

LEG. FINANCE - BILLS 1985 - 1986 2438

HB 559 cont. - HB 559

2439

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 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

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 her consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for her 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 9th day of December, 1985

SELLER:

THE STATE OF ALASKA

Walter Brown, Director
Commissioner
Department of Natural Resources

PURCHASER PETRO STAR, INC.:

PETRO STAR, INC.

By Stephen T. Lewis
President

PURCHASER CHEVRON:

CHEVRON U.S.A. INC.

By A. W. Caccamo

3928s

EXHIBIT B

RELEASE

For a valuable consideration, the receipt and adequacy of which are acknowledged, the undersigned does hereby release and forever discharge ARCO Alaska, Inc., BP Alaska Exploration Inc., Chevron U.S.A. Inc., Exxon Corporation, Mobil Oil Corporation, Phillips Petroleum Company, Sohio Alaska Petroleum Company, Union Oil Company of California, Amoco Production Company, individually and collectively, and each of their predecessors, successors, assigns, and all persons acting by, through, under or in concert with them, or any of them (the "Releasees"), of and from any and all claims, demands or causes of action of any nature whatsoever, known or unknown, fixed or contingent, hereinafter made against the Releasees, or any of them arising out of, based upon, or relating to the purported storage rights of the State of Alaska with respect to royalty oil produced from the land as to which the Kuparuk River Unit Agreement is now effective on to which it may be extended.

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any claim which agrees to indemnify and hold Releasees, and each of them, harmless from any liability, claims, demands, damages, costs, expenses and attorney's fees incurred by Releasees, or any of them, as a result of any person asserting assignment or transfer or any rights or claims under that assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

Introduced: 2/10/86
Referred: House Special Committee on
Oil & Gas, Resources and Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 559

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act approving the sale of Kuparuk River Unit
7 royalty oil by the State of Alaska to Petro Star,
8 Inc. and Chevron U.S.A., Inc.; and providing for an
9 effective date."

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

11 * Section 1. The "Agreement for the Sale and Purchase of State Royalty
12 Oil" between the State of Alaska and Petro Star, Inc. and Chevron U.S.A.,
13 Inc., dated December 9, 1985, is approved and ratified.

14 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
15 10.070(c).

CORRECTION

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

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For a valuable consideration, the receipt and adequacy of which are acknowledged, the undersigned does hereby release and forever discharge ARCO Alaska, Inc., BP Alaska Exploration Inc., Chevron U.S.A. Inc., Exxon Corporation, Mobil Oil Corporation, Phillips Petroleum Company, Sohio Alaska Petroleum Company, Union Oil Company of California, Amoco Production Company, individually and collectively, and each of their predecessors, successors, assigns, and all persons acting by, through, under or in concert with them, or any of them (the "Releasees"), of and from any and all claims, demands or causes of action of any nature whatsoever, known or unknown, fixed or contingent, hereinafter made against the Releasees, or any of them arising out of, based upon, or relating to the purported storage rights of the State of Alaska with respect to royalty oil produced from the land as to which the Kuparuk River Unit Agreement is now effective on to which it may be extended.

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any claim which agrees to indemnify and hold Releasees, and each of them, harmless from any liability, claims, demands, damages, costs, expenses and attorney's fees incurred by Releasees, or any of them, as a result of any person asserting assignment or transfer or any rights or claims under that assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if after execution of this Release the undersigned commences, joins in, or in any manner seeks relief through any suit arising out of, based upon, or relating to any of the claims released under this Release or in any manner asserts against Releasees, or any of them, any of the claims released under this Release, then the undersigned will pay to Releasees, and each of them, in addition to any other damages caused to Releasees by that action or claim all attorney's fees incurred by Releasees in defending or otherwise responding to the action or claim.

The undersigned further understands and agrees that the execution of this Release shall neither constitute nor be construed as an admission by the Releasees, or any of them, that they have any storage obligation with respect to the State's royalty oil.

Stephen L. Lewis

PETRO STAR, INC.

5 December 1985

DATE

Al M. Cascano

CHEVRON U.S.A.

6 December 1985

DATE

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15 10.070(c).

COMMITTEE REPORT

SENATE

FURTHER:

4/9/86

Date

4/22/86

Mr. President

The Committee on FINANCE considered HB 559

approving the sale of Kuparuk River Unit royalty oil by the State of Alaska to Petro Star, Inc. and Chevron U.S.A., Inc.; efd.

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

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation (1,151.1) DNR/Oil & Gas
DNR/Mgmt
DOR
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

Rich Halford
J. [unclear]
Paul Frick
[unclear]

MEMBERS HAVING
OTHER RECOMMENDATIONS

Wattfuls No Rec
Do Not Alter for other
Programs.
Archibut - No Rec.

Co-Chairman

[unclear]
do pass
Chairman recommendation

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date: 2-26-86

REQUEST Page 1 of 2

Bill/Resolution No.: HB 559
 Title: Kuparuk Royalty Oil Sale
to Petrostar/Chevron

Sponsor: Governor
 Requestor: Oil & Gas
 Date of Request: 02-25-86

FISCAL DETAIL

Agency Affected: Natural Resources
 BRU: Petroleum Management

Components: _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
----------------	---	---	---	---	---	---

REVENUE	0	1,151.1	1,067.4	1,067.4	907.3	771.5
----------------	---	---------	---------	---------	-------	-------

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Note: Revenue computations by calendar year instead of fiscal year.

See attached

Prepared by: Jim Eason
 Division: Oil & Gas

Phone: 762-4246
 Date: 2-26-86

Approved by Commissioner: Mont D Arnold Deputy
 Agency: Natural Resources

Date: _____

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agencies (ies)

Approval of the proposed Petrostar/Chevron will result in the state's receipt of approximately \$7.5 million in premium payments over the term of the contract. Approximately 16,756,670 barrels of oil will be delivered under the contract, with Chevron's respective share being 11,171,002 barrels, and Petrostar's share being 5,585,668 barrels. Chevron will pay a premium above the "in value" amount of \$.50 per barrel, while Petrostar's premium will be \$.35 per barrel for its net barrels. Chevron's share of this premium will total \$5,585,501 over the life of the contract (contract ends September 30, 1996), and Petrostar's respective contribution will be \$1,954,984. All amounts calculated are expressed in "nominal" dollars, and the analysis assumes contract deliveries commence December 1, 1986 and ends September 30, 1996.

Revenue Projects

Calendar Year

92	655.5
93	592.0
94	528.8
95	475.4
96	323.0
Total	<u>7,539.4</u>

1/12

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date: 1-31-86

REQUEST HB 559 #1
 Bill/Resolution No.: 377-094-86
 Title: An act approving the sale of
royalty oil to Petro Star
 Sponsor: Governor
 Requestor: Governor
 Date of Request: 1/29/86

FISCAL DETAIL
 Agency Affected: Natural Resources
 BRU: Petroleum Management
 Components: Petroleum Management

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS :

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

The contract will result in routine billing and accounting functions which can be absorbed in the existing operation.

Prepared by: Rod Mourant *RAM* Phone: 465-2424
 Division: Management Date: 1-31-86

Approved by Commissioner: Wm D Amodeo, Deputy Date: 1/31/86
 Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST 485-1-1
 Bill/Resolution No. : _____
 Title : An Act approving the sale of
royalty oil to Petro Star and Chevron
U.S.A.
 Sponsor : Rules Committee at the request
 Requestor : of the Governor
 Date of Request : 1/28/86

FISCAL DETAIL
 Agency Affected : Revenue
 BRU : _____

 Components : operating

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND		-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : _____ Phone : _____
 Division : _____ Date : _____
 Approved by Commissioner : [Signature] Date : 1/28/86
 Agency : Dept. of Revenue

Distribution (by Agency preparing fiscal note)
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Introduced: 2/10/86
Referred: House Special Committee on
Oil & Gas, Resources and Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

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14 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
15 10.070(c).

HB559

RECEIVED

DEC 10 1985

DIVISION OF OIL & GAS
ANCHORAGE, ALAS. A

AGREEMENT FOR THE SALE AND PURCHASE

OF

STATE ROYALTY OIL

PETRO STAR, INC.

CHEVRON U.S.A.

THE STATE OF ALASKA
Department of Natural Resources

December 9, 1985

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DOG 9-85
(PETRO STAR & CHEVRON/KUPARUK)
(Revised 11-85)
(DNR # 10-4017)

AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL

THIS AGREEMENT, entered into as of December 9, 1985
by and between THE STATE OF ALASKA ("Seller") PETRO STAR, INC., an Alaska
corporation, ("Purchaser Petro Star"), and CHEVRON U.S.A. INC., a Pennsylvania
corporation, ("Purchaser Chevron").

ARTICLE I
DEFINITIONS

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

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or her designee.

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 Section 2.5.

1.8 "Purchaser" means either Petro Star, Inc., or Chevron U.S.A. Inc., or both, unless one particular Purchaser is designated.

1.9 "Prudhoe Bay Lessees" means the lessees of the oil and gas leases subject to the Prudhoe Bay Unit Agreement effective April 1, 1977, as amended from time to time.

1.10 "Prudhoe Bay Royalty Oil" means Royalty Oil received from the Prudhoe Bay Lessees.

1.11 "Royalty Oil" means the oil which 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.

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

1.13 "Settlement Agreement" means the Agreement for Settlement of Cleaning, Dehydration and Transportation Charges Applicable to Royalty Oil Taken From the Kuparuk River Unit, effective as of December 13, 1981, and attached to the Unit Agreement as Appendix I.

1.14 "TAPS" means the Trans Alaska Pipeline System.

1.15 "Unit Agreement" means the Kuparuk River Unit Agreement effective as of December 1, 1981, by and between Seller and the Lessees, as amended from time to time.

ARTICLE II
SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser Petro Star, and Purchaser Petro Star agrees to buy from Seller, that amount of oil equal to _____ % of the Daily Royalty Oil ("Maximum Quantity"). Seller agrees to sell to Purchaser Chevron, and Purchaser Chevron agrees to buy from Seller, that amount of oil equal to _____ % of the Daily Royalty Oil ("Maximum Quantity"). Promptly after the effective date of this Agreement, Seller will determine the actual percentages, which will be the percentages that on the date of initial nomination would result in a Maximum Quantity for Purchaser Petro Star that on the Date of First Delivery would approximate 2500 bpd and a Maximum Quantity for Purchaser Chevron that on the Date of First Delivery will approximate 4000 bpd. However, unless Purchaser Petro Star notifies Seller in writing within five (5) days after the effective date of this Agreement, Seller will initially nominate for Purchaser Petro Star the percentage that Seller estimates will on the Date of First Delivery approximate 2000 bpd.

Upon at least nine (9) months' written notice to Seller, Purchaser may increase or decrease the amount of Daily Royalty Oil to be tendered by Seller at the Point of Delivery, provided that the amount tendered by Seller under this Agreement shall not exceed the Maximum Quantity. If by November 1, 1987 Purchaser Petro Star has not begun to take the Maximum Quantity of oil, Seller, at its option and discretion, may permanently decrease the Purchaser Petro Star's Maximum Quantity to either (1) the greatest percentage of Daily Royalty Oil tendered by Seller to it before that time or, (2) the maximum amount of oil that can be processed at Purchaser Petro Star's refinery, located at North Pole, Alaska. Purchaser may permanently decrease its Maximum Quantity under this Agreement upon nine (9) months' written notice to Seller.

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 Oil to be sold or tendered under this Agreement. Seller shall hold Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Oil at the time the Oil is tendered to Purchaser.

If Seller stores Royalty Oil pursuant to the Kuparuk River Unit Emergency Storage Agreement dated December 15, 1981, and attached as Appendix II to the Unit Agreement, (the "Storage Agreement"), or otherwise, or if Seller recovers stored Royalty Oil, the quantity of Oil to be sold and purchased under this Agreement shall be calculated as if no Royalty Oil was stored or recovered.

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

2.3 Price of the Royalty Oil. The price payable by Purchaser Petro Star for Oil tendered under this Agreement ("Petro Star Purchase Price") shall be equal to the amount that Seller actually would receive from its Prudhoe Bay Lessees for that amount of Prudhoe Bay Royalty Oil taken at that time in money (in value), plus 35¢ per barrel and plus the Kuparuk Field Cost Allowance incurred by the Oil as determined under the Settlement Agreement, less the tariff charge for the Kuparuk Pipeline and less the applicable TAPS quality bank adjustment.

The price payable by Purchaser Chevron for Oil tendered under this Agreement ("Chevron Purchase Price") shall be equal to the amount that Seller actually would receive from its Prudhoe Bay Lessees for that amount of Prudhoe Bay Royalty Oil taken at that time in money (in value), plus 50¢ per barrel and plus the Kuparuk Field Cost Allowance incurred by the oil as determined under the Settlement Agreement, less the tariff charge for the Kuparuk Pipeline and less the applicable TAPS quality bank adjustment.

The in value component of each Purchase Price shall be determined by Seller based upon the reports submitted by the Prudhoe Bay Lessees for royalty purposes or, when those reports are unavailable, incomplete or inaccurate, upon information submitted by the Prudhoe Bay Lessees for production tax or other tax purposes as may be adjusted from time to time as provided in this Agreement. Purchaser shall be entitled only to review or request such 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 Prudhoe Bay Royalty Oil in value from its Prudhoe Bay Lessees is presently the subject of litigation 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"). One of the issues involved is the proper method to be used by the Lessees in calculating the state's royalty when the 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 Prudhoe Bay Lessees to Seller for royalty purposes or, when the royalty reports are unavailable, incomplete, or inaccurate, upon information submitted by the Prudhoe Bay Lessees for production tax or other tax purposes, plus \$0.35 per barrel for Purchaser Petro Star and \$0.50 for Purchaser Chevron, and plus the Kuparuk Field Cost Allowance as determined under the Settlement Agreement, less the Kuparuk Pipeline tariff and less the applicable TAPS quality bank adjustment. 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. However, Seller and Purchaser agree that any Amerada Hess adjustments in excess of \$2.50 per barrel will not be made. This sum represents a negotiated ceiling, and is not any party's estimate of litigation results.

If additional amounts are owed by Purchaser to Seller or by Seller to Purchaser under a final judgement or settlement resolving all or part of the issues in Amerada Hess which separately specifies principal and interest, interest will be paid on the principal component of the additional amounts in the manner and at the interest rate or rates specified in the judgement or settlement resolving each issue. If no interest rate is specified in the judgement or settlement or if interest is expressly included within a lump sum amount in the judgement or settlement, an interest component will be presumed to already comprise a portion of the additional amounts, and no separate interest will be paid.

Purchaser Petro Star 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 Purchaser whether or not Purchaser 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, Purchaser'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 Purchase Price Reopener. Seller and each Purchaser shall have the right to reopen this Agreement with respect to each Purchaser's own volume, as to purchase price only. At any time after Purchaser receives Oil for two (2) years from the Date of First Delivery (as defined in Section 2.10), Seller or Purchaser may exercise the right to reopen by giving to the other party one (1) month prior written notice. Upon issuance and receipt of a notice to reopen, that Purchaser and Seller will promptly commence good faith negotiations in an attempt to establish a new purchase price. In the event that a new purchase price is not agreed to by that Purchaser and Seller within three (3) months after giving the notice to reopen, that Purchaser or Seller may terminate that Purchaser's portion of this Agreement upon nine (9) months written notice to the other. The purchase price for Oil tendered during any period pending termination shall be the price in effect immediately prior to giving the notice of intent to reopen. If a new purchase price is agreed to by that Purchaser and Seller, the new purchase price shall become effective for Oil tendered in the month following the Agreement on the new purchase price. Not less than two (2) years after the conclusion of the purchase price reopener process described above, that Purchaser or Seller may reopen that Purchaser's portion of this Agreement, as to purchase price only, by giving notice of intent to exercise the right to reopen. At that time, the purchase price reopener process described above will again be applicable.

2.5 Point and Time of Delivery. Simultaneously 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 Section 2.3 of the Settlement Agreement is the Central Production Facility Meter into the Kuparuk Pipeline.

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

2.7 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 arising from or in connection with any transaction or event which relates to the crude oil after title has passed to Purchaser.

2.8 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 Kuparuk Pipeline and Trans Alaska Pipeline System, if any. If and as requested by Seller, and at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangements it has made for transportation of the Oil sold under this Agreement through and away from Kuparuk Pipeline and the Trans Alaska Pipeline System and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to the Kuparuk Pipeline and Trans Alaska Pipeline System and identification of tankers which will transport the Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or reasonable assurances of the existence and continuing validity of adequate arrangements for the transportation or disposal of the 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.

2.9 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the 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.

2.10 Date of First Delivery. The Date of First Delivery will be on the first day of the first month seven (7) months after the effective date specified in Article VI, unless Seller, in its sole discretion at the request of both Purchasers, sets an earlier date.

2.11 In-State Processing. Purchaser Petro Star agrees that not less than 85% of the Royalty Oil sold under this Agreement, averaged on a quarterly basis, shall be processed through Purchaser Petro Star's refinery near North Pole, Alaska, except as provided below. "Process" means producing refined petroleum products from the crude oil in significant quantities, but which quantities may not be less than 20% of the volume of Royalty Oil run through Purchaser Petro Star's refinery pursuant to this Agreement.

Purchaser Petro Star's obligation to process Royalty Oil in-state may only be suspended or excused under (1) the provisions of Articles VIII and XI, or (2) during refinery maintenance.

Seller may, at its option, waive the in-state processing requirement in whole or in part, if Seller is satisfied that Purchaser Petro Star is using its best efforts to process the Royalty Oil sold under this Agreement at Purchaser Petro Star'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. (1) Purchaser Petro Star agrees to use its "best efforts" to produce and market in Alaska an amount of refined petroleum products from its refinery near North Pole, Alaska not less in volume than 23% of the Royalty Oil sold under this Agreement. Those refined petroleum products shall be comprised of at least LAGO and Kerosene. After each three (3) months of deliveries under this Agreement, Purchaser Petro Star shall promptly provide to the Seller an affidavit certified by Purchaser Petro Star stating the quantity of refined petroleum products produced and marketed in the State of Alaska from in-state processing of the Daily Royalty Oil sold under this Agreement for that period.

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

2.13 Option to Purchase Return Oil. After Purchaser Petro Star processes Royalty Oil, there will remain a portion of Oil or Oil products which may be shipped through TAPS ("Return Oil"). Return Oil shipped through TAPS becomes intermingled with unprocessed crude oil so that when the Return Oil is picked up in Valdez it is identical to the common stream crude oil shipped through TAPS. A shipper of Return Oil presently is, and may continue to be, liable for the payment of a quality bank adjustment differential based upon the resulting degradation of TAPS common-stream crude ("quality bank adjustment").

The total daily volume of Royalty Oil sold under this Agreement approximates Purchaser Petro Star's daily refinery throughput. Purchaser Petro Star's daily Maximum Quantity approximates its maximum retained product and Purchaser Chevron's daily Maximum Quantity approximates what would otherwise be Purchaser Petro Star's return oil. Thus, under the arrangements contemplated under this Agreement, no return oil would exist upon which the state could retain an option. Should the arrangements contemplated under this Agreement cease to exist, Purchaser and Seller agree to negotiate in good faith towards agreement upon a market price option for Seller on whatever return oil or residual oil may exist under the new arrangements.

2.14 Arrangements between Purchasers. Purchaser Chevron and Purchaser Petro Star have entered into an arrangement under which Purchaser Petro Star will use as refinery charge Purchaser Chevron's volume of Royalty Oil under this Agreement. The arrangement includes the purchase of Royalty Oil taken by Purchaser Chevron under this Agreement by Purchaser Petro Star at TAPS Pump Station No. 1, and resale of the Royalty Oil to Purchaser Chevron at Valdez. A copy of the document which specifies the terms of the arrangement is attached as Exhibit A. Should the terms of the arrangement change materially so that Purchaser Petro Star is precluded from economically using Purchaser Chevron's volume as refinery charge, Seller shall have the right at the Commissioner's discretion to terminate this Agreement on nine (9) months notice.

Should Purchaser materially reduce its Maximum Quantity under Section 2.1 or terminate its portion of this Agreement under Section 2.4, or should termination occur due to an Event of Default under Article VII, either Seller or the other Purchaser may terminate the remaining portion of this Agreement by giving nine (9) months written notice, except as provided below. In this section a material reduction means a reduction of 50% or more from the original Maximum Quantity.

Upon termination of Purchaser Petro Star's portion of this Agreement for any reason or material reduction of Purchaser Petro Star's Maximum Quantity under Section 2.1, Seller shall exercise its right to terminate Purchaser Chevron's portion of this Agreement. However, if Purchaser Chevron agrees to process in its refinery at Nikiski, Alaska the Royalty Oil to be sold under this Agreement after that time, and if Purchaser Chevron successfully completes negotiations with the commissioner for an amendment to this Agreement which grants Seller a market price option on Purchaser Chevron's residual oil resulting from the processing of that oil, the Commissioner shall have the discretion to not terminate Purchaser Chevron's portion of this Agreement.

Upon termination of Purchaser Chevron's portion of this Agreement for any reason or material reduction of Purchaser Chevron's Maximum Quantity under Section 2.1, Purchaser Petro Star shall have the option to continue purchasing up to its Maximum Quantity, or to increase its Maximum Quantity to include all or part of the volume formerly purchased by Purchaser Chevron under this Agreement. Purchaser Petro Star shall exercise this option in writing within one month of the termination of Purchaser Chevron's portion of this Agreement. Purchaser Petro Star's option shall be conditioned on Purchaser Petro Star (1) agreeing for any increased quantity to pay the Purchase Price that Purchaser Chevron would pay under this Agreement, (2) agreeing to increase its Section 15.2 letter of credit to ninety (90) days for all volumes it would purchase under this Agreement, (3) agreeing to pay its Section 15.3 Amerada Hess escrow amount for all volumes it would purchase under this Agreement, (4) agreeing to increase its Section 2.11 and Section 2.12 in-state processing and best efforts obligations to include all volumes it would purchase under this Agreement, and (5) successfully completing negotiations with the Commissioner for an amendment to this Agreement which grants Seller a market price option on Purchaser Petro Star's return oil from all volumes it would purchase under this Agreement. The Commissioner shall have the discretion to accept other or additional security arrangements as part of Purchaser Petro Star's option as she, in her sole discretion, considers adequate to protect Seller. In accordance with Article XIX of this Agreement, the exercise of any option described in this section that would appreciably reduce the consideration received by Seller requires prior approval of the Alaska Legislature.

2.15. 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 Purchaser 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 Section 2.15 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.

ARTICLE III
REPRESENTATIONS 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) a natural person who has reached the age of majority and who is a citizen of the United States; or (b) a corporation organized and existing under and by virtue of the laws of the United States or of any state, territory or the District of Columbia and qualified to do business in Alaska; or (c) any association of the foregoing. If a corporation, Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement, and 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 ability to perform under this Agreement. Purchaser, in addition, will immediately inform Seller of any significant change in ownership of either 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 one hundred twenty (120) days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, a report or a complete copy of a report in a form to be prescribed from time to time by Seller which will include Purchaser's balance sheet as of the close of the fiscal year and the income statement for that year prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this section, Purchaser Chevron may submit, and Seller will accept, the annual report and supplement of Chevron Corporation.

ARTICLE IV MEASUREMENTS AND TESTS

The quantity and quality of the 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 the Point of Delivery specified under Section 2.5.

ARTICLE V
PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or before the 10th (tenth) business day of each Month after the month of delivery of Oil, an invoice statement of account of all Oil estimated to have been measured at the Central Production Facility Meter into the Kuparuk Pipeline and tendered to Purchaser under this Agreement during the immediately preceding Month according to the best information available to Seller, the estimated Purchase Price(s) 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 shall thereafter adjust its initial billing under this section as soon as more accurate information concerning the quantity and Purchase Price(s) of 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 first monthly invoice under Section 5.1, each subsequent monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding 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 Section 5.5.

5.3 Payment. Purchaser will make payment of each amount billed under this section within ten (10) Days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding by wire transfer of immediately available funds to Seller's account at the following address:

First Pennsylvania Bank Philadelphia
ABA No. 031000024
For Credit to State of Alaska
Account No. 07/089250/00
Attn: Catherine Hess

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. Buyer will only be permitted to review material or information that is not confidential. If a dispute concerning a bill arises, Purchaser agrees to pay the full amount billed by Seller, except for obvious clerical mistakes, pending final resolution of the dispute.

5.4 Payment to Lessee(s). 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 the amount due to Seller 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 Section 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 payments for subsequent months, shall be made in accordance with Section 5.3.

5.5 Subsequent Adjustments. Purchaser acknowledges that more accurate information concerning the quantity of or Purchase Price for 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, 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, unless the adjustment concerns an amount last invoiced more than sixty (60) Days before the corrected invoice. In that 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 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. Adjustments due to regulatory or court proceedings may be made at any time and shall bear interest at the rate stated in Section 5.6 from the date of payment of the invoice upon which an adjustment is subsequently made pursuant to this section. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. Except for adjustments made upon resolution of Amerada Hess under Section 2.3, all sums which are not paid when due under this Agreement or which are subsequently determined to be due under an adjustment under Section 5.5, 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 (1) 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 to Seller 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 Purchaser if, in Seller's sole discretion, the payment to the third party will assist Seller in monitoring or enforcing this Agreement.

ARTICLE VI

TERM

This Agreement shall become effective upon execution by the parties and enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement. This Agreement shall be null and void if it is not so approved by September 30, 1986. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin as specified in Section 2.10, and shall end September 30, 1996. As used in this section, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

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 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 invoiced 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 VI 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 Purchaser of Purchaser's nonperformance; or (b) Purchaser had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve (12) month period; or
- (iv) There is a material adverse change in Purchaser's condition, business or property which appreciably affects the ability of 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 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 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 Purchaser'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 Oil under this Agreement is terminated or suspended under Sections 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. Seller, upon occurrence of any Event of Default, in its sole discretion, may arrange for any disposition to third parties of Oil to be tendered and sold under this Agreement. Upon the occurrence of any Event of Default, Purchaser is released from the obligations set forth in Sections 2.11 (In-State Processing) and 2.12 (Best Efforts) until the Event of Default no longer exists or the obligation of Purchaser to take Royalty Oil under this Agreement expires. If upon occurrence of any Event of Default Seller makes arrangement for disposition to third parties of Oil 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 Oil in excess 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, losses and expenses (including reasonable attorneys fees and disbursements) 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 Oil which is the subject of this Agreement.

ARTICLE VIII
DISPOSITION OF OIL

8.1 Inability to Receive Oil. 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 thirty (30) days advance written notice to return up to 2500 barrels 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' prior notice, or to attempt to secure a waiver of any condition or requirement, is at Seller's sole and complete discretion. If for any reason Purchaser is unable or refuses to accept or receive any Oil tendered under this Agreement, Purchaser shall nevertheless be and remain responsible for the disposal of that Oil and for paying 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. In order to secure the obligations of Purchaser under this Section 8.1 and under Section 2.8, Purchaser shall, if and as Seller may request from time to time, assign to Seller all right, title and interest of Purchaser under any nominations, leases, agreements, contracts, charter parties and other arrangements for the transportation of the Oil sold under this Agreement through and away from the Kuparuk Pipeline and the Trans Alaska Pipeline System; provided, that Seller shall not have any liability or obligations under any such nominations, leases, agreements, contracts, charter parties or other arrangements unless, and to the extent that, Seller shall actually exercise its rights to succeed to Purchaser's interest thereunder and shall obtain the benefits thereof.

8.2 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, Storage Agreement, or any other agreement. However, Purchaser shall use due diligence and make its best efforts to act in a manner that enables Seller to adhere to the notice requirements and other obligations provided in the Storage Agreement. Purchaser agrees that when it executes this Agreement, it will also immediately execute the release attached as Exhibit B to this Agreement.

ARTICLE IX

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 stop the other party from complaining of a later breach similar in nature.

ARTICLE X

SEVERABILITY

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 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 three hundred sixty five (365) successive days or more, Seller will have the right to terminate this Agreement. Prior to Seller exercising its right to terminate this Agreement Seller and Purchaser shall enter into good faith negotiations to restore, to the fullest extent possible, 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 Oil tendered

under this Agreement and except for Purchaser's obligation to dispose of 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 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 to the party by registered or certified United States mail, postage prepaid, with a return receipt requested of the 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 Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510

Telephone:

Telex:

If to Purchaser Petro Star:

Telephone:

Telex:

If to Purchaser Chevron:

Telephone:

Telex:

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

ARTICLE XIII
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

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 effect on the ability of Purchaser to perform an obligation under this Agreement other than the obligations to accept, dispose of, and pay for Oil tendered under this Agreement.

ARTICLE XV
SECURITY

15.1 Purchaser Chevron Letter of Credit. Sixty (60) days prior to Date of First Delivery, Purchaser Chevron shall cause to be issued and delivered to Seller an irrevocable stand-by letter of credit, with an effective date no later than the Date of First Delivery, issued for the benefit of Seller by a state or national banking institution of the United States ("Issuer"), which is insured by the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars (\$100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of such letter of credit shall be a sum estimated by the Commissioner to be equal to the aggregate Purchase Price for the approximate total amount of Oil to be tendered by Seller to Purchaser Chevron during the first ninety (90) days following the Date of First Delivery, calculated at the Purchase Price. 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 her designee and the Attorney General of the State of Alaska or his designee that Purchaser Chevron 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 Chevron 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 Chevron shall upon Seller's request (whether or not Purchaser Chevron 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 Chevron without request from Seller whenever the face amount is less than the expected Purchase Price of ninety (90) days of Oil tenders to Purchaser Chevron under this Agreement, to an amount equal to the expected Purchase Price of ninety (90) days of Oil tenders to Purchaser Chevron. The principal face amount of the letter of credit may be decreased by Purchaser Chevron upon approval of Seller if the face amount is more than the expected Purchase Price of ninety (90) days of Oil tenders to Purchaser Chevron under this Agreement, to an amount equal to the expected Purchase Price of ninety (90) days of Oil tenders to Purchaser Chevron.

The letter of credit must allow drafts to be drawn and presented to the Issuer up to and including the 90th day after the last delivery of Royalty Oil to Purchaser Chevron under this contract. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller.

15.2 Purchaser Petro Star Letter of Credit. Sixty (60) days prior to the Date of First Delivery, Purchaser Petro Star shall cause to be issued and delivered to Seller an irrevocable stand-by letter of credit, with an effective date no later than the Date of First Delivery, issued for the benefit of Seller by a state or national banking institution of the United States ("Issuer"), which is insured by the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars (\$100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of such letter of credit shall be a sum estimated by the Commissioner to be equal to the aggregate Purchase Price for the approximate total amount of Oil to be tendered by Seller to Purchaser Petro Star during the first sixty (60) days following the Date of First Delivery, calculated at the Purchase Price. 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 her designee and the Attorney General of the State of Alaska or his designee that Purchaser Petro Star 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 Petro Star 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 Petro Star shall upon Seller's request (whether or not Purchaser Petro Star 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 Petro Star without request from Seller whenever the face amount is less than the expected Purchase Price of sixty (60) days of Oil tenders to Purchaser Petro Star under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Oil tenders to Purchaser Petro Star. The principal face amount of the letter of credit may be decreased by Purchaser

Petro Star upon approval of Seller if the face amount is more than the expected Purchase Price of sixty (60) days of Oil tenders to Purchaser Petro Star under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Oil tenders to Purchaser Petro Star.

The letter of credit must allow drafts to be drawn and presented to the Issuer up to and including the 60th day after the last delivery of Royalty Oil to Purchaser Petro Star under this contract. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller;

15.3 Purchaser Petro Star Amerada Hess Escrow. Sixty (60) days prior to the Date of First Delivery, Purchaser Petro Star shall cause to be executed and delivered to Seller an executed escrow agreement with a state or national banking institution of the United States ("Escrow Bank"), which is insured by the Federal Deposit Insurance Corporation, and which has a aggregate capital and surplus of not less than One Hundred Million Dollars (\$100,000,000), or other banking institution acceptable to the Seller in its sole discretion. The escrow agreement shall be in a form satisfactory to the Commissioner. The escrow agreement shall provide for payment of escrowed amounts only after final resolution of the Amerada Hess litigation, including any appeals, and upon tender of a certified statement, signed by the Commissioner of Natural Resources and the Attorney General of the State of Alaska. The certified statement shall specify the disposition of the principal and accrued interest of the escrow as calculated under the provisions of Articles II and V of this Agreement, with the full adjusted Purchase Price and interest payable to Seller, and any escrow balance payable to Purchaser Petro Star. Before requesting escrow payment, Seller will give Purchaser Petro Star at least twenty (20) days written notice of its calculations for the escrow disposition.

Purchaser Petro Star agrees to make monthly deposits into the escrow of the sum equal to \$1.12 per barrel of Royalty Oil purchased by Purchaser Petro Star from Seller under this Agreement during the previous month. This sum represents a negotiated escrow amount, and is not any party's estimate of litigation results. The amount of this escrow shall be an element of the "Purchase Price" under this Agreement, and shall be subject to periodic renegotiation as specified in the purchase price reopener provision of Section 2.4.

Purchaser Petro Star shall make payments to the escrow at the same time as it pays Seller under Article V of this Agreement, including increased payments necessitated by quantity adjustments under that Article. Purchaser Petro Star shall bear all expenses of the escrow, and shall arrange for the Escrow Bank to send to Seller monthly statements showing the escrow balance.

15.4 Chevron Backup. Purchaser Chevron agrees that, after receiving at least five (5) days notice from Seller, it will accept delivery of any volumes of Royalty Oil upon which Purchaser Petro Star has defaulted under this Agreement. The notice referenced above shall be given by telephone and by telex to the telephone number and address provided in Section 12.1. Purchaser Chevron agrees to take those volumes subject to all the terms of this Agreement, except that the price for those volumes shall be the Petro Star Purchase Price. Purchaser Chevron will promptly increase its letter of credit to include the increased volume. The Commissioner will return the defaulted volumes to in value as soon as possible, and will promptly notify Purchaser Chevron of the date on which deliveries to it under this section will cease.

ARTICLE XVI
PREFERENTIAL HIRING

Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska under or in connection with this Agreement, including but not limited to construction and operation of facilities to refine or otherwise use the Royalty Oil. As used in this Agreement "Alaska resident" means an individual who has resided in the State for one year at the time of hiring or employment and "Alaska companies" means those companies who are incorporated in the State of Alaska or whose principal place of business is in Alaska. Seller acknowledges that under the arrangements initially contemplated under this Agreement, Purchaser Chevron will not be performing work in Alaska under or in connection with this Agreement.

If this provision is determined to be unconstitutional by a court of competent jurisdiction, then Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

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 XVIII
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

This Agreement may be supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement. Any material amendment to this contract that appreciably reduces the consideration received by the state requires prior approval of the legislature.

ARTICLE XX
SUCCESSORS AND ASSIGNS

No assignment, pledge or encumbrance of this Agreement shall be made by either Purchaser without first obtaining the written consent of Seller, or by Seller without obtaining the written consent of both Purchasers. The Commissioner may grant such consent on behalf of Seller. 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, if Purchaser gains or acquires a controlling interest in an entity which has an agreement with Seller for the sale of Oil ("Other Agreement"), then Seller, at its option and on thirty Days' prior notice, may require Purchaser to terminate either this Agreement or the Other Agreement. The choice of which

Agreement to terminate will be Seller's. Purchaser may request that Seller waive this provision in advance of Purchaser gaining a controlling interest in an entity which has an agreement with Seller for the sale of Oil. The Commissioner has sole and complete discretion in granting or denying the requested waiver.

ARTICLE XXI

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 directly relating to the performance of this Agreement, including but not limited to the purchase or sale of 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 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

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 her consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for her 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 9th day of December, 1985

SELLER:

THE STATE OF ALASKA
W. Taylor Brown, Director
Commissioner
Department of Natural Resources

PURCHASER PETRO STAR, INC.:

PETRO STAR, INC.
By Stephen T. Hunt
President

PURCHASER CHEVRON:

CHEVRON U.S.A. INC.
By A. W. Caccamo

3928s

EXHIBIT B

RELEASE

For a valuable consideration, the receipt and adequacy of which are acknowledged, the undersigned does hereby release and forever discharge ARCO Alaska, Inc., BP Alaska Exploration Inc., Chevron U.S.A. Inc., Exxon Corporation, Mobil Oil Corporation, Phillips Petroleum Company, Sohio Alaska Petroleum Company, Union Oil Company of California, Amoco Production Company, individually and collectively, and each of their predecessors, successors, assigns, and all persons acting by, through, under or in concert with them, or any of them (the "Releasees"), of and from any and all claims, demands or causes of action of any nature whatsoever, known or unknown, fixed or contingent, hereinafter made against the Releasees, or any of them arising out of, based upon, or relating to the purported storage rights of the State of Alaska with respect to royalty oil produced from the land as to which the Kuparuk River Unit Agreement is now effective on to which it may be extended.

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any claim which agrees to indemnify and hold Releasees, and each of them, harmless from any liability, claims, demands, damages, costs, expenses and attorney's fees incurred by Releasees, or any of them, as a result of any person asserting assignment or transfer or any rights or claims under that assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if after execution of this Release the undersigned commences, joins in, or in any manner seeks relief through any suit arising out of, based upon, or relating to any of the claims released under this Release or in any manner asserts against Releasees, or any of them, any of the claims released under this Release, then the undersigned will pay to Releasees, and each of them, in addition to any other damages caused to Releasees by that action or claim all attorney's fees incurred by Releasees in defending or otherwise responding to the action or claim.

The undersigned further understands and agrees that the execution of this Release shall neither constitute nor be construed as an admission by the Releasees, or any of them, that they have any storage obligation with respect to the State's royalty oil.

Stephen T. Lewis

PETRO STAR, INC.

5 December 1985

DATE

Al W. Cascano

CHEVRON U.S.A.

6 December 1985

DATE



Chevron U.S.A. Inc.
2950 Buskirk Avenue, Walnut Creek, California
Mail Address: P.O. Box 9000, Concord, CA 94524

Supply & Distribution Department
Western Region
J. F. Menear
Manager, Supply

Assistant Managers
T. A. Hecht
Product Supply
L. W. Corbett, Jr.
Raw Material Supply

CRUDE OIL PURCHASE-SALE AGREEMENT

BETWEEN

CHEVRON U.S.A. INC. AND PETRO STAR OIL COMPANY

CHEVRON CONTRACT NO. 165608

PETRO STAR CONTRACT NO. C86001

DECEMBER 1, 1985

This document, when duly executed, evidences our Crude Oil Purchase and Sales Agreement (hereinafter called Agreement) by and between Chevron U.S.A. Inc., a Pennsylvania corporation, (hereinafter called Chevron) and Petro Star Oil Company, an Alaska corporation, (hereinafter called Petro Star) to purchase and sell crude oil of the quantity and quality specified under the terms and conditions set forth below:

- 1. Term:** This Agreement shall be effective upon commencement of the Royalty Oil Contract, DNR #10-4017, (State Contract) between the State of Alaska, Petro Star and Chevron and will be cancelled at the same time that the State Contract is cancelled. Nominally, the term of the State Contract is up to ten years, ending September 30, 1996, but the State Contract can be reduced or cancelled on nine months notice. If Chevron's purchase of Royalty Oil under the State Contract is reduced or cancelled for any reason, then Chevron shall have the right to reduce or cancel this Agreement at the same time.

2. **Chevron Delivery:** Chevron shall deliver and Petro Star shall receive that percentage of Royalty Oil purchased by Chevron under the State Contract (approximately 4,000 barrels per day) of Kuparuk Royalty Oil and delivered to Pump Station #1. Title and Risk of Loss shall pass from Chevron to Petro Star as the crude oil passes the LACT measurement at Pump Station #1 Trans-Alaska Pipeline (TAPS).

3. **Petro Star Delivery:** Petro Star shall deliver and Chevron shall receive an equal volume to that delivered by Chevron in item 2 above (approximately 4,000 barrels per day) of Alaskan North Slope Common Stream into Chevron's nominated vessel at Valdez, Alaska. Petro Star will incur any actual intransit losses between Pump Station #1 and Valdez. Title and Risk of Loss shall pass from Petro Star to Chevron as the crude oil passes the last permanent flange connecting shore facilities to Chevron's nominated vessel at the Valdez terminal.

4. **Price:** Chevron shall sell to Petro Star at Pump Station #1 at a price of \$17.00 per barrel for 27° API oil adjusted by the actual Trans Alaska Pipeline system quality bank adjustment in effect at time of delivery for gravities above and below 27° API. Chevron will purchase from Petro Star at Valdez at the same price (\$17.00 per barrel for 27° API) adjusted for actual gravity received on the same basis, plus the weighted average TAPS tariff for all deliveries through TAPS in effect for the month of delivery.

There shall be no adjustments of the \$17.00 price because of the State of Alaska et al v. Amerada Hess Corp., et al case. The invoice price in this contract is for the purpose of settlement of time value of money differences between delivery and receipt of oil.

5. **Invoices:** Invoices shall be sent by the tenth (10th) day of the month following the month of delivery.

6. **Payments:** Payment shall be made to the appropriate address stated herein by the 20th day of each month for deliveries made during the preceding month.

Payments due Chevron:

Payments due Petro Star:

Chevron U.S.A. Inc.
Account No. 010-431026
Crocker National Bank
55 Sansome Street
San Francisco, CA

Petro Star, Inc.
Account No. 84-02371-2
Alaska Mutual Bank
Minnesota-Benson Branch
1500 West Benson Blvd.
Anchorage, AK

7. **Basis of Settlement:** This Agreement shall be on an equal volume basis. Any difference in quantities delivered each month shall be carried forward. Any remaining barrel balance shall be liquidated by delivery of the crude oil within 60 days of termination of this Agreement or any other mutually acceptable procedure.

8. **Gauging and Sampling:** The quantity and quality of all crude oil delivered hereunder via pipeline shall be determined by an approved LACT unit at Pump Station #1 or Valdez as appropriate.

9. **Credits:** Petro Star shall post an irrevocable standby Letter of Credit in a form acceptable to Chevron for approximately \$4,150,000. Said Letter of Credit shall be continuously in effect for 60 days beyond date of delivery or shall have renewable features acceptable to Chevron. Chevron shall receive said Letter of Credit prior to making any deliveries.

10. **Notices:** Any notice hereunder shall be in writing and shall be transmitted by personal delivery, telegram, telex, telefax or mail to the following addresses or to such other addresses as either party may designate in writing:

Invoices, payments and accounting matters:

Chevron U.S.A. Inc.
P.O. Box W, Section 427
Concord, CA 94524
TELEX: 335-329 CHEV SPLY WNCK
TELECOPY: (415) 944-8989

Petro Star, Inc.
P. O. Box 56239
North Pole, AK 99705
TELEX: 36-686
TELECOPY: (907) 488-9057

All other correspondence:

Chevron U.S.A. Inc.
Attn: Western Region, S&D
P.O. Box 9000
Concord, CA 94524
TELEX: 176967 CHEVCORP SFO
TWX: 9103727340 CHEVCORP SFO
TELECOPY: (415) 944-6269

Petro Star, Inc.
P. O. Box 56239
North Pole, AK 99705
TELEX: 36-686
TELECOPY: (907) 488-9057

11. **Marine Provisions:** Marine Provisions per TAPS port information manual will supersede Chevron Marine Provisions dated April 1, 1984 where appropriate. Otherwise, the Chevron U.S.A. Crude Oil Marine Provisions dated April 1, 1984 attached hereto are included in and made part of this Agreement. In case of conflict between the terms and conditions above and the Crude Oil Marine Provisions, the terms and conditions above shall apply.
12. **General Provisions:** Chevron's General Provisions dated September 1, 1983 will be attached to and made a part of this Agreement. In case of conflict between the terms and conditions above and the General Provisions, the above terms and conditions shall apply. Usual industry practice shall apply for conditions not covered by the above terms and conditions or by the General Provisions.

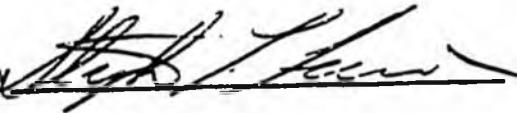
Petro Star

- 5 -

The undersigned, as authorized parties, agree to the above terms and conditions.

AGREED:

PETRO STAR OIL COMPANY

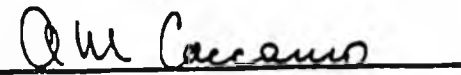
By 

Stephen T. Lewis

Date January 10, 1986

AGREED:

CHEVRON U.S.A. INC.

By 

A. M. Caccamo

Date January 8, 1986

CHEVRON U.S.A. INC.
CRUDE OIL GENERAL PROVISIONS

September 1, 1983

1. **DEFINITIONS:** When used in this Agreement, the terms listed below have the following meanings:

"Affiliate" means a corporation controlling, controlled by or under common control with either party.

"API" means the American Petroleum Institute.

"ASTM" means the American Society for Testing and Materials.

"Barrel" means forty-two (42) United States gallons at sixty degrees Fahrenheit (60°F) of crude oil after deducting any S&W present, unless otherwise noted. This measurement corresponds to the "Net Standard Volume," in barrels at 60°F, as defined in the Annex to Chapter 1, API Manual of Petroleum Measurement Standards dated October 1981.

"B/D" means barrels per calendar day.

"S&W" means sediment and water.

"Day", "Month", and "Year" mean, respectively, calendar day, calendar month and calendar year unless otherwise specified.

"Crude Oil" means crude oil and/or crude condensate, as appropriate.

"FOB", "C.I.F.", and "C&F" shall be as defined in the latest edition of Incoterms.

2. **FINANCIAL RESPONSIBILITY:** If, during the term of this Agreement, the financial responsibility (including, but not limited to, either party's ability to perform under Warranty of Title) of the owing party becomes impaired or unsatisfactory to the other party, then in any such case advance cash payment, properly endorsed negotiable bills of lading, or satisfactory security shall be given upon demand, and performance hereunder may be withheld until such payment, bills of lading or security is received. If such payment, bills of lading, or security is not received within fifteen (15) days from demand therefor, the demanding party may terminate this Agreement. In the event either party makes an assignment for the benefit of creditors or any general arrangement with creditors, or if there are instituted by or against either party proceedings in bankruptcy or under any insolvency law or law for reorganization, receivership or dissolution, the other party may withhold shipments or terminate this Agreement without notice. The exercise by either party of any right under this paragraph shall be without prejudice to any claim for damages or any other right under this Agreement or applicable law.
3. **OFFSET:** In the event either party shall fail to make timely delivery of any crude oil, due and owing to the other party, or in the event either party shall fail to make timely payment of any monies due and owing to the other party, the other party may offset any deliveries or payments due under this or any other agreement between the parties and their affiliates.
4. **NECESSARY DOCUMENTS:** Each party hereto agrees to furnish to the other party to the best of its ability all available substantiating documents incident to the transaction, including a satisfactory source document for each volume delivered and an invoice for any month in which the sums are due.
5. **MUTUAL AGREEMENT REGARDING TERMINATION:** The parties hereto do not intend to create between them by this Agreement a continuing obligation to buy, sell, or exchange crude oil other than as specified in the termination provisions contained elsewhere herein. Accordingly, the parties hereby mutually agree to said termination provisions, and each party hereby expressly waives any rights it may have under any existing or future state or federal government regulations which would insist upon the continued supply of crude oil provided herein.
6. **TITLE:** Title to and risk of loss of the crude oil delivered hereunder shall pass from the delivering party to the receiving party as the crude oil is delivered into the receiving party's facilities designated elsewhere in this Agreement.
- For marine deliveries, title and risk of loss of cargo shall pass at the vessel's last permanent flange connecting to the terminal, provided however, any loss of or damage to the cargo during loading or discharging caused by the fault of the vessel shall be for the account of the party delivering from/receiving onto such vessel.
7. **WARRANTY:** The delivering party warrants (a) that it has good and sufficient legal title to the crude oil delivered by it hereunder and its right to deliver same, (b) that said oil has been produced, handled and transported to the delivery point hereunder in accordance with the laws, rules and regulations of all local, state or federal authorities having jurisdiction thereof.
- The delivering party agrees to indemnify and hold receiving party harmless from and against any loss, claim or demand by reason of any failure of such title to such crude oil or failure or breach of this warranty.
8. **QUALITY:** Neither party shall be obligated to accept crude oil containing S&W in excess of 1% (3% for production in California) by volume or local pipeline requirements, whichever is less.
- Crude oil delivered hereunder shall be merchantable, virgin crude oil free of organic chlorides, oxygenated hydrocarbons, lead and any other contaminants not normally associated with crude oil, and acceptable to the carriers involved.
9. **TESTS AND MEASUREMENTS:** All gauging, sampling, and testing of deliveries shall be made in accordance with the latest approved methods of the API for the delivery method in then current general use at the point of delivery. Full deduction shall be made for S&W, such determination shall be made according to API Petroleum Measurement Manual, Chapters 10.1 & 10.2 (water by distillation and sediment by extraction, currently same as ASTM D-473 and D-4006) at those locations which regularly measure S&W in this manner. At other locations, such determination to be made in accordance with API Petroleum Measurement Manual, Chapter 10.3 (centrifuge method, currently same as ASTM D-4007) in its then latest revision. Each party may have a representative present at all gauging, sampling, and testing of the oils delivered hereunder. If one party does not make a representative available to witness gauging, sampling, and testing, the results determined by the representative present shall be binding on both parties. It is agreed that independent commercial inspection shall not be employed to witness pipeline or truck deliveries hereunder, provided however, that either party shall have the right to request and pay for such inspection.

The quantity of inland deliveries shall be determined by acceptable custody transfer meter, if available, or by shore tank ga. at the terminal. The quality and quantity of marine deliveries shall be determined by a mutually acceptable licensed petroleum inspector with costs shared equally. Findings of the independent marine inspector shall be binding on both parties.

10. **FORCE MAJEURE:** In the event either party is rendered unable, wholly or in part, to perform its obligations under this Agreement (other than to make payments due hereunder) due to acts of God, floods, fires, explosions, weather, strikes, lockouts or other industrial disturbances, wars or any law, rule, order or action of any court or instrumentality of the federal or any state government, or due to exhaustion, reduction or unavailability of crude oil at the source of supply from which deliveries are normally made hereunder, or any other cause or causes (except financial) beyond its control whether similar or dissimilar to those set above, it is agreed that the obligations of each party shall be suspended for the continuance of any inability so caused but for a longer period. The party claiming force majeure shall immediately notify the other party promptly of the nature and estimated duration of such inability to perform. The cause of such inability to perform shall, so far as possible, be remedied with all reasonable dispatch.

If, by reason of such cause, making or accepting deliveries is curtailed in part, the party prevented from accepting or making deliveries of the contract volume may apportion fairly the volumes it can deliver or accept in the ordinary course of business among its suppliers or customers, whether or not under contract. In the event of such apportionment, the volume of the other party's deliveries or receipts will be reduced in a like amount.

11. **PERSONAL PROPERTY TAX ON EXCHANGE DELIVERIES:** When applicable, property taxes on any crude oil exchange balance existing hereunder on tax assessment date each year will not become a lien and the party to whom the oil is due will not be required to reimburse the other party for any property taxes levied thereon unless specific agreement to the contrary has been reached by the parties prior to the applicable tax assessment date of that year. In the event such agreement has been made, the invoices requiring payment of such property taxes shall be submitted from one party to the other prior to the end of the applicable year. The location for tax purposes, at which such crude oil exchange balance is due shall be determined by mutual agreement of the parties.

12. **WINDFALL PROFIT TAX:** The delivering party hereby warrants that any withholding, deposit or payment of Windfall Profit Tax applicable to oil delivered hereunder has been or will be made by a party other than the receiving party. The delivering party agrees to indemnify and hold the receiving party harmless for the full amount of any taxes, penalties or interest which may be required to be paid by the receiving party as a result of reliance upon this warranty. For the purposes of this agreement, the receiving party will not be considered "First Purchaser" of said crude oil for Windfall Profit Tax purposes, and as a result shall not be obligated to withhold or pay any Windfall Profit Tax on receipts hereunder.

13. **TAXES AND FEES, GENERAL:** Liability for all other income taxes, franchise taxes or similar taxes required to maintain the corporate existence, excises, charges, duties, tariffs, and inspection and other fees either now in effect or hereafter imposed by a federal, state or local government, or any governmental agency, authority or subdivision, upon the subject crude oil or operations covered under this Agreement, after title to such crude oil has passed to the receiving party, will be paid by the receiving party. In those cases where either laws or regulations impose upon the party making the delivery the obligation to pay or collect the tax, excise, charge, duty, tariff, inspection or other fees listed above, the party receiving the crude oil shall reimburse the other for such amounts.

4. **FEDERAL CONTRACT CLAUSES:** The attached "Certificate of Nonsegregated Facilities Clause" and the following Executive Orders are incorporated herein by reference. The word "contractor" as used therein shall refer to each party to this contract. Unless exempted by Federal law, rule, regulation, or order, each party shall comply with the provisions of such Certificate or Executive Orders during the performance of this Agreement.

A. Executive Order 11246, as amended, Equal Opportunity;

B. Executive Order 11701, Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era;

C. Executive Order 11758, as amended, Affirmative Action for Handicapped Workers.

15. **ALTERATIONS:** No oral promises, agreements or warranties shall be deemed a part hereof, nor shall any alteration or amendment of this Agreement, or waiver of any of its provisions, be binding upon either party hereto unless the same be in writing, signed by the party charged.

16. **AUDIT:** Each party and its duly authorized representatives shall have access to the accounting records and other documents maintained by the other party which relate to this Agreement and shall have the right to audit such records at any reasonable time or times within three years after the termination of this Agreement.

17. **CONFLICTS OF INTEREST:** No director, employee or agent of either party shall give or receive any commission, fee, rebate, gift or entertainment of significant cost or value in connection with this Agreement. Any representative(s) authorized by either party may audit the applicable records of the other party for the sole purpose of determining whether there has been compliance with this paragraph.

18. **ASSIGNMENT:** This Agreement shall not be assignable by either party without written consent of the other, except that either party may assign this Agreement to any affiliates, provided that any such assignment shall not release the Assignor of any of the obligations hereunder.

19. **WAIVER:** The waiver by either party of the breach of any provision hereof by the other party shall not be deemed to be a waiver of the breach of any other provision or provisions hereof or of any subsequent or continuing breach of such provision or provisions.

20. **SUCCESSORS:** Everything contained herein which binds or affects the parties hereto shall in like manner bind and effect their respective successors and assigns.

GOVERNING LAW: This Agreement, and any disputes arising hereunder, shall be governed by the laws of the State of California.

END OF GENERAL PROVISIONS

CHEVRON U.S.A. INC.
MARINE PROVISIONS
April 1, 1984

As used in these Marine Provisions, "oil" shall mean any crude oil, crude condensate or refined petroleum product as appropriate to the Agreement to which these Marine Provisions are attached.

1. **NOTICE:** The terminal shall be notified by letter or telegram of each vessel nominated under this agreement not less than seven (7) days prior to expected arrival date. The terminal shall be further notified of scheduled arrival date 72, 48, 24 and 8 hours in advance of arrival. After the 8 hour notice, the terminal shall immediately be notified when a scheduled arrival time changes by more than two (2) hours.

The vessel will be required to send the terminal answers to critical preberthing questions at least 48 hours prior to ETA. The terminal will provide these preberthing questions so as to allow the vessel a reasonable time to respond.

2. **VESSEL CLEARANCE:** At the time the terminal is first notified of vessel, as stated above, the terminal shall have the right to refuse acceptance of such vessel if in terminal's sole opinion such vessel for any reason is unacceptable. The terminal's acceptance or rejection of the nominated vessel shall be communicated to the other party within forty-eight (48) hours after the terminal's receipt of nomination. The terminal's acceptance of any vessel shall not constitute a continuing acceptance of such vessel for any subsequent loading or discharge.
3. **NOTICE OF READINESS:** After the vessel has arrived at the customary anchorage or other place of waiting and is otherwise in all respects ready to proceed to berth and commence loading or discharging oil, the Master or his agent shall tender Notice of Readiness to the terminal by letter, telegraph, wireless, radio telephone, or telephone. Such notice shall not be given until after the vessel has received all port clearances.
4. **VESSEL BERTHS:** The terminal shall provide a berth for the vessel where the vessel can always lie safely afloat (within the specified maximum drafts and the specified minimum water depths) free of all wharfage and dockage dues. All duties and other charges on the vessel, including without limitation those incurred for tugs and pilots, mooring masters, other port costs and tax on services for cargo transfer, shall be borne by the vessel. The terminal shall not be deemed to warrant the safety of any channel, fairway, anchorage or other waterway used in approaching the designated berth. The terminal shall not be liable for any loss, damage, injury or delay to vessel resulting from the use of such waterways not caused by the terminal's fault or neglect.

All vessels shall be furnished a berth at the terminal in order of their arrival, as determined by receipt of Notice of Readiness. The terminal may require vessel to shift berth from one safe berth to another safe berth. The terminal shall pay all pilot, tug and port expenses incurred in shifting the vessel, and time consumed on account of such shifting shall count as used laytime.

5. **LAYTIME:** Used laytime shall commence six hours after Notice of Readiness has been tendered by vessel, berth or no berth, or when the vessel is all fast (finished mooring), whichever occurs first. If the vessel is to be loaded or discharged at more than one port, the terminal shall be allowed up to six hours following vessel's tender of Notice of Readiness in which to make a berth available at each port before used laytime commences. If the vessel arrives before the first day of the latest accepted arrival date range, Notice of Readiness shall not be effective until 0001 hours local time of the first day of the latest accepted arrival date range, unless the terminal elects to accept the vessel earlier, in which case used laytime shall begin when the vessel is all fast. If the vessel arrives after the last day of the latest accepted arrival date range, used laytime shall not begin until the vessel is all fast.

The amount of laytime the terminal is allowed to load to or receive from tank ships ("allowed laytime") shall be 36 hours for full cargoes or pro rata thereof for part cargoes. For the purpose of this contract, a full cargo shall be the maximum volume which the vessel can carry at the gravity of oil delivered and at the draft available at the terminal. Time consumed due to any of the following shall not count as used laytime.

- a. Any delay to the vessel in reaching or departing the berth (including weather delays) caused by any reason or condition not reasonably within the terminal's control;
- b. Any time consumed by the vessel in moving from port anchorage to all fast in berth or time consumed by the vessel lining up;
- c. Any delay due to the vessel's condition or breakdown or inability of the vessel's facilities to load or discharge cargo (1) within the laytime allowed or (2) as stated in the information provided for vessel clearance;
- d. Any delay due to prohibition of loading or discharging at any time by the owner or operator of the vessel or by the port authorities unless such prohibition is caused by terminal facility's failure to comply with applicable laws or regulations;
- e. Any delay due to vessel bunkering;
- f. Any delay due to vessel discharging or shifting of ballast, slops or contaminated cargo.
- g. Any delay due to pollution or threat thereof caused by any defect in the vessel or any act or omission to act of the Master or crew of the vessel.
- h. Any delay due to violation by vessel of the operating and/or safety regulations of the terminal, non-compliance with Coast Guard regulations or failure to obtain or maintain an Oil Pollution Responsibility Certificate.

Used laytime shall cease upon disconnection of hoses or cargo arms after all oil has been loaded or discharged. The vessel shall vacate the berth expeditiously consistent with safe operating practices (unless permission to remain is expressly granted by the terminal).

6. **DEMURRAGE:** The party receiving into/delivering from the terminal shall pay demurrage for all time that used laytime exceeds allowed laytime at a rate appropriate to the size and trade of vessel, as specified in the body of this Agreement. Demurrage incurred in port on a temporary basis by reason of fire, explosion, storm or by strike, lockout, stoppage or restraint of labor or by breakdown of machinery or equipment in or about the terminal shall be paid for at one-half the rate otherwise provided for demurrage. The terminal shall not be liable for any demurrage due to delay caused by strike, lockout, stoppage or restraint of labor of Master, officers and crew of the vessel or tugboat or pilots. In the event loading or discharging is terminated prematurely as the result of a force majeure situation, used laytime shall cease at the time the incident causing the termination of the operation commences.

The principle "once on demurrage always on demurrage" shall not apply. Demurrage claims must be accompanied by such supporting data as the terminal may reasonably request. Such claims must be made and so accompanied within 90 days from the date of the completion of loading or discharge of the cargo in question.

7. **HOSES:** Hoses and steel loading arms shall be furnished by the terminal and shall be connected and disconnected by the terminal, or at the option of the terminal, by the vessel at the terminal's risk and expense.
8. **U.S. COAST GUARD COMPLIANCE:** Vessels shall fully comply (or hold necessary waivers if not in compliance) with all applicable U.S. Coast Guard regulations in effect as of the date vessel berths. Any delay resulting from vessel's non-compliance shall not count as used laytime.
9. **ENVIRONMENTAL COMPLIANCE:** Vessel will comply with all local, State, and Federal environmental laws and regulations while berthed at the terminal. If vessel fails to comply with such laws and regulations, the vessel may be required to leave the terminal. Any vessel delay time caused by the vessel's failure to meet such laws and regulations shall not count as used laytime.
10. **OIL POLLUTION RESPONSIBILITY CERTIFICATE:** Vessels shall comply with the U.S. Federal Water Pollution Control Act, as amended, and shall have secured and carry aboard the vessel a current U.S. Coast Guard Certificate of Financial Responsibility (Water Pollution). Terminal shall not be liable for demurrage or other expenses during any time lost as a result of failure to obtain or maintain the Certificate.
11. **POLLUTION PREVENTION AND RESPONSIBILITY:** (a) In the event an escape or discharge of oil occurs from the vessel and causes or threatens to cause pollution damage, the vessel will promptly take whatever measures are necessary to prevent or mitigate such damage. The vessel hereby authorizes the terminal, or its nominee, at the terminal's option, upon notice to the vessel, to undertake such measures as are reasonably necessary to prevent or mitigate the pollution damage. The terminal or its nominee shall keep the vessel advised of the nature and results of any such measures taken and, if time permits, the nature of the measures intended to be taken. Any of the aforementioned measures shall be at the vessel's expense with the right to deduct the costs thereof from monies payable under this Agreement (except to the extent that such escape or discharge was caused by the terminal), provided that if the vessel considers said measures should be discontinued, the vessel shall so notify the terminal or its nominee and thereafter the terminal or its nominee shall have no right to continue said measures at the vessel's authority or expense. This provision shall be applicable only between the parties and shall not affect any liability of the vessel to third parties, including, but not limited to governments.
- (b) The vessel shall be a participating vessel in Tankers Owners Voluntary Agreement Concerning Liability for Oil Pollution ("TOVALOP"). The owner of the cargo shall be and shall continue to be an Oil Company Party to the Contract Regarding an Interim Supplement to Tanker Liability for Oil Pollution ("CRISTAL").
12. **WHARF DAMAGE:** Vessel assumes full responsibility for any damage sustained by wharves, berths, or docks owned or maintained by terminal arising out of the negligent or improper operation of tows, barges, or any other waterborne craft, either owned or operated by vessel or being operated by Subcontractors of vessel. Vessel shall fully and completely indemnify terminal for any such damages.
13. **CRUDE OIL WASHING:** The Master of the vessel shall request the terminal's permission at least 48 hours before arrival if the vessel intends to carry out Crude Oil Washing in port and shall comply with any terminal guidelines on Crude Oil Washing.
14. **INERT GAS SYSTEM:** The vessel shall comply with any terminal guidelines on Inert Gas Systems. All vessels equipped with an Inert Gas System shall keep the system operable at all times during berthing, while at berth and during unberthing. The Master of the vessel shall provide the terminal with a signed declaration that the vessel's Inert Gas System is operational and that the cargo and slop tanks are inerted. The Master of the vessel shall immediately notify the terminal if the Inert Gas System becomes inoperable or if the vessel is unable to maintain a positive pressure and/or an oxygen content at or below eight percent by volume in the cargo and slop tanks.

END OF MARINE PROVISIONS

1412559

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

January 14, 1986

REPLY TO:

1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

The Honorable Ben F. Grussendorf
Speaker of the House of Representatives
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Reference: "An Act Relating to the Sale and Purchase of Royalty
Oil from the Kuparuk Unit between the State of Alaska
and Petro Star, Inc. and Chevron U.S.A. Inc.

Dear Mr. Speaker:

In accordance with AS 38.06.040(a)(3), I am forwarding for
your consideration the resolution of the Alaska Royalty Oil and Gas
Development Advisory Board which recommends that the legislature
approve the referenced sale of royalty oil to Petro Star and Chevron
U.S.A.

If we can be of further service, please do not hesitate to
call.

Sincerely,

HAROLD M. BROWN
ATTORNEY GENERAL

By: *Ann E. Prezyna*
Ann E. Prezyna
Assistant Attorney General

AEP/ma

RECEIVED
Department of Law
JAN - 3 1985

742559

The Alaska Royalty Oil and Gas Development Advisory Board
Resolution 85-2
Office of the Attorney General
Anchorage Branch
Anchorage, Alaska

On or about October 23, 1985, the director of the division of oil and gas ("director") provided the Alaska Royalty Oil and Gas Development Advisory Board with the preliminary notice of sale, preliminary findings, and proposed contract for a long-term sale of up to about 6500 barrels per day of Kuparuk River Unit royalty oil to Petrostar, Inc. and Chevron U.S.A. Inc.

This proposed sale has been discussed at several public meetings held by the board during 1985. At the February 20 meeting, Petrostar representatives testified in support of a royalty oil sale. On March 26, staff of the Alaska Department of Natural Resources (DNR) reported to the board on the status of a solicitation for purchasers of state royalty oil. At the April 12 meeting, DNR presented a status report on the solicitation, which was released April 1. On July 25, DNR presented to the board a recapitulation of the responses to the solicitation. At the meetings of the board held September 26-27 and October 7, the board received public testimony on a proposed sale of Kuparuk royalty oil to Petrostar and Chevron. On October 30, the director made a presentation to the board on the Petrostar-Chevron contract proposed in DNR's October 23 preliminary findings; the board also received public testimony on the proposed contract. The last two meetings were held by teleconference in Anchorage, Fairbanks, Valdez, and Juneau.

DNR's final findings on the proposed sale and the contract were sent to the board on December 9, 1985. On December 19, the board met to develop and vote on its recommendations to the legislature on the proposed sale.

Based on the board's review of the agreement for the sale and purchase of royalty oil between the State of Alaska and Petrostar and Chevron, DNR's findings and determinations regarding the proposed sale, and the testimony received at public meetings of the board, the board is of the opinion that the proposed disposition of Kuparuk River Unit royalty oil to Petrostar and Chevron meets the requirements of AS 38.06 and 3 AAC 56. The board recommends that the Fifteenth Alaska Legislature approve the agreement for the sale and purchase of royalty oil from the Kuparuk River Unit to Petrostar and Chevron, dated December 9, 1985.

Dated: December 19, 1985

[Signature]
[Signature]

Laurie S. Cunningham
[Signature]

12-13-557
Bill Sheffield
BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LAW

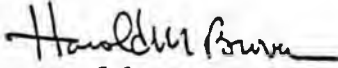
POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

OFFICE OF THE ATTORNEY GENERAL

January 22, 1986

M E M O R A N D U M

TO: Honorable Bill Sheffield
Governor

FROM: 
Harold M. Brown
Attorney General

RE: Attached bill on Petro Star/
Chevron royalty oil contract
Our file: 377-094-86

Attached is a bill (prepared for both House and Senate introduction), requested by the Department of Natural Resources (DNR), which provides for legislative approval and ratification of a royalty oil contract between the state and both Petro Star Inc. and Chevron U.S.A. Inc. for the sale of Kuparuk River royalty oil. This contract is the result of negotiations with the companies over the past year. If you prefer not to introduce this bill in both houses, DNR would prefer that it be introduced in the Senate.

Also attached are copies of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending that the legislature approve this sale of royalty oil. These copies are attached to original letters forwarding the Royalty Board's resolution to the Speaker of the House and the President of the Senate. In accordance with AS 38.06.040(a)(3) and AS 38.06.070(c), this resolution and the appropriate letter should be transmitted with each bill at the time of introduction.

If you only introduce the bill in the Senate, it should not be necessary to send the separate Department of Law letter and copy of the board's resolution to the Speaker of the House. However, it might be wise to do so as a courtesy.

A draft transmittal letter, explaining the bill in more detail, is also attached.

HMB:SRP:ma

cc w/enc.: Hon. Esther Wunnicke, Commissioner
Department of Natural Resources

WILE SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that provides for legislative approval of a royalty oil contract between the state, Petro Star, Inc. and Chevron U.S.A., Inc. for the sale of Kuparuk River royalty oil. Also transmitted with this bill is a copy of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending approval of that contract, along with a letter from the Department of Law forwarding the resolution to you. This resolution is being transmitted in accordance with AS 38.06.040(a)(3) and AS 38.06.070(c).

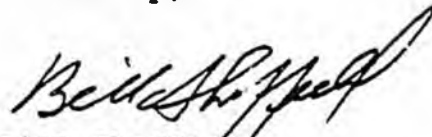
The contract is also described in the findings issued by the Department of Natural Resources on December 9, 1985. Copies of these findings have been made available to the legislature and the public for review.

A bill approving the contract is being introduced for legislative approval for two reasons. First, as a matter of comity, I respect the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, although this and the previous administration have consistently taken the position that the statutory requirement of legislative approval of royalty oil contracts (AS 38.06.055) is unconstitutional, the contract itself contains provisions requiring approval by the legislature before it takes effect.

Second, this legislation would ratify the royalty oil contract. This ratification would cure any procedural defect

that may have occurred in the process of entering into this contract. 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, the statutes provide that the legislature is to approve a royalty oil contract only by "enacting legislation" (AS 38.06.055(a)), but also refer to a Royalty Board recommendation to be submitted to the legislature at the time a "resolution approving the proposed sale ... is introduced in the legislature" (AS 38.06.070(c)). Since legislative approval by enactment of legislation is required as a matter of contract, I believe that it is prudent to present this contract for legislative approval and ratification.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill Sheffield".

Bill Sheffield
Governor

COMMITTEE REPORT

SENATE

FURTHER: FINANCE

4/3/86

Date 4/4/86

Mr. President

The Committee on RESOURCES considered HB 559

approving the sale of Kuparuk River Unit royalty oil by the State of Alaska to Petro Star, Inc. and Chevron U.S.A., Inc; efd.

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

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title _____
- same title and recommends _____
- and attached a "LETTER OF INTENT" [] NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING DO PASS

[Handwritten signatures]

MEMBERS HAVING OTHER RECOMMENDATIONS

Rick Halford NO REC

Arthur Sturgis
Chairman
Do Pass
Chairman recommendation