

(i) Except for obvious clerical errors, Purchaser does not pay in full any sum owed under this Agreement at the time when payment is due; or

(ii) Purchaser fails to observe or perform any of its other covenants and obligations under Article II; or

(iii) Purchaser does not perform any act required or contemplated under this Agreement and either: (a) the nonperformance continues for more than thirty (30) days

after Seller has notified the Purchaser of Purchaser's non-performance; or (b) Purchaser had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding 12 month period; or

(iv) There is a material adverse change in Purchaser's condition, business or property which appreciably affects the ability of the Purchaser to perform any of its obligations under this Agreement, and Purchaser is unable to give Seller adequate assurance of continued performance either within fourteen (14) days of a request for such an assurance or within such other shorter time period as Seller may reasonably request under the circumstances; or

(v) Any representation or warranty made by Purchaser in this Agreement proves to have been false or incorrect in any material respect at the time that the representation or warranty was made.

7.2 Failure to Pay Debts. If at any time Purchaser becomes unable to pay any of its debts when those debts are due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Purchaser will immediately give notice of that fact to Seller.

Whether or not that notice is given, if Purchaser becomes unable to pay any of its debts when those debts are due or should otherwise become insolvent, Seller's obligation to tender and sell Royalty Oil under this Agreement will automatically and immediately terminate without any

requirement of notice or other action by Seller; however, Purchaser will nevertheless be and remain liable for payment and performance of all of its obligations and covenants under this Agreement with respect to Royalty Oil actually tendered by Seller to and after any such termination. Within thirty (30) days after receipt of Purchaser's notice or, if no notice is given, after Seller otherwise becomes aware (as determined in Seller's sole discretion) of Purchaser's insolvency, Seller will have the right, upon written notice to Purchaser, to reinstate all of Seller's and Buyer's obligations under this Agreement retroactively to the date of termination.

7.3 Seller's Remedies. Upon the occurrence of any Event of Default or if Seller's obligation to tender and sell Royalty Oil under this Agreement is terminated or suspended under Article 7.1 and 7.2, all obligations of Purchaser accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Purchaser will indemnify and hold Seller harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorneys' fees and disbursements) incurred by Seller and arising out of the Event of Default, termination, or suspension. Seller shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including

mandatory injunction and specific performance. The Seller, upon occurrence of any Event of Default, in its sole discretion, may arrange for any disposition to third parties of Royalty Oil to be tendered and sold under this Agreement. Upon the occurrence of any Event of Default, the Purchaser is released from the obligations set forth in Articles 2.11 (In-State Processing) and 2.12 (Best Efforts) until the Event of Default no longer exists or the obligation of the Purchaser to take Royalty Oil under this Agreement expires. If upon occurrence of any Event of Default the Seller makes arrangement for disposition to third parties of Royalty Oil or if the Purchaser is released from Articles 2.11 and 2.12, whether or not this Agreement is terminated, Purchaser will nevertheless be and remain liable to Seller for the full amount of the Purchase Price for that Royalty Oil in excess of the Purchase Price over any amount or amounts received by Seller on account of that disposition, net of the expenses of that disposition and for all other costs, expenses (including reasonable attorneys' fees and disbursements), damages (including reasonably foreseeable consequential damages) and losses incurred by Seller and arising out of the Event of Default or disposition.

7.4 Purchaser's Exclusive Remedies. Upon any breach of, or default in, the due and timely observance or performance of any of Seller's covenants or obligations under this Agreement, Purchaser acknowledges and agrees that Purchaser's remedies will not include a temporary

restraining order or preliminary injunction preventing Seller from taking any action with regard to the Royalty Oil sold under the Agreement.

ARTICLE VIII

DISPOSITION OF OIL

8.1 Disposition of Oil Upon Default or Termination. Purchaser acknowledges and agrees that under the Unit Agreement and Leases Seller's election to take Royalty Oil in-kind can be revoked or reversed only upon the satisfaction of various conditions, including the giving of six (6) months notice to return all or more than ten percent (10%) of Seller's then current nominations. Purchaser acknowledges and agrees that Seller's election to invoke its rights to return to taking its Royalty Oil in value on less than six (6) months notice, or to attempt to secure a waiver of any condition or requirement, is at Seller's sole and complete discretion. Notwithstanding termination of this Agreement for default or for any other reason, including expiration or termination under any provision contained in this Agreement, Purchaser shall continue to take and purchase Seller's Royalty Oil in the amount and for the price set forth in this Agreement for up to seven (7) months following termination of this Agreement if Seller, in its discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Purchaser is unable or refuses to accept or receive any Royalty Oil tendered under this Agreement, Purchaser shall

nevertheless be and remain responsible for the disposal of that Royalty Oil and for paying the Seller for the oil as though it had been received and accepted by Purchaser unless Seller, in its sole discretion, elects to waive this requirement.

8.3 No Right to Storage or Underlift. Purchaser waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which Seller is or may come to be entitled under the Leases or any other agreement.

ARTICLE IX

WAIVER

9.1 Waiver. The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that 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. A course of performance established by a party shall also not estop the other party from complaining of a later breach similar in nature.

ARTICLE X

VALIDITY

10.1 Validity. If any provision or clause of this Agreement or application of this Agreement to any person or circumstance is held invalid, that invalidity shall not

affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI

FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Purchaser's obligations to make payment of money for Royalty Oil tendered under this Agreement and except for Purchaser's obligations to accept and dispose of Royalty Oil, neither party shall be liable for any failure to perform the terms of this Agreement when the failure is due in whole or in substantial part to force majeure. The term "force majeure" as applied to this Agreement shall mean acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances, arrests and restraints 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 reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition,

whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If, however, any material obligation of Purchaser is excused or suspended because of a claim of force majeure for a period of 365 successive days or more, Seller will have the right to terminate this Agreement. Prior to the Seller exercising its right to terminate this Agreement the Seller and Purchaser shall enter into good faith negotiations to restore, to the fullest extent possible, the Seller and Purchaser to the benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. Upon the occurrence and discovery of an event providing the basis for a claim of force majeure, the party making a claim shall notify the other party to this Agreement of its claim of force majeure. Upon the occurrence of an event constituting force majeure that event shall, so far as possible, be remedied with all reasonable diligence and dispatch. Except for Purchaser's obligations to make payment of money for Royalty Oil tendered under this Agreement and except for Purchaser's obligation to dispose of Royalty Oil, the obligations of the disabled party to perform under this Agreement, insofar as they are affected by that force majeure, shall be suspended from the time that force majeure occurs and for so long as the disability caused should have continued had the party claiming the existence of the force majeure had remedied the

event providing the basis of the claim of force majeure with reasonable diligence and dispatch, and for no longer. The settlement of strikes or lockouts or industrial disputes or disturbances will be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with diligence and dispatch 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 XII

NOTICES

12.1 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 this manner 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 the purposes of notice the addresses of the parties to this Agreement shall be as follows:

If to Seller: State of Alaska
 Commissioner of Natural Resources
 Pouch "M"
 Juneau, Alaska 99811

and

Commissioner of Revenue
Pouch "S"
Juneau, Alaska 99811

and

Director, Division of Minerals
and Energy Management
555 Cordova Street
Anchorage, Alaska 99501

If to Purchaser:

Tim Wallis
President
Doyon, Limited
201 First Avenue
Fairbanks, Alaska 99701

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

ARTICLE XII

RULES AND REGULATIONS

13.1 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, and any duly constituted agency thereof.

ARTICLE XIV

SOVEREIGN POWER OF THE STATE

14.1 Sovereign Power of the State. This Agreement and its covenants 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, including but not limited to, its regulatory power over the Leases. The exercise by the

State of Alaska of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of Purchaser or to limit or impair any obligations or liability of Purchaser under this Agreement except for state statutes enacted after the effective date of this Agreement which have a direct and significant adverse affect on the ability of Purchaser to perform an obligation under this Agreement other than the obligations to accept, dispose, and pay for Royalty Oil tendered under this Agreement.

ARTICLE XV

SECURITY

15.1 Letter of Credit. At least ninety (90) days before the Date of First Delivery, unless waived by Seller, Purchaser shall cause to be furnished to Seller an irrevocable stand-by letter of credit for the benefit of Seller, issued by a state or national banking institution of the United State which is a member of the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than \$100,000,000, or other banking institution acceptable to Seller in its sole discretion. The principle face amount of the letter of credit shall initially be \$22,440,000. The letter of credit shall be substantially in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or his designee and the Attorney General of the State

of Alaska or his designee that Purchaser is liable to Seller for a sum equal to the amount of such draft, and that that sum is due and payable in full and has not been timely paid. In the event that Seller should have reasonable grounds for asserting any claims against Purchaser under this Agreement and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Purchaser shall upon Seller's request (whether or not Purchaser may deny, reject or otherwise resist such claims) cause the principal face amount of the letter of credit to be increased by an amount equal to the excess. The principal face amount of the letter of credit shall also be automatically increased by Purchaser without request from Seller whenever the face amount is less than the expected Purchase Price of sixty (60) days of Royalty Oil tenders under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Royalty Oil tenders. The principal face amount of the letter of credit may be decreased by Purchaser upon approval of Seller if the face amount is less than the expected Purchase Price of sixty (60) days of Royalty Oil tenders under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Royalty Oil tenders. The Commissioner may accept such other or additional security as he, in his sole discretion, considers adequate to protect Seller.

ARTICLE XVI

PREFERENTIAL HIRING AND NON-DISCRIMINATION

16.1 Compliance with Alaska Law. Purchaser will comply with all applicable Alaska statutes and regulations in effect at the time this Agreement becomes effective, as well as all amendments to them and subsequent enactments, providing for preferential hiring of Alaska residents and non-discrimination against them.

16.2 Preference to Qualified Alaska Residents. To the extent not superceded by or inconsistent with subsequently enacted legislation or regulations, Purchaser will use its best efforts to assure that work done by or for it within the State of Alaska in connection with this Agreement shall, to the extent they are available, willing and qualified, be performed by Alaska residents who, at the time of their initial employment by Purchaser, its contractors or subcontractors, fall within one or more of the following employment target groups, as determined by the State or an agency or agencies designated by the State:

(1) "chronically unemployed resident," defined as either:

(A) a resident who has been unemployed for a minimum of eight (8) months, cumulatively, of the twelve (12) months immediately preceding the time of application for determination of status, so long as the individual's income for the 12-month period does not exceed \$25,000; or

(B) a resident who has exhausted benefits available under the Alaska Employment Security Act, AS 23.20, within the (twelve) 12 months immediately preceding the time at which he makes the application for certification and is currently not eligible for unemployment benefits;

(2) "economically disadvantaged resident," defined as a resident whose total household income for the twelve (12) months immediately preceding the time of application for determination of status falls below seventy percent (70%) of the minimums set by the U.S. Bureau of Labor Statistics "lower living standard income level" as adjusted for Alaska; and

(3) "training-qualified resident," defined as a resident who, within the twelve (12) months immediately preceding the time of application for determination of status, has successfully completed a program of job training designed to qualify the resident for employment on projects carried out in connection with this agreement.

16.3 Assurance of Compliance. Purchaser shall use its best efforts to assure that neither it, nor its contractors and subcontractors, hire nonresidents when residents falling within one or more of the employment target groups set out in Article 16.2 are known to be available, willing and qualified for employment for work performed in connection with this Agreement within the State of Alaska.

16.4 Exceptions. The requirements of this Article do not apply to bona fide administrative, executive or

professional employees of the Purchaser or its contractors or subcontractors, as those terms are defined in 8 AAC 15.910.

16.5 Collective Bargaining Agreements. In implementing the requirements of this Article, Purchaser shall assure that it and its contractors and subcontractors use their best efforts to include in all collective bargaining agreements with labor unions covering work to be performed in connection with this Agreement provisions that will assure employment preference to Alaska residents falling within the target groups set out in Article 16.2 in accordance with the requirements of this Article.

16.6 Non-discrimination. Purchaser shall assure that neither it nor its contractors or subcontractors engage in discriminatory practices against Alaska residents falling within the employment target groups set out in Article 16.2 who are employed or seeking employment by Purchaser or its contractors or subcontractors. Prohibited discriminatory practices include, but are not necessarily limited to:

(1) rejection of a resident referred to an employer by a collective bargaining agent in favor of a nonresident of similar qualifications in employment covered by a collective bargaining agreement;

(2) rejection of a resident in favor of a nonresident of similar qualifications in employment not covered by a collective bargaining agreement;

(3) termination of a resident in favor of a nonresident of similar qualifications; and

(4) differentiation in payment of wages, salaries, fringe benefits, and working conditions between a resident and nonresident.

16.7 Definitions. In this Article,

(1) "qualified" means able, by education, training and experience or combinations of them, to perform the duties and satisfy the terms and conditions which are usual in the offered employment, provided that the duties, terms and conditions meet the reasonable standards of the industry as required of other employees performing the same type of work in the industry; and

(2) "resident" means a person who

(A) except for brief intervals, military service, attendance at an educational or training institution, or for absences for good cause, is physically present in the state for a period of at least 30 days immediately before the time that person's status is determined;

(B) maintains a place of residence in the state;

(C) has established residency for voting purposes in the state;

(D) has not, within the period of required residency, claimed residency in another state; and

(E) shows by all attending circumstances that that person's intent is to make Alaska his or her permanent residence.

ARTICLE XVII

APPLICABLE LAW

17.1 Alaska Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska, excluding any conflict-of-law rule or principle which might refer such construction to the laws of another state or country.

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a State court of general jurisdiction sitting in the State of Alaska, and Purchaser hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XIII

WARRANTIES

18.1 No Warranties. The purchase and sale of Royalty Oil under this Agreement is subject only to the warranties of Seller expressly set forth in this Agreement and Seller disclaims and Purchaser waives all other warranties, express or implied in law, whatsoever.

ARTICLE XIX

AMENDMENT

19.1 Amendment. This Agreement may be

supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement. In addition, material amendments to this Agreement which appreciably reduce the consideration to Seller must be approved by the Legislature of the State of Alaska.

ARTICLE XX

SUCCESSORS AND ASSIGNS

20.1 General Prohibition. No assignment, pledge or encumbrance of this Agreement shall be made by either party without first obtaining the written consent of the other party. The Commissioner may grant such consent on behalf of the Seller. The Commissioner may, on behalf of the Seller, approve in advance the assignment, pledge, or encumbrance of this Agreement under terms and conditions required by the Commissioner. The Commissioner shall have sole and complete discretion in granting or denying a proposed assignment. Unless otherwise agreed at the time of the Commissioner's consent to the assignments, Purchaser shall be and remain liable for the payment of all sums owed or thereafter owed to Seller under this Agreement, whether or not those sums accrued before or after the assignment. The Commissioner shall have sole and complete discretion in granting or denying a proposed assignment, pledge or encumbrance. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assigns. In addition, except for the Mapco-Alaska contract, if Purchaser gains or acquires a controlling interest in an entity which has an agreement with Seller for the sale of

Royalty Oil ("Other Agreement"), then upon at least one year's notice Seller, at its option may require Purchaser to terminate either this Agreement or the Other Agreement. The choice of which Agreement to terminate will be Purchaser's. Purchaser may request that Seller waive this option in advance of Purchaser gaining a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil. The Commissioner has sole and complete discretion in granting or denying the requested waiver.

ARTICLE XXI

HEADINGS

21.1 Headings. Headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

ARTICLE XXII

RECORDS

22.1 Preservation of Records. Purchaser will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement, including but not limited to the purchase or sale of Royalty Oil and its refined products, for a period of six (6) years. Purchaser will also maintain and preserve all similar books, accounts, and records of which it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Purchaser nor Seller shall be required to retain any records for more than six (6) years unless

retention of such records is specifically required by applicable law or regulation. Purchaser shall either maintain its records within the State of Alaska or make such records available to Seller at Purchaser's principal office in the State of Alaska within thirty (30) days after written request by Seller.

22.2 Inspection of Records of Parties. Purchaser and Seller will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to the Purchaser's or Seller's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make copies of that property, records, books, documents and indexes. In no event, however, shall Seller be required to disclose any information, data, or records which are required to be held confidential by state law or regulation. If the information obtained by Seller may be held confidential under state or federal law or regulation, Purchaser may request that that information be held confidential by Seller.

ARTICLE XXIII

INTERPRETATION OF TERMS AND CONDITIONS

2 Commissioner finding and review. In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement,

Purchaser will present the arguments supporting its view in writing to the Commissioner for his consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, and setting forth the basis for his conclusions. Purchaser agrees to accept findings by the Commissioner under this Article as long as there is substantial evidence supporting the Commissioner's findings.

DATED this 24 day of February, 1982

SELLER:

THE STATE OF ALASKA


Commissioner, Department
of Natural Resources

RECEIVED
FEB 26 1982

ALASKA
OIL & GAS BOARD

PURCHASER:

By: Mares G. Lignallieri for
Tim Wallis, President, Oyon Limited

Introduced: 3/29/82
Referred: Resources and
Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE SENATE

2 SENATE BILL NO. 881

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the sale of royalty oil by the
7 State of Alaska to the Tesoro Alaska Petroleum Company;
8 and providing for an effective date."

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

10 * Section 1. The "Agreement for the Sale and Purchase of Royalty Oil
11 between the State of Alaska and Tesoro Alaska Petroleum Company" (dated
12 February 26, 1982) is hereby approved and ratified.

13 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
14 10.070(c).

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 29, 1982

The Honorable Jalmar Kerttula
President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting two bills which provide legislative approval of royalty oil contracts. One bill covers the contract between the state and Tesoro Alaska Petroleum Company, and the other bill covers the contract between the state and Doyon, Ltd.

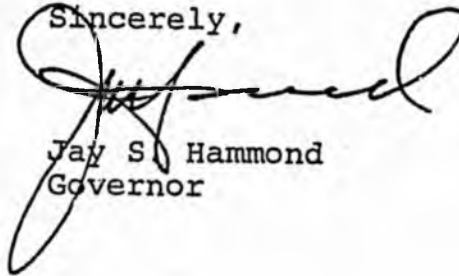
These contracts are described in great detail in the 238-page "Review of Alaska Royalty Oil Policy and Findings for Proposed Disposition of Royalty Oil," issued by the Department of Natural Resources on February 26, 1982. Copies of these findings and a 14-page summary of these findings have previously been made available to the legislature and individual legislators for review. The Doyon contract submitted for approval is a contract referred to in the findings as "Doyon I."

These contracts are being submitted for legislative approval for two reasons. First, although this administration has always taken the position that the statutory requirement of legislative approval of royalty oil contracts is unconstitutional (AS 38.06.055), as a matter of comity I have always respected the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, these contracts contain provisions requiring approval by the legislature before they become effective. Second, these bills would ratify the agreements for the sale of oil. This ratification would cure any procedural defect that may have occurred in the process of entering into these contracts.

Although we believe that all necessary steps have been taken, the statutes and regulations governing the disposal of royalty oil represent often conflicting desires and goals, both procedural and substantive. For example, even

if statutorily requiring legislative approval were constitutional, the present statutes provide, on the one hand, that the legislature is to approve the contract by enacting legislation (AS 38.06.055(a)), but, on the other hand, they also provide that a report of the Royalty Board "shall be submitted for legislative review at the time of (sic) resolution for legislative approval of a proposed disposition of royalty oil and gas is introduced in the legislature" (AS 38.06.070(c)). Since legislative approval is required anyway as a matter of contract, I believe it only prudent to present these contracts for legislative approval and ratification at this time.

Sincerely,

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

Jay S. Hammond
Governor

AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL

THIS AGREEMENT entered into as of the 26 day of February, 1982, by and between the STATE OF ALASKA ("Seller") and TESORO ALASKA PETROLEUM COMPANY, an Alaskan corporation ("Purchaser"),

ARTICLE I

DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources.

1.2 "Day" means a period of twenty-four (24) consecutive hours beginning at 12:01 a.m., Alaska Standard Time.

1.3 "Leases" means the oil and gas leases which are subject to the terms of the Unit Agreement.

1.4 "Lessee" means any person owning a working interest in any of the Leases.

1.5 "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.

1.6 "Oil" or "crude oil" shall have the same meaning as the word "oil" under the Unit Agreement.

1.7 "Point of Delivery" shall have the meaning set out in Article 2.4.

1.8 "Royalty Oil" means the oil which the Seller may take in-kind (amount) as its royalty under the Leases whether or not Seller has elected to take or is taking that royalty in in-kind.

1.9 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees each day.

1.10 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between Seller and the Lessees, as it may be amended from time to time.

ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser and Purchaser agrees to buy from Seller up to that quantity of oil equal to 24.533% of the Daily Royalty Oil less Cook Inlet Royalty ("Maximum Quantity"). "Cook Inlet Royalty" means that daily volume of oil expected to be sold to Purchaser by Seller during the month of July in each calendar year under the Agreement entitled "Agreement for the Sale and Purchase of State of Alaska Royalty Oil" entered into on January 31, 1969 and extended on March 8, 1977 and again February 24, 1978 and any renewals or extensions thereof or any new contract between Seller and Purchaser for the purchase and sale of crude oil produced from the Cook Inlet of Alaska. The determination of Cook Inlet Royalty shall be made no later than thirty (30) days

prior to the beginning of each calendar year. Upon at least nine (9) months written notice to Seller, Purchaser may increase or decrease the amount of oil to be tendered by Seller at the Point of Delivery, but the amount tendered by Seller under this Agreement shall not exceed the Maximum Quantity. It is understood and agreed that the volume of Daily Royalty Oil available to Seller will vary and may be interrupted from time-to-time, and depends upon a variety of factors, including the rate of production from the Leases. Seller disclaims and Purchaser waives any representation, covenant or warranty, express or implied, as to the specific quantity or the total or daily, monthly, average, or aggregate volume of Royalty Oil to be sold or tendered under this Agreement. Seller warrants that it has good title to the oil tendered under this Agreement. Seller shall hold the Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Royalty Oil at the time the Royalty Oil is tendered to the Purchaser.

If Purchaser has not taken the Maximum Quantity of oil within five (5) years after the effective date of this Agreement, Seller, at its option, may permanently decrease the Maximum Quantity to the lesser of: (1) the greatest percentage of Daily Royalty Oil tendered by Seller within that five-year period, or (2) the maximum amount of oil that can be processed at Purchaser's refinery located at Kenai, Alaska. Purchaser may permanently decrease the Maximum

Quantity or terminate this Agreement upon nine (9) months written notice to Seller.

If Seller underlifts or stores Royalty Oil at Prudhoe Bay, or if Seller recovers underlifted or stored Royalty Oil, the quantity of Royalty Oil tendered under this Agreement shall be calculated as if no Royalty Oil was underlifted or stored or recovered.

2.2 Quality. The Royalty Oil sold shall be the same quality as the oil delivered by the Lessees to the Seller at the Point of Delivery. It is understood and agreed that the quality of the Royalty Oil sold may vary from time to time. Seller disclaims, and Purchaser waives, any guarantee, representation, or warranty, either expressed or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the oil delivered under this Agreement or as to any specific, average or overall quality or characteristic of Royalty Oil to be sold or tendered under this Agreement.

2.3 Price of the Royalty Oil. The price for the oil tendered under this Agreement shall be equal to the amount that Seller would have received from its Lessees for the Royalty Oil tendered if that royalty had been payable in money (taken in value) rather than taken in kind, plus the Field Cost Allowance incurred by that oil as determined under the Prudhoe Bay Royalty Settlement Agreement (dated April 1, 1980 for reference purposes only), which was entered as part of a final judgment dated August 13, 1980 in

State of Alaska, et al. v. Amerada Hess Corp., et al.,
(Superior Court for the State of Alaska, First Judicial
District at Juneau)("Amerada Hess")("Settlement Agree-
ment")("Purchase Price"). The Purchase Price shall be
determined by Seller based upon the reports submitted by the
Lessees for royalty purposes or, when those reports are
unavailable, incomplete, or inaccurate, upon information
submitted by the Lessees for production tax or other tax
purposes, as may be adjusted from time to time as provided
in this Agreement. Buyer will only be entitled to review or
request material or information which is not confidential
under state law or regulation.

The method, basis and amount of royalty due Seller
when it takes its royalty in value from the Leases is
presently the subject of litigation in Amerada Hess. One of
the issues involved is the proper method to be used by the
Lessees in calculating the state's royalty when that royalty
is payable in money (in value). Until there is a resolution
of that dispute through judicial resolution or settlement,
the Purchase Price will be based upon the calculation of an
amount per barrel equal to the per barrel volume weighted
average of the in-value prices reported by the Lessees to
Seller for royalty purposes or, when the royalty reports are
unavailable, incomplete, or inaccurate, upon information
submitted by the Lessees for production tax or other tax
purposes, plus the Field Cost Allowance as determined under
the Settlement Agreement. Upon resolution of each of the

various issues that are or will be involved in Amerada Hess, adjustments will be made to previous payments in accordance with each resolution. If additional amounts are owed by Purchaser to Seller, interest on those amounts will be paid at a variable interest rate which is the higher of: (1) the prime rate as may be announced from time to time by The Bank of America, San Francisco, California plus three per cent (3%); or (2) the rate of return as is realized from time to time in the investment of the State of Alaska's general fund. Amounts owed from Seller to Purchaser shall be repaid at the rate set out in Article 5.6. Buyer will not voluntarily intervene or otherwise participate in Amerada Hess unless Seller expressly consents to that participation in writing. A settlement of Amerada Hess will be binding upon Buyer whether or not Buyer agrees with or consents to the terms of that settlement.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will, in the judgment of Seller, operate to prohibit or prevent Seller from receiving the full amount due under the above provisions, Buyer's obligation to pay the amount of the Purchase Price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for Seller to comply with that law, rule or regulation.

2.4 Point and Time of Delivery. Simultaneous with receipt of its Royalty Oil from its Lessees, Seller shall tender the oil to Purchaser at the point at which Seller

receives the Royalty Oil from its Lessees. That point as presently agreed to by Seller and its Lessees in Article 2.3 of the Settlement Agreement is the custody transfer meters into the Trans Alaska Pipeline System at Prudhoe Bay.

2.5 Passage of Title and Risk of Loss. Title and risk of loss to the Royalty Oil sold under this Agreement shall pass from Seller to Purchaser for all purposes when Seller tenders the oil at the Point of Delivery.

2.6 Purchaser's Responsibility. Purchaser shall be responsible for the oil after passage of title. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential 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 has passed to Purchaser.

2.7 Transportation Arrangements. Purchaser shall make all necessary arrangements for transporting the oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage tank bottom requirements of the Trans Alaska Pipeline System, if any. If and as requested by the Seller, and at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangement it has made for transportation of the Royalty Oil sold under this Agreement through and away from the Trans Alaska

Pipeline System and for the resale or other disposal of the Royalty Oil. Such information may include the specific tenders of oil made to the Trans Alaska Pipeline System and identification of tankers which will transport the Royalty Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Royalty Oil subject to this Agreement. Failure to provide information, evidence or assurances requested will, at Seller's election by notice to Purchaser, be a material default under this Agreement.

2.8 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the Royalty Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Purchaser, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.9 Date of First Delivery. On January 1, 1983, or seven months after statutory approval as set forth in Article VI, whichever is later, Seller will tender to Purchaser at the Point of Delivery the Maximum Quantity unless Purchaser, under the provisions of Article 2.1, decreases the amount of Royalty Oil to be tendered.

2.10 Performance Guaranty and Reservation Fee. If Purchaser does not take the Maximum Quantity on the Date of

First Delivery, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to 1.25% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Purchaser ("Actual Quantity") for each day Purchaser does not take the Maximum Quantity on and after the Date of First Delivery. The payment of this fee shall end on the day that Purchaser accepts delivery of the Maximum Quantity. When Purchaser accepts the Maximum Quantity, all of the amounts paid under this Article 2.12 will be allowed to be credited against future payments for oil tendered under this Agreement except for an amount to be retained by Seller equal to .75% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the Actual Quantity for each day Purchaser did not take the Maximum Quantity on and after the Date of First Delivery. If Purchaser should thereafter decrease the amount of Royalty Oil to be tendered under this Agreement, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to .75% of the Purchase Price per barrel per day after the date that the decrease in the amount of Royalty Oil to be tendered by Seller takes effect on the difference between the Maximum Quantity and the Actual Quantity.

2.11 In-state Processing. Purchaser agrees that any and all of the Royalty Oil tendered under this Agreement shall be processed through Purchaser's refinery near Kenai,

Alaska, or shall be exchanged for other crude oil which shall be processed at that refinery. "Process" means producing oil products in significant quantities, but which quantities may be less than 32% of the volume of Royalty Oil tendered under this Agreement. "Exchange" means: (1) direct trades of equal volumes of crude oil; (2) trades of crude oil involving either cash or volume adjustments, or both, provided that those adjustments relate solely to quality or location differences; (3) sequential transactions in which Purchaser receives back crude oil from a party other than the party which receives the Royalty Oil in a trade from Purchaser; or (4) matching purchases and sales of crude oil. The terms under which Purchaser receives crude oil in any exchange shall not differ in any significant term from the terms under which Purchaser delivered Royalty Oil except for terms which adjust for differences in quality and location. Purchaser agrees that any trade or exchange shall not reduce the price to be paid to Seller and that trades or exchanges shall be at no cost or expense to Seller.

Purchaser's obligation to process Royalty Oil or exchanged oil in-state may only be suspended or excused under the provisions of Articles VIII and XI.

Seller may, at its option, waive the in-state processing requirement in whole or in part, if Seller is satisfied that Purchaser is using its best efforts to process the Royalty Oil tendered or the oil exchanged for Royalty Oil tendered under this Agreement at Purchaser's

refinery and that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

2.12 Best Efforts. Purchaser agrees to use its best efforts to produce and market in Alaska an amount of crude oil products not less in volume than 32 percent of the Royalty Oil tendered under this Agreement. "Crude oil products" does not include residual fuel oil exported from Alaska unless the Commissioner, in his sole discretion, otherwise agrees, but does include bunker fuel loaded in Alaska. Purchaser also agrees to use its best efforts to nominate no more than that amount of Royalty Oil that will be necessary to produce and market crude oil products not less in volume than 32 percent of the Royalty Oil that will be tendered under this Agreement. On or before the 20th day after the end of each month of the term of this Agreement, the Purchaser shall provide to the Seller an affidavit certified by the Purchaser stating the quantity of crude oil products produced and marketed in the State of Alaska from in-state processing of the Daily Royalty Oil tendered under this Agreement.

A determination of "best efforts" under this Article shall include consideration of Purchaser's capabilities and the surrounding business circumstances. Purchaser's obligation to use its best efforts include reasonable, diligent, and good faith efforts, but shall not require Purchaser to produce and market crude oil products in Alaska at a loss. "Best efforts" would, however, require

Purchaser to produce and market products in Alaska even though Purchaser could make a greater profit by another disposition of the Royalty Oil or the products refined from that oil.

2.13 Future Dispositions of Royalty Oil. Seller recognizes that AS 38.05.183, which governs disposition of Royalty Oil by the State of Alaska, establishes a statutory preference for dispositions proposing (1) in-state processing of Royalty Oil and (2) in-state supply of products generated from processing of Royalty Oil, in that order. Seller represents that, in conjunction with future dispositions of Royalty Oil, Purchaser will be afforded the consideration contemplated by AS 38.05.183.

ARTICLE III

REPRESENTATION AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Purchaser is, and at all times during the operation of this Agreement shall remain, a corporation qualified to do business in, and in good standing with, the State of Alaska. Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Purchaser's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to Seller is complete and correct and fairly presents Purchaser's financial condition at the time the information was submitted to Seller. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business and properties of Purchaser have not been materially adversely affected in any way. Purchaser agrees to inform Seller immediately if during the term of this Agreement there is any material adverse change in the condition, business, or properties of Purchaser which would have an appreciable adverse effect on Purchaser's performance under this Agreement. Purchaser, in addition, will immediately inform Seller of any significant change in ownership of either the Purchaser or any of its affiliates or parent company, and of any change in Purchaser's operations or agreements which would appreciably affect Purchaser's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Purchaser, and in any event within 120 days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, complete financial statements in the form filed with the Securities and Exchange Commission.

3.4 Expansion/Modification. Purchaser agrees, for so long as Purchaser, in its sole judgement, determines that

an expansion or modification of its in-state refining capacity is potentially viable for Purchaser, to conduct feasibility studies concerning the expansion or modification of its in-state refining capacity, including analysis of the various options for producing refined products and by-products, including petroleum coke. Purchaser shall report to Seller annually on the status of such studies.

3.5 Option to Purchase Resid. Subject to Purchaser's existing contracts, Purchaser grants to Seller an option to purchase all, or any quantity, of the residual oil ("resid") produced or refined from the Royalty Oil sold hereunder or the oil exchanged for the Royalty Oil. Seller shall exercise this option by giving Purchaser written notice nine (9) months in advance of purchase by Seller. The notice shall specify the quantity Seller will purchase. Thereafter Seller may increase, decrease, or terminate the quantity of resid by giving written notice nine (9) months in advance, and Seller may again, subject to Purchaser's existing contracts, commence purchases after having terminated such purchase by giving written notice nine (9) months in advance of Seller's purchase. Seller shall take the resid for a period of at least nine (9) months unless the Royalty Oil is run in Purchaser's refinery for a period of less than nine (9) months. In that case, Seller shall be obligated to purchase resid only for that shorter period of time.

This option shall remain in effect for the term of this Agreement. Failure to exercise this option for any period of time shall not affect Seller's right to exercise the option at a later time. This option, in whole or in part and for any term, shall be freely assignable by Seller and such assignment shall release Seller from all obligations to receive or pay for the resid sold under this option; provided, however, that Purchaser shall have the right to demand of an assignee of Seller reasonable security for the resid sold to that assignee. If authorized in an assignment by Seller, an assignee shall have the further right freely to assign that option, however, that assignment shall not release that assignee (or any subsequent assignee) of any responsibilities or liabilities to Purchaser unless agreed to by Purchaser in writing.

Seller shall pay the same price for resid as the highest price the Purchaser is offered for the same product from any other bona fide buyer of the resid. In the event Purchaser has no similar offer to buy from a bona fide buyer, the price shall be Purchaser's posted price for a like grade of resid in effect on date of loading at its Kenai, Alaska, refinery, provided, however, that at no time shall the price be more than the cost of the Royalty Oil purchased hereunder plus actual transportation cost to Kenai, Alaska. Purchaser shall have the right to supply a comparable or better quality of resid from any source, domestic or foreign, so long as the laid-in cost of the

resid at Seller's intended destination does not exceed the laid-in cost based upon Seller purchasing the resid at Kenai, Alaska.

3.6 Petroleum Coke. Purchaser agrees that if it modifies or expands its refinery at Kenai, Alaska so that the refinery is able to produce and handle petroleum coke, Purchaser will at that time enter into good faith negotiations with Seller for an option to purchase that petroleum coke.

ARTICLE IV

MEASUREMENTS AND TESTS

4.1 Measurement Standards and Procedures. The quantity and quality of the crude oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the oil sold under this Agreement shall be in accordance with the practices then in effect at Prudhoe Bay, Alaska.

ARTICLE V

PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or before the tenth (10th) business day of each month after delivery of Royalty Oil, an invoice statement of account of all Royalty Oil estimated to have been measured at the custody transfer meter into the Trans Alaska Pipeline System and tendered to Purchaser under this Agreement during the immediately preceding month according to the best information available to Seller, the estimated price or prices

applicable to those deliveries, and the total amount due ["initial billing"]. The estimates will be made by Seller according to the best information reasonably available to Seller. Seller may render its initial billing to Purchaser based in part upon information reported by the Lessees to Seller and information published by the U.S. government. Seller shall thereafter adjust its initial billing under this Article as soon as more accurate information concerning the quantity and price or prices of Royalty Oil delivered each month is available. Seller, however, shall not be required to adjust the initial billing prior to the sending of the next month's invoice statement of account.

5.2 Initial Adjustment. After the monthly invoice under Article 5.1, the subsequent monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding calendar month, in accordance with any additional or more accurate information which may have become available to Seller. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Article 5.5.

5.3 Payment. Purchaser will make payment of that amount billed under this Article within ten (10) days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding in immediately available funds to Seller at the following address: