

**ALASKA LEGISLATURE**

1374

**HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996**

AGREEMENT FOR THE SALE AND  
PURCHASE OF ROYALTY OIL

THIS AGREEMENT is effective as of April 21, 1995 by and between the State of Alaska (State) and Tesoro Alaska Petroleum Company, a Delaware corporation with its principal offices located at 3230 C Street, Anchorage, Alaska 99503 and Tesoro Petroleum Corporation, a Delaware corporation with its principal offices located at 8700 Tesoro Drive, San Antonio, Texas 78217 (collectively Tesoro).

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 his designee.

1.2 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees from the Prudhoe Bay Unit Area in a Day except as provided in Article 2.1(b).

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

1.4 "Effective Date" shall have the meaning set out in Article VI.

1.5 "Field Cost Agreement" means the Prudhoe Bay Royalty Settlement Agreement effective April 1, 1980.

1.6 "Leases" means the Oil and Gas leases which are subject to the terms of the Prudhoe Bay Unit Agreement.

1           1.7     "Lessee" means any person owning a working interest in any of the Leases.

2           1.8     "Month" means the period beginning at 12:01 a.m., Alaska Standard Time,  
3 on the first Day of the calendar Month and ending at the same time on the first Day of the next  
4 succeeding calendar Month.

5           1.9     "Oil" means the same as the word "oil" under the Leases and the Unit  
6 Agreement, except where inconsistent with Articles 2.1(b) and 2.2 of this Agreement, in which case  
7 Articles 2.1(b) and 2.2 shall control. For purposes of this Agreement, "Oil" shall also include natural  
8 gas liquids ("NGLs").

9           1.10    "Point of Delivery" shall have the meaning set out in Article 2.6.

10          1.11    "Royalty Oil" means the Oil which the State may take in-kind (in amount) as  
11 its royalty under the Leases whether or not the State has elected to take or is taking that royalty in-  
12 kind except as provided in Article 2.1(b).

13          1.12    "Royalty Settlement Agreement" means the written royalty settlement  
14 agreements between the State and Exxon Corporation ("Exxon") dated December 31, 1991.

15          1.13    "Royalty Value" means the royalty value of all liquid hydrocarbons from the  
16 Prudhoe Bay Unit or the Prudhoe Bay Unit initial Participating Areas as provided in Article 2.1(b)  
17 calculated in accordance with the Royalty Settlement Agreement for West Coast placements as  
18 explained in Article 2.3.

19          1.14    "TAPS" means the Trans Alaska Pipeline System.

20          1.15    "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1,  
21 1977, by and between the Lessees and the State, as amended from time to time.

1 ARTICLE II

2 SALE OF ROYALTY OIL

3 2.1 Quantity.

4 2.1(a) Prudhoe Bay Unit Quantity. The State agrees to sell to Tesoro and  
5 Tesoro agrees to buy from the State that amount of Oil equal to 30.0 percent of the Daily Royalty Oil  
6 (Maximum Quantity). At any time upon six months and ten days written notice, Tesoro may: (1)  
7 decrease the Maximum Quantity; or (2) terminate this Agreement, in which case Tesoro shall not  
8 make any payments as described in Article 2.11.

9 Subject to the limitations in this article, Tesoro may temporarily decrease or increase  
10 the amount of Oil to be tendered, but not the Maximum Quantity provided in this article. To increase  
11 or decrease the amount of Oil to be tendered, Tesoro must give the State at least six Months and ten  
12 Days written notice. If, however, the increase or decrease is less than ten percent of Tesoro's then  
13 current in-kind nomination, Tesoro must give at least one hundred Days written notice. In addition,  
14 the new tendering will take effect on the first Day of the Month after the applicable notice period  
15 expires.

16 The volume of Daily Royalty Oil available to the State will vary and may be  
17 interrupted from time to time, and depends upon a variety of factors, including the rate of production  
18 from the Leases. The State disclaims and Tesoro waives any representation, covenant or warranty,  
19 expressed or implied, that a specific quantity or the total or daily, monthly, average, or aggregate  
20 volume of Royalty Oil will be sold or tendered under this Agreement. The State warrants that it has  
21 good title to the Oil tendered under this Agreement.

1           If the State underlifts or stores Royalty Oil at the Prudhoe Bay Unit, or if the State  
2 recovers underlifted or stored Royalty Oil, the quantity of Oil tendered under this Agreement shall be  
3 calculated as if no Royalty Oil were underlifted or stored or recovered.

4           2.1(b) Initial Participating Areas Quantity. The State may choose, in its sole  
5 discretion, to sell to Tesoro, and Tesoro agrees to buy from the state, oil that is produced solely from  
6 the initial Participating Areas of the Prudhoe Bay Unit, as defined in the Unit Agreement, rather than  
7 from all participating areas and Leases within the Prudhoe Bay Unit. If the State so elects, the  
8 Maximum Quantity of Oil shall equal 35.2 percent of the Royalty Oil produced from the initial  
9 Participating Areas in a Day. If the State so elects, the terms Daily Royalty Oil, Oil, and Royalty Oil  
10 shall have the same meaning set forth in Article I as limited in this article.

11           2.2 Quality. The Oil sold shall be the same quality as the Royalty Oil delivered  
12 by the Lessees to the State at the Point of Delivery from the Prudhoe Bay Unit Area. The quality of  
13 the Oil sold may vary from time to time. The State disclaims, and Tesoro waives, any guarantee,  
14 representation, or warranty, either expressed or implied, of merchantability, fitness for use, or  
15 suitability for any particular use or purpose, or otherwise, of any of the Oil delivered under this  
16 Agreement or as to any specific, average, or overall quality or characteristic of Oil to be sold or  
17 tendered under this Agreement. Tesoro expressly waives any claim that any liquid hydrocarbons  
18 made available to the State by the Lessees, including such substances as crude oil, condensate, natural  
19 gas liquids, or return oil from the Prudhoe Bay Unit Crude Oil Topping Plant, that may be blended  
20 with crude by the Lessees before the Point of Delivery and tendered as a common stream by the  
21 Lessees to the State as Royalty Oil are not Oil, for purposes of this Agreement.

1           2.3    Price of the Royalty Oil. The price each Month for Oil purchased under this  
2 Agreement shall be the Royalty Value for that Month of Oil delivered to the West Coast by Exxon  
3 from the Prudhoe Bay Unit production. The Royalty Value shall be determined according to the  
4 Royalty Value calculation stated in Article 3.2 c) of its Royalty Settlement Agreement, except that the  
5 Average Valdez Netback shall be the West Coast Valdez Netback. Exhibit A is an illustrative  
6 calculation of the price if Tesoro had purchased Oil during the Month of January, 1995.

7           If any applicable law of the United States of America or any rule or regulation  
8 promulgated by a federal agency will, in the sole judgment of the State, operate to prohibit or prevent  
9 the State from receiving the full amount due under the above provision, Tesoro's obligation to pay the  
10 amount of the purchase price in excess of the amount permitted will be suspended or adjusted to the  
11 minimum extent required for the State to comply with that law, rule or regulation.

12           2.4    Reopeners.

13           2.4(a) Export Ban Reopener. Neither Tesoro nor the State shall have the  
14 right to reopen this Agreement, unless the export ban on Alaska North Slope crude now in effect is  
15 lifted. Anytime after the export ban is lifted, either Tesoro or the State may reopen this Agreement  
16 for purchase price only, by giving the other party one month's prior written notice. Upon issuance  
17 and receipt of a notice to reopen, Tesoro and the State will promptly commence good faith  
18 negotiations in an attempt to establish a new purchase price. If Tesoro and the State cannot agree on a  
19 price within three months after the written notice to reopen, either Tesoro or the State may terminate  
20 this Agreement upon nine months written notice to the other. The purchase price for Oil tendered  
21 during any period pending termination shall be the price in effect immediately before giving the

1 notice of intent to reopen. If a new purchase price is agreed to by Tesoro and the State, the new price  
2 shall be effective for Oil delivered in the month following the Agreement.

3 2.4(b) Royalty Settlement Agreement Reopener. Tesoro shall not intervene  
4 or otherwise participate in any way regarding litigation, styled ANS Royalty Litigation, Case No. 1-  
5 JU-77-847, any future royalty settlement agreements with the Lessees, or reopeners or other  
6 discussions under or pertaining to royalty settlement agreements. Any judgment resulting from the  
7 ANS Royalty Litigation, any future royalty settlement agreements, or any reopener under the Royalty  
8 Settlement Agreement shall be conclusively binding upon Tesoro whether or not Tesoro agrees with  
9 or consents to the terms of any such judgment, settlement, or reopener. Furthermore, Tesoro has no  
10 independent right to invoke any of the provisions of the Royalty Settlement Agreement. If the  
11 Royalty Value is modified in the future as a result of a modification of the Royalty Settlement  
12 Agreement, a corresponding retroactive modification will be made to the price term of this  
13 Agreement and interest will apply to the modification, whether resulting in an overpayment or  
14 underpayment, as set forth in Article 5.6. Tesoro agrees to be conclusively bound by any such  
15 modification agreed to by the State and Exxon.

16 Nevertheless, due to potential unpredictable increased costs to Tesoro posed by any  
17 changes to Article III of the Royalty Settlement Agreement and/or any changes made under the  
18 reopener procedures of Article IV of the Royalty Settlement Agreement, the State shall give Tesoro  
19 notice of such changes or a Notice of Reopener initiated by Exxon or the State. Such notice shall  
20 include information on the nature of such changes and/or the reopener, the requested effective date of  
21 any such changes or proposed changes, and the position taken by Exxon and the State. Any changes

1 and/or Reopener action under the Royalty Settlement Agreement will give Tesoro the right to  
2 terminate this contract upon six Months and ten Days written notice to the State.

3           2.5    Point and Time of Delivery. Simultaneously with receipt of its Royalty Oil  
4 from its Lessees, the State shall tender the Oil to Tesoro where the State receives the Royalty Oil  
5 from its Lessees. That point presently agreed to by the State and its Lessees in Article 2.3 of the Field  
6 Cost Agreement is the TAPS Pump Station No. 1 Prudhoe Bay Custody Transfer meter ("Transfer  
7 Meter").

8           2.6    Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under  
9 this Agreement shall pass from the State to Tesoro for all purposes when the State tenders the Oil at  
10 the Point of Delivery.

11           2.7    Tesoro's Responsibility. Tesoro shall be responsible for the Oil after passage  
12 of title. Tesoro will indemnify and hold the State harmless from and against any and all claims, costs,  
13 damages (including reasonably foreseeable consequential damages), expenses, or causes of action  
14 arising from or in connection with any transaction or event which relates to the Oil after title has  
15 passed to Tesoro.

16           2.8    Transportation Arrangements. Tesoro shall make all necessary arrangements  
17 for transporting the Oil sold under this Agreement from the Point of Delivery, including satisfaction  
18 of line fill obligations and storage tank bottom requirements of the TAPS, if any. If requested by the  
19 State, Tesoro shall submit specific information concerning its arrangement for transportation of the  
20 Oil sold under this Agreement through and away from the TAPS and for the resale or other disposal  
21 of the Oil. Such information may include the specific tenders of Oil made to the TAPS and  
22 identification of tankers, if any, which will transport the Oil. In addition, Tesoro will provide the



1 State, if requested by the State, with satisfactory evidence or reasonable assurance of the existence  
2 and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject  
3 to this Agreement. Failure to provide information, evidence, or assurances requested will, at the  
4 State's election by notice to Tesoro, be a material default under this Agreement.

5           2.9 Absolute Obligations. The obligations of Tesoro to accept, pay for, and  
6 arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will  
7 not be excused or discharged by the operation of any disability of Tesoro, event of force majeure,  
8 impracticability or performance, change in conditions, or any other reason or cause.

9           2.10 Date of First Delivery. The date of First Delivery will be the first Day of  
10 January 1, 1996.

11           2.11 Performance Guaranty and Reservation Fee. If Tesoro does not take the  
12 Maximum Quantity, Tesoro shall pay to the State, in addition to the purchase price on the actual  
13 quantity taken, an amount equal to .75 percent of the purchase price per barrel per Day on the  
14 difference between the Maximum Quantity and the actual quantity tendered to and accepted by  
15 Tesoro for each Day Tesoro does not take the Maximum Quantity.

16           2.12 In-State Processing. Tesoro agrees to use best efforts to insure that any and all  
17 of the Royalty Oil tendered under this Agreement will be processed through Tesoro's refinery near  
18 Nikiski, Alaska, or will be exchanged for other crude oil which shall be processed at that refinery.  
19 "Process" means the manufacture of refined petroleum products. In no event, however, shall the  
20 quantity of Royalty Oil, which must be processed, be less than 80 percent of the volume of Royalty  
21 Oil tendered under this Agreement. "Exchange" means: (1) direct trades of equal volumes of crude  
22 oil; (2) trades of crude oil involving either cash or volume adjustments, or both, provided that those

1 adjustments relate solely to quality or location differences; (3) sequential transactions in which Tesoro  
2 receives back crude oil from a party other than the party which receives the Royalty Oil in a trade  
3 from Tesoro; or (4) matching purchases and sales of crude oil. The terms under which Tesoro  
4 receives crude oil in any exchange shall not differ in any significant term from the terms under which  
5 Tesoro delivered Royalty Oil except for terms which adjust for differences in quality and location.  
6 Tesoro agrees that any trade or exchange shall not reduce the price to be paid to the State and that  
7 trades or exchanges shall be at no cost or expense to the State.

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

10 The State may, in its sole discretion, waive the in-State processing requirement in  
11 whole or in part, if State is satisfied that Tesoro is using its best efforts to process the Royalty Oil  
12 tendered or the oil exchanged for Royalty Oil tendered under this Agreement at Tesoro's Alaska  
13 refinery and that the waiver would not be contrary to the underlying intent of the other provisions of  
14 this Agreement.

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16 ARTICLE III

17 REPRESENTATION AND OBLIGATIONS OF TESORO

18 Tesoro warrants, represents, and agrees:

19 3.1 Good Standing and Due Authorization. Tesoro is, and at all times during the  
20 operation of this Agreement shall remain, a corporation organized and existing under and by virtue of  
21 the laws of the United States or of any State, territory or the District of Columbia, and qualified to do  
22 business in, and in good standing with, the State of Alaska. Tesoro has all necessary corporate power

1 to enter into this Agreement and to perform the covenants and obligation under this Agreement. All  
2 necessary corporate action has been taken to authorize Tesoro to enter into this Agreement and  
3 perform its covenants and obligations under this Agreement.

4 3.2 Financial Condition. The financial information submitted to the State is  
5 complete and correct and fairly presents Tesoro's financial condition when the information was  
6 submitted to the State. The financial information was prepared in accordance with generally accepted  
7 accounting principles consistently applied. Since the date the information was submitted, the  
8 condition, business, and properties of Tesoro have not been materially adversely affected in any way.  
9 Tesoro agrees to inform the State immediately if there is any material adverse change in its condition,  
10 business, or properties which may have an appreciable adverse effect on its ability to perform under  
11 this Agreement. Tesoro, in addition, will immediately inform the State of any significant change in  
12 ownership of Tesoro, affiliates, parent company, and of any change in Tesoro's operations or  
13 Agreements, which may appreciably affect Tesoro's performance under this Agreement.

14 3.3 Financial Statements. As soon as possible after the end of the fiscal year of  
15 Tesoro, and in any event within one hundred twenty Days thereafter, Tesoro will furnish to the State,  
16 at Tesoro's sole cost and expense, a report or a complete copy of a report in a form to be prescribed  
17 from time to time by the State which will include Tesoro's balance sheet as of the close of the fiscal  
18 year and the income statement for that year, prepared in each case in accordance with generally  
19 accepted accounting principles consistently applied by certified public accountants of recognized  
20 standing. For purposes of complying with this article, Tesoro may submit, and the State will accept,  
21 the annual report of Tesoro Petroleum Corporation filed with the United States Securities and  
22 Exchange Commission pursuant to Sec. 13 or 15 (d) of the Security Exchange Act of 1934.

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ARTICLE IV

MEASUREMENTS AND TESTS

The quantity and quality of 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 in the Prudhoe Bay Unit.

ARTICLE V

PAYMENTS AND ACCOUNTING

5.1 Initial Billing. The State will send to Tesoro, on or before the tenth business Day of each Month after delivery of Oil, an invoice statement of account of all Oil estimated to have been measured at the Transfer Meter and tendered to Tesoro under this Agreement during the immediately preceding Month according to the best information available to the State, the estimated purchase price applicable to those deliveries, and the total amount due (Initial Billing Invoice). The estimates will be made by the State according to the best information reasonably available to the State. The State may render its Initial Billing Invoice to Tesoro based in part upon information reported by the Lessees to the State, information published by the U.S. Government, and information published in Platt's Oilgram Price Report or any other publicly available report. The State shall thereafter adjust its Initial Billing Invoice under this article as soon as more accurate information concerning the quantity and purchase price of Oil delivered each Month is available. The State, however, shall not be required to adjust the Initial Billing Invoice before the sending of the next Month's invoice statement of account.

1           5.2    Initial Adjustment. After the Initial Billing Invoice under Article 5.1, the next  
2 Monthly invoice will also state the State's initial adjustments, plus interest, to be made, if any, to the  
3 Initial Billing Invoice rendered in the immediately preceding Month, in accordance with any  
4 additional or more accurate information which may have become available to the State ("Initial  
5 Adjustment Invoice"). Whether or not initial adjustments are made, however, subsequent adjustments  
6 may be made under Article 5.5.

7           5.3    Subsequent Adjustments. Tesoro acknowledges that after the Initial Billing  
8 and Initial Adjustment Invoices, more accurate information concerning the quantity of or purchase  
9 price for Royalty Oil tendered may become available to the State. If any such information should  
10 later become available to the State, it shall furnish a corrected invoice statement of account to Tesoro  
11 ("Subsequent Adjustment Invoice") and the State will adjust the amount previously billed; and Tesoro  
12 will pay, or the State will credit or refund, the amount of any Subsequent Adjustment Invoice plus  
13 interest. If the State should render a Subsequent Adjustment Invoice to Tesoro, any amount to be  
14 credited or refunded from the State to Tesoro or paid by Tesoro to the State will be refunded or paid  
15 within thirty Days after the date of the Subsequent Adjustment Invoice.

16           The parties recognize that subsequent adjustments may be necessary after December  
17 31, 1998, and, accordingly, the provisions of Article V will survive any termination of this  
18 Agreement. Any Subsequent Adjustment Invoice rendered more than six years after the date of  
19 delivery will bear interest for only six years from the date accrued as defined in Article 5.5. This  
20 limitation on interest does not apply to Subsequent Adjustment Invoices resulting from: (1)  
21 regulatory, reopener or court proceeding (including appeals) commenced during the six year period

1 whether or not the Tesoro or the State is a party and (2) bona fide audits by the State of Exxon  
2 commenced during the six year period.

3 5.4 Payment. Tesoro will pay the Initial Billing Invoice on the third business Day  
4 of the month following delivery or within three business Days after the date of the invoice whichever  
5 is later; and the Initial Adjustment Invoice within three business Days of the date of the invoice and  
6 on any Subsequent Adjustment Invoice within 30 Days of the date of the invoice. Payment shall be  
7 made without any deduction, set off, or withholding, by wire transfer of immediately available funds  
8 to the State's account at the following address:

9 State Street Bank & Trust Company  
10 Boston, Massachusetts  
11 ABA #011000028  
12 For credit to the State of Alaska  
13 General Investment Fund, AY01  
14 Account #00657189  
15 Attn: Kim Chan, Public Funds  
16

17 Payment may be made in such other manner or to such other address as the State  
18 specify in the invoice statement of account or by other written notice. All other payments to be made  
19 under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or  
20 legal holiday of the place where payment is to be received, payment shall be made on the next  
21 following business Day. It is recognized that the State may bill, and that Tesoro will pay, amounts  
22 that are based upon confidential information held or received by the State. If confidential information  
23 is used as the basis for a billing, then the State will furnish Tesoro, upon its request, with the certified  
24 statement of the Commissioner that the amounts billed are correct based upon the best information  
25 available to the State. If a dispute concerning a bill arises, Tesoro agrees to pay the full amount billed  
26 by the State, except for obvious clerical mistakes, pending final resolution of the dispute.

1           5.5    Interest. The Amount of all sums, which are not paid when due under this  
2 Agreement or which are later determined to be due as an adjustment, shall bear interest from the date  
3 accrued until paid in full at the rate as provided in AS 38.05.135(d) or as that statutory provision may  
4 later be amended. Currently, that interest rate in a calendar quarter is at the rate of five percentage  
5 points above the annual rate charged member banks for advances by the 12th Federal Reserve District  
6 as of the first Day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater,  
7 compounded quarterly as of the last Day of that quarter. The term "date accrued" means the date of  
8 the "Initial Billing plus three business Days." Interest shall apply to both adjustments for  
9 overpayments and underpayments.

10           The following illustrates from what date interest will run:

11           January 1 - 31, 1996 -- Tesoro takes 1996 January production;

12           February 9, 1996 -- State sends Tesoro the Initial Billing Invoice for 1996 January  
13           production;

14           February 14, 1996 (Initial Billing plus three business Days) -- Tesoro must pay the  
15           Initial Billing Invoice for January 1996 production. If Tesoro does not pay on  
16           this day, the Initial Billing Invoice bears interest from this date plus a late  
17           payment penalty.

18           March 8, 1996 -- State sends Tesoro the Initial Adjustment Invoice for January 1996  
19           production. Tesoro owes the State an additional sum.

20           March 13, 1996 -- Tesoro must pay the Initial Adjustment Invoice plus interest from  
21           February 14, 1996 through the payment date.

1 January 10, 1997 -- State sends Tesoro a Subsequent Adjustment Invoice for January  
2 1996 production. Tesoro is entitled to a credit. State pays interest from  
3 February 14, 1996 through January 10, 1997.

4 April 10, 2006 -- The State is notified by Exxon that, due to a clerical error, it has  
5 revised the Royalty Value for January 1996.

6 April 17, 2006 -- State sends Tesoro another Subsequent Adjustment Invoice for  
7 January 1996 production after Exxon reports a clerical error in its  
8 calculation of the Royalty Value. Tesoro owes the State an additional sum.

9 May 17, 2006 -- Tesoro must pay the Subsequent Adjustment Invoice for January  
10 1996 production plus interest from calculated February 14, 1996 through  
11 February 14, 2002. If Tesoro does not pay the Subsequent Adjustment  
12 Invoice on this date, interest will accrue from February 14, 1996 through the  
13 date the payment is made and Tesoro must also pay a late payment penalty.

14 November 10, 2006 -- Court settles dispute between the TAPS carriers and shippers:  
15 Carriers are awarded a higher tariff for January 1996.

16 November 30, 2006 -- State sends Tesoro a Subsequent Adjustment Invoice. Tesoro  
17 is entitled to a refund which includes interest calculated from February 14,  
18 1996 through November 30, 2006.

19 5.6 Late Payment Penalty. If Tesoro fails to make a full payment within three  
20 business days of the date of either an Initial Billing Invoice or Initial Adjustment Invoice, or within  
21 thirty Days of the date of any Subsequent Adjustment Invoice, then in addition to the amount due



1 plus interest from the date accrued until the date of actual payment, Tesoro will pay an amount equal  
2 to five percent of the principal payment due as a late payment penalty.

3 5.7 Payment to Lessee. At the request of the State in the invoice statement of  
4 account or otherwise in writing, Tesoro shall pay all or any portion designated by the State of that  
5 payment required to be made to one or more of the Lessees at an address or addresses and in the  
6 manner designated by the State. The payment will be made within the time limit specified in  
7 Article V. The State may authorize and designate a third party to make the request and designate the  
8 amount, manner and place of payment under this provision. Unless otherwise specified, the balance  
9 of the payment due, if any, and payment for subsequent Months, shall be made in accordance with  
10 Article V.

11 5.8 Payment to Third Parties. The State may direct that Tesoro pay any amount  
12 due or which may become due directly to a third party in a manner and time as may be directed by  
13 the State in written notice to Tesoro if, in the State's sole discretion, the payment to the third party  
14 will assist the State in monitoring or enforcing this Agreement.

15  
16 **ARTICLE VI**

17 **TERM**

18 This Agreement shall become effective upon execution by the parties. The State's  
19 obligation to sell and Tesoro's obligation to buy Royalty Oil becomes effective immediately.  
20 Deliveries under this Agreement shall begin on January 1, 1996, and shall end December 31, 1998.  
21 The provisions of Article V shall survive the termination of this Agreement.

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ARTICLE VII

DEFAULT OR TERMINATION

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

- (i) At any time, Tesoro (a) repudiates any of its covenants or obligations under this Agreement, or (b) fails, within five Days, after written request from the State to provide the State with written affirmation of this Agreement and of Tesoro's intention to perform under this Agreement (together with evidence or assurances of transportation arrangement pursuant to Article 2.8 reasonably satisfactory to the State);
- (ii) Tesoro does not pay in full any sum owed under this Agreement at the time when payment is due;
- (iii) Tesoro fails to observe or perform any of its other covenants and obligations under Article II;
- (iv) Tesoro does not perform any act required or contemplated under this Agreement and: (a) the non-performance cannot be cured; (b) the nonperformance continues for more than thirty Days after the State has notified Tesoro of its nonperformance; or (c) Tesoro has failed to perform the same or any other act required or contemplated under this Agreement;

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1 (v) There is a material adverse change in Tesoro's condition, business, or  
2 property which may appreciably affect its ability to perform any of its  
3 obligations under this Agreement and Tesoro is unable or unwilling to  
4 give the State adequate assurance of continued performance either  
5 within five Days of a request for such an assurance or within such  
6 other shorter time period as the State may request under the  
7 circumstances;

8 (vi) Any representation or warranty made by Tesoro in this Agreement  
9 was materially false or incorrect when made; or

10 (vii) Tesoro's failure or inability for any reason (including reasons beyond  
11 Tesoro's control) to maintain the Security described in Article XV,  
12 notwithstanding Tesoro's continuing willingness and ability to  
13 perform its other obligations and covenants under the Agreement.

14 7.2 Failure to Pay Debts. If Tesoro becomes unable to pay any of its debts when  
15 due, or should otherwise become insolvent (regardless how that insolvency may be evidenced),  
16 Tesoro will immediately give written notice of that fact to the State. Whether that notice is given, if  
17 Tesoro becomes unable to pay any of its debts when due or should otherwise become insolvent, the  
18 State's obligation to tender and sell Oil will automatically and immediately terminate without any  
19 requirement of notice or other action by the State; however, Tesoro will nevertheless be and remain  
20 liable for payment and performance of all of its obligations and covenants under this Agreement  
21 regarding Oil actually tendered by the State to and after any such termination. Within thirty Days  
22 after receipt of Tesoro's notice or, if no notice is given, after the State otherwise becomes aware (as

1 determined in the State's sole discretion) of Tesoro's insolvency, the State will have the right, upon  
2 written notice to Tesoro, to reinstate all of the State's and Tesoro's obligations under this Agreement  
3 retroactively to the date of termination.

4           7.3    State's Remedies. If any Event of Default occurs or if the State's obligation to  
5 tender and sell Oil under this Agreement is terminated or suspended, all of Tesoro's obligations  
6 accrued but not otherwise due and payable under this Agreement will immediately be due and  
7 payable in full. In addition, Tesoro will indemnify and hold the State harmless from and against all  
8 other liability, damages (including reasonably foreseeable consequential damages), costs, losses and  
9 expenses (including reasonable attorney's fees and disbursements) incurred by the State and arising  
10 out of the Event of Default, termination, or suspension. The State shall have the right cumulatively to  
11 exercise any and all other rights and remedies and to obtain all other relief available under applicable  
12 law or at equity, including mandatory injunction and specific performance.

13           Additionally, in its sole discretion, the State, upon occurrence of any Event of  
14 Default: (1) may dispose to third parties any or all Royalty Oil to be tendered and sold under this  
15 Agreement and (2) may release Tesoro from the in-state processing obligations set forth in Article  
16 2.12 until the Event of Default no longer exists or the obligation of Tesoro to take Oil under this  
17 Agreement expires. If the State disposes of Oil to third parties, or if Tesoro is released from Article  
18 2.12, whether or not this Agreement is terminated, Tesoro will nevertheless remain liable for the  
19 difference between the purchase price for that Oil under this Agreement and the price received by the  
20 State by disposition, including all of the expenses (including reasonable attorneys' fees and costs), and  
21 losses incurred by the State arising out of the Event of Default or disposition.

1 7.4 Tesoro's Exclusive Remedies. Upon any breach of, or default in performance  
2 of any of the State's covenants or obligations under this Agreement. Tesoro agrees that its remedies  
3 will not include a temporary restraining order or preliminary injunction preventing the State from  
4 taking any action regarding the Royalty Oil which is the subject of this Agreement.  
5

## 6 ARTICLE VIII

### 7 DISPOSITION OF OIL

8 8.1 Disposition of Oil Upon Default or Termination. Tesoro recognizes that the  
9 State may be required to give up to six Months notice to the Lessees (or ninety Days if the amount of  
10 increase or decrease is less than ten percent of the then current nominations or marine transportation is  
11 available) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. Tesoro agrees  
12 that the State's electing to invoke its rights to return to taking its Royalty Oil in-value on less than six  
13 Month's prior notice, or to attempt to secure a waiver of any condition or requirement, is at the State's  
14 sole discretion. Notwithstanding termination of this Agreement for any reason, Tesoro shall continue  
15 to take and purchase the State's Royalty Oil in the amount and for the price set forth in this  
16 Agreement for up to six Months following termination if the State, in its sole discretion, so requires.

17 8.2 Inability to Receive Oil. If for any reason, Tesoro is unable or refuses to  
18 accept or receive any Oil tendered under this Agreement, Tesoro shall nevertheless be and remain  
19 responsible for the disposal of that Oil and for paying the State for the Oil as though it had been  
20 received and accepted by Tesoro unless the State, in its sole discretion, elects to waive this  
21 requirement. To secure Tesoro's obligations under Article 8.2 and Article 2.9, Tesoro shall, if the  
22 State requests, assign or otherwise transfer to the State or its designee all or part right, title and interest

1 of Tesoro under any nominations, Leases, agreements, contracts, charter parties and other  
2 arrangements for the transportation of the Oil sold under this Agreement through and away from the  
3 TAPS; provided, that the State shall not have any liability or obligations under any such nominations,  
4 Leases, agreements, contracts, charter parties or other arrangement unless, and to the extent that, the  
5 State shall actually exercise its rights to succeed to Tesoro's interest under them and shall obtain the  
6 benefits of them.

7           8.3   No Right to Storage or Underlift. Tesoro waives and disclaims any interest or  
8 right that it may assert to storage of Royalty Oil, including by underlift or other means, to which the  
9 State is or may become to be entitled under the Leases or any other agreement.

10

11

## ARTICLE IX

12

### WAIVER

13

14           The failure of either party to insist upon strict performance of any provision of this  
15 Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that  
16 performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or  
17 estoppel with respect to a later breach of a similar nature or otherwise. A course of performance  
18 established by a party shall also not estop the other party from complaining of a later breach similar in  
nature.

1 ARTICLE X

2 VALIDITY

3 If any provision or clause of this Agreement or application of this Agreement is held  
4 invalid, that invalidity shall not affect other provisions or application of this Agreement which can be  
5 given effect without the invalid provision or application. If, however, an invalidity should operate to  
6 impair any material right or remedy of a party to this Agreement, that party may terminate this  
7 Agreement by notice to the other.

8  
9 ARTICLE XI

10 FORCE MAJEURE AND CHANGE IN CONDITION

11 11.1 Effect of Force Majeure. Except for Tesoro's obligations to pay for Oil  
12 tendered and to accept and dispose of Royalty Oil, neither party shall be liable for any failure to  
13 perform when performance is prevented, in whole or in substantial part, by force majeure after good  
14 faith efforts to perform. The term "force majeure" shall mean an event or condition not within the  
15 reasonable control of the party claiming the benefit of this excuse. If, however, any material  
16 obligation of Tesoro is excused or suspended by a force majeure for sixty successive Days or more,  
17 the State will have the right to terminate this Agreement. Before the State exercises its right to  
18 terminate, Tesoro and the State shall in good faith negotiate to restore the benefits and obligations of  
19 the force majeure condition.

20 11.2 Responsibility. If a party believes that force majeure has occurred, the party  
21 shall immediately notify the other party of its claim of force majeure. If force majeure occurs, that  
22 occurrence shall, so far as possible, be remedied with reasonable diligence. Except for Tesoro's

1 obligations to pay for Oil tendered and to accept and dispose of Oil, the disabled party's obligations to  
2 perform that are affected by the force majeure shall be suspended from the time that notification  
3 occurs until the disability should have been remedied with reasonable diligence, and for no longer.

4  
5 **ARTICLE XII**

6 **NOTICES**

7 12.1 Method. All notices, requests, demands or statements shall be in writing, and  
8 may be delivered personally, telecopied, or sent by registered or certified United States mail, postage  
9 prepaid, with a return receipt requested, to the party to be notified. Notice deposited in the mail in  
10 this manner shall be effective upon the expiration of seven Days after it is so deposited or upon the  
11 date of receipt, whichever is earlier. Notice given in any other manner shall be effective only if and  
12 when received by the addressee. For the purposes of notice, the address of the parties shall be as  
13 follows:

14 If to the State: State of Alaska  
15 Commissioner of Natural Resources  
16 400 Willoughby Avenue  
17 Juneau, Alaska 99801

18  
19 and

20 Director, Division of Oil and Gas  
21 P. O. Box 107034  
22 Anchorage, Alaska 99510-0734  
23 Telecopy Number: (907)562-3852

24  
25 If to Tesoro:

26 Gaylon H. Simmons  
27 Tesoro Alaska Petroleum Company  
28 8700 Tesoro Drive  
29 San Antonio, Texas 78217  
30 Telecopy Number: (210) 283-2031  
31



1           12.2 Change of Address. Each party may change its address for notice by giving  
2 written notice of the change.

3  
4    **ARTICLE XIII**

5    **RULES AND REGULATIONS**

6           This Agreement is subject to all present and future valid laws, orders, rules and  
7 regulations of the United States, the State of Alaska, and any duly constituted agency of the State of  
8 Alaska.

9  
10   **ARTICLE XIV**

11   **SOVEREIGN POWER OF THE STATE**

12           This Agreement shall not be interpreted as a limit on the State of Alaska's exercise of  
13 any of its sovereign or regulatory powers, whether conferred by constitution, statute or regulation,  
14 including, but not limited to, its regulatory power over the Leases. Its exercise of any sovereign or  
15 regulatory power will not operate or be deemed to enlarge any rights of Tesoro or to limit or impair  
16 any obligations or liability of Tesoro under this Agreement.

17  
18   **ARTICLE XV**

19   **SECURITY**

20           15.1 Letter of Credit. Seventy five Days before the Date of First Delivery, Tesoro  
21 shall cause to be issued and delivered to the State an irrevocable stand-by letter of credit, with an  
22 effective date no later than the Date of First Delivery, issued for the benefit of the State by a State or

1 national banking institution of the United States ("Issuer"), which is insured by the Federal Deposit  
2 Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million  
3 Dollars (\$100,000,000), or other banking institution acceptable to the State in its sole discretion. The  
4 principal face amount of such letter of credit shall be a sum estimated by the Commissioner, in his  
5 sole discretion, to be equal to the aggregate purchase price for the approximate total amount of Oil to  
6 be tendered by the State to Tesoro during the first seventy five Days following the Date of First  
7 Delivery. The letter of credit shall be in a form satisfactory to the Commissioner, but in any event  
8 shall not require any documents to be submitted in support of drafts drawn against this letter of credit  
9 other than the certified statement of the Commissioner or his designee and the Attorney General of  
10 the State of Alaska or his designee that Tesoro is liable to the State for a sum equal to the amount of  
11 such draft, and that sum is due and payable in full and has not been timely paid. The letter of credit  
12 must be renewed seventy five Days before its expiration so that a letter of credit is continuously valid  
13 for seventy five Days after the date of the last delivery of Royalty Oil. If a replacement letter of  
14 credit, in a form satisfactory to the Commissioner in his sole discretion, is not received seventy five  
15 Days before the expiration of the existing letter of credit, then Tesoro shall be deemed to have  
16 materially breached this Agreement, there shall have occurred an event of default under Article 7.1,  
17 and all obligations of Tesoro accrued, but not otherwise due and payable under this Agreement, will  
18 immediately become due and payable in full.

19           If the State has reasonable grounds for asserting any claims against Tesoro and does  
20 assert those claims in an aggregate amount in excess of the aggregate principal face amount of the  
21 letter of credit then in effect, Tesoro shall, upon the State's request (whether or not Tesoro may deny,  
22 reject or otherwise resist such claims), cause the principal face amount to be increased by an amount

1 equal to the excess. Tesoro shall also automatically increase the principal face amount, without  
2 request from the State, whenever the face amount is less than the expected purchase price of seventy  
3 five Days of Oil tenders, to an amount equal to the expected purchase price of seventy five Days of  
4 Oil tenders. Upon approval of the State in its sole discretion, Tesoro may decrease the principal face  
5 amount if the face amount is more than the expected purchase price of seventy five Days of Oil  
6 tenders to an amount equal to the expected purchase price of seventy five Days of Oil tenders.

7 The letter of credit must allow drafts to be drawn and presented to the Issuer up to and  
8 including the 75th Day after the last delivery of Royalty Oil to Tesoro under this Agreement. The  
9 Commissioner may accept such other or additional security as he, in his sole discretion, considers  
10 adequate to protect the State.

11 15.2 Reduction of Term. The term of the letter of credit required under Article XV  
12 shall be reduced from seventy five Days to sixty Days, if Tesoro and the State can reach an agreement  
13 regarding the transportation of Oil if Tesoro defaults under this Agreement. If the parties cannot  
14 reach an agreement, then the letter of credit shall remain at seventy five Days or Tesoro shall have the  
15 right, in its sole discretion, to terminate this Agreement as provided in Article 2.1.

## 16 17 ARTICLE XVI

### 18 PREFERENTIAL HIRING AND NON-DISCRIMINATION

19 Tesoro agrees to employ Alaska residents and Alaska companies to the extent they are  
20 available, willing and qualified for all work performed in Alaska in connection with the Agreement.

21 "Alaska resident" means an individual who has resided in Alaska for one year at the time of

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

1 equal to the excess. Tesoro shall also automatically increase the principal face amount, without  
2 request from the State, whenever the face amount is less than the expected purchase price of seventy  
3 five Days of Oil tenders, to an amount equal to the expected purchase price of seventy five Days of  
4 Oil tenders. Upon approval of the State in its sole discretion, Tesoro may decrease the principal face  
5 amount if the face amount is more than the expected purchase price of seventy five Days of Oil  
6 tenders to an amount equal to the expected purchase price of seventy five Days of Oil tenders.

7 The letter of credit must allow drafts to be drawn and presented to the Issuer up to and  
8 including the 75th Day after the last delivery of Royalty Oil to Tesoro under this Agreement. The  
9 Commissioner may accept such other or additional security as he, in his sole discretion, considers  
10 adequate to protect the State.

11 15.2 Reduction of Term. The term of the letter of credit required under Article XV  
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13 regarding the transportation of Oil if Tesoro defaults under this Agreement. If the parties cannot  
14 reach an agreement, then the letter of credit shall remain at seventy five Days or Tesoro shall have the  
15 right, in its sole discretion, to terminate this Agreement as provided in Article 2.1.

## 17 ARTICLE XVI

### 18 PREFERENTIAL HIRING AND NON-DISCRIMINATION

19 Tesoro agrees to employ Alaska residents and Alaska companies to the extent they are  
20 available, willing and qualified for all work performed in Alaska in connection with the Agreement.

21 "Alaska resident" means an individual who has resided in Alaska for one year at the time of

1 employment and "Alaska companies" means companies incorporated in Alaska or whose principal  
2 place of business is in Alaska.

3 If this provision is determined to be unconstitutional, then Tesoro agrees to employ  
4 Alaska residents and Alaska companies to the extent such preferential hiring is determined to be  
5 constitutional.

6  
7 **ARTICLE XVII**

8 **APPLICABLE LAW**

9 17.1 Alaska Law. This Agreement shall be governed by and construed in  
10 accordance with the laws of the State of Alaska.

11 17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or  
12 relating to this Agreement or for the enforcement of the covenants or obligations of either party must  
13 be instituted in a State court of general jurisdiction sitting in the State of Alaska, and Tesoro hereby  
14 irrevocably submits to the jurisdiction of that court in any such action or proceeding.

15  
16 **ARTICLE XVIII**

17 **WARRANTIES**

18 The purchase and sale of Royalty Oil are subject only to the warranties of the State  
19 expressly set forth in this Agreement and the State disclaims and Tesoro waives all other warranties,  
20 express or implied in law, whatsoever.

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ARTICLE XIX

AMENDMENT

This Agreement may be supplemented, amended, or modified only by written instrument duly executed by the parties.

ARTICLE XX

SUCCESSORS AND ASSIGNS

No assignment, pledge, or encumbrance of this Agreement shall be made by either party without the written consent of the other party. The Commissioner or the Commissioner's designee may grant or deny such consent. 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 assignees.

ARTICLE XXI

HEADINGS

Headings used in this Agreement are for convenience only and shall not affect its construction.

ARTICLE XXII

RECORDS

22.1 Preservation of Records. Tesoro will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement including, but

1 not limited to, the purchase or sale of Royalty Oil and its refined products, for a period of no less than  
2 six years from the date of transaction or last adjustment relating to the transaction. Tesoro will also  
3 maintain and preserve all similar books, accounts, and records of which it has possession belonging to  
4 those third parties with whom it contracts for the performance of various parts of this Agreement.  
5 Neither Tesoro nor the State shall be required to retain any records for more than six years unless  
6 retention of such records is specifically required by applicable law or regulation, or this Agreement.  
7 Tesoro shall either maintain its records within the State of Alaska or make such records available to  
8 the State at Tesoro's principal office in the State of Alaska within thirty Days after written request by  
9 the State.

10           22.2 Inspection of Records of Parties. Tesoro and the State will accord to each  
11 other and to their authorized agents, attorneys, and auditors during reasonable business hours access  
12 to any and all property, records, books, documents, and indices directly related to Tesoro's or the  
13 State's performance of this Agreement and which are under the control of the party from which access  
14 is desired so that the other party may inspect, photograph and make copies of that property, records,  
15 books, documents and indices. The State shall not be required to disclose any information, data, or  
16 records which are required to be held confidential by State or federal law or regulation, or by  
17 agreement. If the information obtained by the State may be held confidential under State or federal  
18 law or regulation, Tesoro may request that information be held confidential by the State and the State  
19 will keep this information confidential.



1 ARTICLE XXIII

2 INTERPRETATION OF TERMS AND CONDITIONS

3 Any disagreement about the meaning or application of a word, term, or condition in  
4 this Agreement will be decided according to the dispute resolution procedure set forth in this article.  
5 Either party may give the other written notice of a disagreement. Within 60 days after written notice,  
6 Tesoro must present any argument and evidence supporting its view in writing to the Commissioner  
7 for consideration. Tesoro shall not have the right to civil litigation-type discovery or a civil litigation-  
8 type trial with the right to call or cross-examine witnesses unless granted by the Commissioner in his  
9 sole discretion. The Commissioner will subsequently issue a finding on the meaning or application of  
10 the disputed word, term, or condition, setting forth the basis for the conclusions. Tesoro agrees to  
11 accept findings by the Commissioner under this article which are supported by substantial evidence.

12  
13 ARTICLE XXIV

14 COUNTERPARTS

15 This Agreement may be executed in multiple counterparts, the parties need not sign  
16 the same counterpart. Each counterpart shall be deemed to be an original and all of which taken  
17 together shall be one and the same instrument.

SIGNATURES

1  
2 the State:

THE STATE OF ALASKA

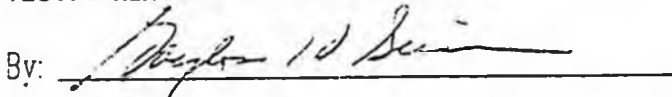
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4 Commissioner  
5 Department of Natural Resources

6 Date: 4/21/95

7  
8 Tesoro Alaska Petroleum Company:

TESORO ALASKA PETROLEUM COMPANY

9 By: 

10 Its: Executive Vice President

11 Date: April 20, 1995

12  
13 Tesoro Petroleum Corporation:

TESORO PETROLEUM CORPORATION

14 By: 

15 Its: Executive Vice President

16 Date: April 20, 1995

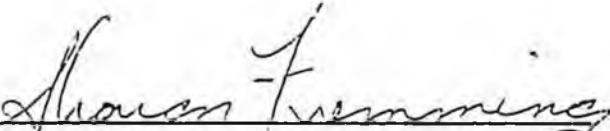
ACKNOWLEDGEMENT

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State of Alaska            )  
  )        ss.  
Third Judicial District )

THIS IS TO CERTIFY that on the 21 day of April, 1995, before me, appeared John T. Shively, the commissioner, Department of Natural Resources, State of Alaska; that John T. Shively executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this agreement first above written.

  
Notary Public in and for Alaska  
My commission expires: 5-24-95

ACKNOWLEDGEMENT

1  
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4 State of Texas )  
5 County of Bexar )

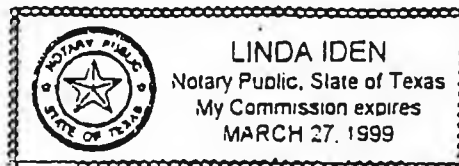
ss.

6  
7  
8  
9 THIS IS TO CERTIFY that on the 20th day of April, 1995, before me.  
10 appeared Gaylon H. Simmons of Tesoro Alaska Petroleum Company, San Antonio,  
11 Texas; that Gaylon H. Simmons executed that document under legal authority and with  
12 knowledge of its contents; and that this act was performed freely and voluntarily upon the  
13 premises and for the purposes stated in the document.

14  
15 Witness my hand and official seal the day and year in this agreement first above  
16 written.

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18 Linda Iden  
19

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21 My commission expires: \_\_\_\_\_  
22



ACKNOWLEDGEMENT

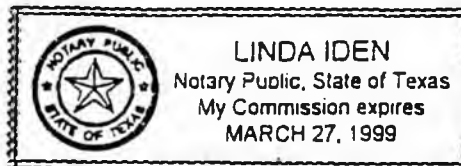
1  
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4 State of Texas )  
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6 County of Bexar ) SS.  
7 )  
8 )

9 THIS IS TO CERTIFY that on the 20th day of April, 1995, before me,  
10 appeared Gaylon H. Simmons of Tesoro Petroleum Corporation, San Antonio, Texas;  
11 that Gaylon H. Simmons executed that document under legal authority and with knowledge  
12 of its contents; and that this act was performed freely and voluntarily upon the premises and  
13 for the purposes stated in the document.  
14

15 Witness my hand and official seal the day and year in this agreement first above  
16 written.  
17

18 Linda Iden  
19  
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21 My commission expires: \_\_\_\_\_  
22



## EXHIBIT A

### CALCULATION OF ROYALTY VALUE

This exhibit shows the mechanics of the price calculation and data sources. Exxon's Royalty Value for the Prudhoe Bay Unit lessees are taken from its Royalty Report. Royalty Value currently is taken from Column H of these reports. An example calculation using the information for January 1995 and a hypothetical RIK volume sold to Tesoro is shown below. Attached are the Royalty Report Summaries for the Prudhoe Bay Unit.

	Exxon's Production from the Prudhoe Bay Unit		Royalty Value from Column H of the Oil Royalty Report Summary		Product of Volume Times Royalty Value
Lisburne Production Center	1,762,500.13	x	\$11.050	=	\$19,480,406.44
Prudhoe Bay IPA	3,807,215.20	x	\$11.110	=	\$97,848,160.87
Total	<u>10,570,115.33</u>				<u>\$117,328,207.31</u>

$$\text{Exxon's Royalty Value} = \$117,328,207.31 \div 10,570,115.33 = \$11.09999$$

Should Article 2.1(b) apply, the Royalty Value will be calculated using the Royalty Value and production volumes for only the initial Participating Areas.

### CALCULATION OF INTEREST

Numbers in these examples are illustrative. They do not represent accurate values that may have existed in the past or are forecasted for any time in the future.

Mechanics of the calculations include:

1. The annual interest rate specified in legislation is converted to a daily rate for calculations.
2. Credits are applied to the next monthly payment. Payment for an underpayment is due (a) within 3 business of the date the bill is sent for Initial Billings and initial adjustment or (b) within 30 days of the time the bill is sent for subsequent adjustments. Interest on overpayments stops accruing on the date of the invoice.

### Example 1: Initial Billing

#### Assumptions:

1. Month is February.
2. Royalty Oil delivered to Tesoro in January = 1,240,000 barrels.
3. Royalty Value for January, from Column H of Exxon's Oil Royalty Report Summaries (attached) = \$11.09999.
4. Bill sent to Tesoro on February 1st; Payment due to State by February 6th (Initial Billing date plus three business days).

Method for calculating Tesoro's initial invoice for January deliveries:

Volume	x	Price	=	Initial Billing
1,240,000	x	\$11.09999	=	\$13,763,987.60

#### Note:

The lessees are required to submit their royalty reports to the State for January's production by the last day in February. For this reason the State will bill Tesoro for January production based on the December Royalty Value. This is an interim value and is subject to revision, since the Agreement requires that Tesoro pay the Monthly Price for the same production month. The revised price is incorporated in the invoice submitted the following month (March).

## Example 2: Initial Adjustment

Assumptions:

1. Month is March.
2. Royalty Oil delivered to Tesoro in January = 1,240,000 barrels.
3. Revised Monthly Price for January = \$11.00000.
4. Annual interest rate charged member banks for advances by 12th Federal Reserve District as of January 1st is three percent. Annual rate for contract = 11 percent.
5. Date of Initial Adjustment is March 1st.

Method for calculating Tesoro's revised invoice for January deliveries:

Volume	x	Price	=	Revised Billing
1,240,000	x	\$11.00000	=	\$13,640,000.00

Amount Paid by Tesoro for January deliveries (calculated in Example 1):

\$13,763,987.60

Overpayment for January:

(\$123,987.60)

Difference between Initial Adjustment date (March 1st) and original accrual date (February 6th) = 23 days.

Interest due = \$123,987.60 x (11%/365) x 23 = (\$859.42)

Credit due Tesoro for next month's billing = (\$124,347.02)



013  
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OH ROYalty Sums  
REVISED 10/86  
EX-69 2/86  
FORM 10-80

STATE OF ALASKA  
OH ROYALTY REPORT SUMMARY  
STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

UNIT - PRUDHOE BAY  
FIELD - PRUDHOE BAY  
ZONE - PRUDHOE BAY

Reply Address: EXON CORPORATION  
P O BOX 4196  
PRUDHOE, ALASKA 99570-4196

REPORT FOR: 100 95  
DEVELOPMENTAL RIGHTS: 0.00  
REVISION DATE:

(A) Gross Unit	(B) Working Interest	(C) Working Interest %	(D) Royalty Rate	(E) Total Royalty	(F) Royalty	(G) Royalty	(H) Royalty	(I) Royalty	(J) Royalty	(K) Royalty	(L) Royalty	(M) Royalty	(N) Royalty	(O) Royalty	(P) Royalty	(Q) Royalty	(R) Royalty	(S) Royalty	(T) Royalty	(U) Royalty	(V) Royalty	(W) Royalty	(X) Royalty	(Y) Royalty	(Z) Royalty
19,212,161.00	1,908,622.90	9.93%	20%	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58	385,724.58
				10,780,000.00		10,780,000.00		10,780,000.00		10,780,000.00		10,780,000.00		10,780,000.00		10,780,000.00		10,780,000.00		10,780,000.00		10,780,000.00		10,780,000.00	
				1,521,977.77		1,521,977.77		1,521,977.77		1,521,977.77		1,521,977.77		1,521,977.77		1,521,977.77		1,521,977.77		1,521,977.77		1,521,977.77		1,521,977.77	

(1) UNIT GRAVITY ADJUSTMENT	(2) UNIT GRAVITY ADJUSTMENT	(3) UNIT GRAVITY ADJUSTMENT	(4) UNIT GRAVITY ADJUSTMENT	(5) UNIT GRAVITY ADJUSTMENT	(6) UNIT GRAVITY ADJUSTMENT	(7) UNIT GRAVITY ADJUSTMENT	(8) UNIT GRAVITY ADJUSTMENT	(9) UNIT GRAVITY ADJUSTMENT	(10) UNIT GRAVITY ADJUSTMENT	(11) UNIT GRAVITY ADJUSTMENT	(12) UNIT GRAVITY ADJUSTMENT	(13) UNIT GRAVITY ADJUSTMENT	(14) UNIT GRAVITY ADJUSTMENT	(15) UNIT GRAVITY ADJUSTMENT	(16) UNIT GRAVITY ADJUSTMENT	(17) UNIT GRAVITY ADJUSTMENT	(18) UNIT GRAVITY ADJUSTMENT	(19) UNIT GRAVITY ADJUSTMENT	(20) UNIT GRAVITY ADJUSTMENT	(21) UNIT GRAVITY ADJUSTMENT	(22) UNIT GRAVITY ADJUSTMENT	(23) UNIT GRAVITY ADJUSTMENT	(24) UNIT GRAVITY ADJUSTMENT	(25) UNIT GRAVITY ADJUSTMENT
7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%	7.201%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21	198,902.21
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52	1,825,210.52
1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61	1,100,137.61
1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88	1,225,092.88

SIGNED BY: *V. W. ...*  
 PRINTED NAME: V. W. ...  
 TITLE: STATE ROYALTY UNIT SUPERVISOR  
 PHONE NUMBER: (714) 626-1619  
 DATE: 24 FEB 95  
 NUMBER OF SIGNED: (714) 626-1619

I declare that I have examined this report, including accompanying exhibits and statements, and to the best of my knowledge and belief it is true, correct, and complete.

WEIGHTED AVERAGE VALUE

OH ROY RPT SUM  
 REVISED 1/86  
 EXR G # 186  
 DIR 10 1030

STATE OF ALASKA  
 GAS ROYALTY REPORT SUMMARY  
 STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

Page 1 of 7

UNIT PRODUCE DAY  
 FIELD PRODUCE DAY  
 ZONE PRODUCE DAY  
 LEASE PRODUCE DAY

Royalty Address:	EXXON CORPORATION P. O. BOX 4496 HOUSTON, TEXAS 77210-4496	REPORT FOR	Jan 95
		REVISION NUMBER	000
		REVISION DATE	

(A) GROSS OIL PRODUCTION (DOLL.)	(B) WORKING INTEREST OWNERSHIP %	(C) WORKING INTEREST DOLL.	(D) ROYALTY RATE	(E) TOTAL ROYALTY DOLL.	(F) ROYALTY DEFERRED DOLL.	(G) ROYALTY IN VALUE DOLL.	(H) ROYALTY VALUE PER DOLL.	(I) FIELD COSTS PER DOLL.	(J) REPORTED ROYALTY PER DOLL.	(K) ROYALTY IN VALUE DOLL PER DOLL
2 210,891 00	0 401658 71	898,547 10	0 125000	112,117 72	51,698 80	57,619 00	11 110	1 815	9 295	515,568 61
(1) TOTALS										(2) 515,568 61

\* WEIGHTED AVERAGE VALUE

	PRINCIPAL	(1) INTEREST	(m) TOTAL
(1) OIL GRAVITY ADJUSTMENT	0 00	NA	0 00
(2) LESS FIELD COSTS FOR RISK	29 278 11	NA	199 278 12
(3) OTHER (EXPL. INT.) (1)(1)(1)(1)(1)	0 00	NA	0 00
(6) SUBTOTAL ((2) THRU (3))	416 290 28	0 00	416 290 28
(7) REVISIONS	(100 715 18)	(5 475 41)	(106 190 61)
(8) TOTAL AMOUNT DUE ((6)-(7))	115 574 90	(5 475 41)	110 099 47

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete

SIGNED BY	<i>Mark H. Jones</i>
PRINTED NAME	MARK H. JONES
TITLE	STATE ROYALTY UNIT SUPERVISOR
PHONE NUMBER	(711) 526 4619
DATE	24 Feb 95
PREPARED BY	DIXIE D. SMITH (711) 656 6601

06 MS

Legal Address: EXXON CORPORATION  
P O BOX 4196  
HOUSTON, TEXAS 77210-4196

REPORT FOR  
REVISION NUMBER 000  
REVISION DATE

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)																														
GROSS UNIT	WORKING INTEREST	WORKING INTEREST	ROYALTY RATE	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL																														
119 819 00	0 000000	115 917 60	0 120000	16 900 95	12 902 41	14 008 52	11 110	11 050	0 810	10 270	143 981 67	111 18	111 116 16	119 819 00	0 000000	115 917 60	0 120000	16 900 95	12 902 41	14 008 52	11 110	11 050	0 810	10 270	143 981 67	111 18	111 116 16	119 819 00	0 000000	115 917 60	0 120000	16 900 95	12 902 41	14 008 52	11 110	11 050	0 810	10 270	143 981 67	111 18	111 116 16	119 819 00	0 000000	115 917 60	0 120000	16 900 95	12 902 41	14 008 52	11 110	11 050	0 810	10 270	143 981 67	111 18	111 116 16

\* WEIGHTED AVERAGE VALUE

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL	ROYALTY TOTAL
151 912 85	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91	157 292 92	101 91

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

SIGNED BY: *[Signature]*  
 TITLE: STATE ROYALTY UNIT SUPERVISOR  
 PHONE NUMBER: (711) 656 8619  
 DATE: 3 1 86 95  
 DIVISION: (711) 656 6691  
 ADDRESS: 280 - 1033

STATE OF ALASKA

MS  
2/2  
1/1

689

712

STATE OF ALASKA  
 GAS ROYALTY REPORT SUMMARY  
 STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

UNIT PERIOD: MAY 1993  
 ZONE: 1500000  
 LEASE: 1500000

REPORT DATE	5/93
REVISION NUMBER	000
REPORTING ADDRESS	PARSONS CORPORATION P.O. BOX 1186 DENVER, TEXAS 77210-1186

(a) GROSS UNIT PRODUCTION (MBO)	(b) WORKING INTEREST OWNERSHIP %	(c) WORKING INTEREST	(d) ROYALTY RATE	(e) TOTAL ROYALTY	(f) ROYALTY BEFORE DEDUCTIONS	(g) ROYALTY VALUE DEDUCTIONS	(h) ROYALTY VALUE	(i) NET COSTS	(j) NET ROYALTY	(k) NET VALUE
82,131.00	0.000000	22,911.60	0.125000	4,117.70	1,928.38	2,189.32	11,030	5,615	5,405	11,617.00
(k) TOTALS										

(1) COSTS AND OTHER DEDUCTIONS	0.00	11,111.31	11,111.31
(2) OTHER DEDUCTIONS (ELECTIVE)	0.00	0.00	0.00
(3) SIGNATURES	401.81	75.49	172.30
(4) TOTAL ACCOUNT DUE (2)-(3)	401.81	75.49	172.30
(5) COSTS AND OTHER DEDUCTIONS	0.00	0.00	0.00
(6) SIGNATURES	205.57	0.00	205.57
(7) TOTAL ACCOUNT DUE (5)-(6)	205.57	0.00	205.57
(8) TOTAL	0.00	0.00	0.00
(9) INTEREST	0.00	0.00	0.00

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

SIGNED BY: *[Signature]*  
 KEVIN JONES  
 STATE ROYALTY UNIT SUPERVISOR

APPROVED BY: \_\_\_\_\_  
 DATE: 11 Feb 93  
 OFFICE NUMBER: 2111556 6691  
 COUNTY OR ZONE: 1500000

20  
 11/15  
 HBC

THE ROYALTY STATE  
 REVISION TO  
 EXCEL #186  
 FORM 10-2010

STATE OF ALASKA  
 DEPARTMENT OF REVENUE  
 STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

Page 1 of 2  
 DATE PURCHASE DAY  
 TIME PURCHASE DAY  
 ZONE PURCHASE DAY

Royalty Address: EXXON CORPORATION  
 P O BOX 498  
 INDIANAPOLIS, IN 46216-0498

REPORT ON  
 REPORT NUMBER  
 REPORT DATE

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
173,051.00	0.00	64,327.00	0.00	0.00	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15
173,051.00	0.00	64,327.00	0.00	0.00	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15
173,051.00	0.00	64,327.00	0.00	0.00	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15	1,216.15

WEIGHTED AVERAGE VALUE

(A) TOTAL APPROVED QUANTITY	(B) TOTAL APPROVED QUANTITY	(C) TOTAL APPROVED QUANTITY	(D) TOTAL APPROVED QUANTITY	(E) TOTAL APPROVED QUANTITY	(F) TOTAL APPROVED QUANTITY	(G) TOTAL APPROVED QUANTITY	(H) TOTAL APPROVED QUANTITY	(I) TOTAL APPROVED QUANTITY	(J) TOTAL APPROVED QUANTITY	(K) TOTAL APPROVED QUANTITY	(L) TOTAL APPROVED QUANTITY
16,125.02	16,125.02	16,125.02	16,125.02	16,125.02	16,125.02	16,125.02	16,125.02	16,125.02	16,125.02	16,125.02	16,125.02

I declare that I have examined this report, including accompanying schedules and attachments, and to the best of my knowledge and belief it is true, correct, and complete.

SIGNED BY: *[Signature]*  
 TITLE: *[Signature]*  
 STATE ROYALTY TRUST SUPERVISOR  
 PHONE NUMBER: (713) 658-8619  
 DATE: 2/18/93

OFFICE: (713) 658-8691

11/15/93

OIL ROYALTY SUMMARY  
 REVISION 1/86  
 TABLE #1 86  
 10/10/10

STATE OF ALASKA  
 GAS ROYALTY REPORT SUMMARY  
 STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

Page 5 of 7

UNIT PRODUCED DAY  
 FIELD MONTH PRODUCED DAY  
 ZONE PRODUCED DAY  
 LEASE MONTH PRODUCED DAY

Royalty Address:	EXXON CORPORATION P.O. BOX 4496 HOUSTON, TEXAS 77210-1496	REPORT FOR REVISION NUMBER	1 of 93 010
		REVISION DATE	

(A) GROSS UNIT PRODUCED (OOBBL)	(B) WORKING INTEREST OWNERSHIP %	(C) WORKING INTEREST OBL	(D) ROYALTY RATE	(E) TOTAL ROYALTY OBL	(F) ROYALTY IN KIND OBL	(G) ROYALTY IN VALUE OBL	(H) ROYALTY VALUE PER OBL	(I) FIELD COSTS PER OBL	(J) REPORTED ROYALTY PER OBL	(K) ROYALTY IN VALUE PER OBL
5,001.00	0.500000	2,501.50	0.030000	125.04	59.79	65.29	11.050	5.613	5.105	352.89
(1) TOTALS										(2) 352.89

\*WEIGHTED AVERAGE VALUE

	PRINCIPAL	(a) INTEREST	(a) TOTAL
(1) CUM GRAVITY ADJUSTMENT	0.00	N/A	0.00
(2) LESS FIELD COSTS FOR R/E	(117.21)	N/A	(117.21)
(3) OTHER DEDUCTIBLE CREDITS	0.00	N/A	0.00
(4) SUBTOTAL ((2) THRU (3))	15.18	0.00	15.18
(5) REVISIONS	39.00	5.11	44.11
(6) TOTAL AMOUNT DUE ((4)+(5))	54.18	5.11	59.49

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

SIGNED BY	<i>JEANNI JONES</i>
PRINTED NAME	JEANNI JONES
TITLE	STATE ROYALTY UNIT SUPERVISOR
PHONE NUMBER	(713) 656-1619
DATE	24 Feb 95
PREPARED BY	DIXIE L. OLSON (713) 656-6691

*PC  
1/2  
1/6/95*

OIL ROYALTY SUMMARY  
 REVISED 1/86  
 PAGE 4186  
 FORM 10-1010

STATE OF ALASKA  
 OIL ROYALTY REPORT SUMMARY  
 STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

Page 1 of 2

UNIT POINT MONTHLY  
 FIELD POINT MONTHLY  
 ZONE POINT MONTHLY

Royalty Address:	EXXON CORPORATION P. O. BOX 4196 HOUSTON, TEXAS 77210-4196	REPORT FOR	Jan-95
		REVISION NUMBER	000
		REVISION DATE	

	(A) GROSS OIL PRODUCTION (bbls)	(B) WORKING INTEREST OWNERSHIP %	(C) WORKING INTEREST bbls	(D) ROYALTY RATE	(E) TOTAL ROYALTY bbl	(F) ROYALTY bbl VALUE bbl	(G) ROYALTY bbl VALUE bbl	(H) ROYALTY VALUE SPR bbl	(I) FIELD COSTS SPR bbl	(J) REPORTED ROYALTY SPR bbl	(K) ROYALTY bbl VALUE DOLLAR
UNIT POINT	1,950,156.00 0.00	0.15973716 0.00	1,421,098.07 0.00	0.120000 0.125000	146,680.66 0.00	61,172.84 0.00	61,107.22 0.00	11.050 11.110	0.000 0.010	11.050 10.280	710,594.78 0.00
(1) TOTALS	1,950,156.00		1,421,098.07		146,680.66	61,172.84	61,107.22				(2) 710,594.78

\*WEIGHTED AVERAGE VALUE

	PRINCIPAL	INTEREST	TOTAL
(1) COPI GRADUITY ADJUSTMENT	0.00	N/A	0.00
(4) LESS FIELD COSTS (0.01)	(1.01)	N/A	(1.01)
*Sellers' portion only (see schedule for calc.)			
(3) OTHER (EXPL. DEPLETION & DEBIT)	0.00	N/A	0.00
(6) SUBTOTAL ((2) + (3) + (4))	706,581.74	0.00	706,581.74
(7) REVISIONS	(104,529.11)	(7,258.90)	(111,788.01)
(8) TOTAL AGRICULTURE ((6) + (7))	602,052.63	(7,258.90)	594,793.73

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

SIGNED BY	<i>[Signature]</i>
PRINTED NAME	TEARMI JONES
TITLE	STATE ROYALTY UNIT SUPERVISOR
PHONE NUMBER	(713) 656-8619
DATE	24 Feb 95
PREPARED BY	DIXIE L. OLSON (713) 656-6691

NOTE: By filing this report, Exxon does not waive any rights to take field and other cost deductions from the Pt. McIntyre Participating Area, including, but not limited to, those rights reserved by Exxon in the October 13, 1991, Amended Application for Expansion of the Productivity Unit and Extension of the Pt. McIntyre Participating Area.

*MS TRACT  
 in unit  
 MS  
 EVR*

STATE OF ALASKA  
 GAS ROYALTY REPORT SUMMARY  
 STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

UNIT FOUR NICHIVRE  
 TOWN FOUR NICHIVRE  
 ZONE FOUR NICHIVRE  
 LEASE FOUR NICHIVRE

Report Address: EXXON CORPORATION  
 P O BOX 4496  
 DALLAS TEXAS 75210 4496

REPORT FOR: Jan 95  
 REVISION NUMBER: 000  
 REVISION DATE:

(A) GROSS UNIT WORKING INTEREST	(B) WORKING INTEREST %	(C) NET	(D) ROYALTY RATE	(E) TOTAL ROYALTY	(F) ROYALTY PER WELL	(G) ROYALTY PER VAL. DBA	(H) ROYALTY VALUE PER WELL	(I) PER COSTS	(J) PER WELL	(K) ROYALTY VALUE PER WELL
55,000.00	0.370000	20,300.00	0.10216	2,117.19	1,058.59	1,120.11	11,050	0.000	11,050	12,167.51
<b>(1) TOTALS</b>										

(1) STATE ROYALTY ADMINISTRATION	(2) OTHER STATE ROYALTY COMMISSIONS	(3) SUBTOTAL (2) THROUGH (3)	(4) OTHER VESTMENTS	(5) TOTAL ACCOUNT DUE (5) + (4)
0.00	0.00	0.00	2,306.66	2,306.66
0.00	0.00	0.00	11,981.96	11,981.96
0.00	0.00	0.00	231.00	231.00
0.00	0.00	0.00	14,975.50	14,975.50
<b>(6) TOTAL</b>				

Note: By filing this report, Exxon does not waive any rights to take field and other cost deductions from the Amended Application for Expansion of the Pooling, Stay Time and Extension of the Prorating Participating Area for the Lease Participating Area, including, but not limited to, those rights reserved by Exxon in the Chapter 13, 1973.

SIGNED BY: *[Signature]*  
 PRINTED NAME: LEANNE JONES  
 TITLE: STATE ROYALTY UNIT SUPERVISOR  
 PHONE NUMBER: (214) 656-8619  
 DATE: 2-14-95  
 UNIT NUMBER: 2446-95  
 REPORT OR STATE (214) 656-8691

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

*Handwritten notes:*  
 14975.50  
 11981.96  
 231.00  
 14725.50



STATE OF ALASKA  
 GAS ROYALTY REPORT SUMMARY  
 STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

UNIT - PRUDHOE BAY  
 FIELD - WEST BEACH  
 ZONE - PRUDHOE BAY  
 LEASE - WEST BEACH

Royalty Address:	EXXON CORPORATION P O BOX 4199 HOUSTON, TEXAS 77210-1196	REPORT FOR REVISION NUMBER	Jan-95 0 00
		REVISION DATE	

(A) GROSS UNIT PRODUCTION (BBB)	(B) WORKING INTEREST OWNERSHIP %	(C) WORKING INTEREST DUE	(D) ROYALTY RATE	(E) TOTAL ROYALTY DUE	(F) ROYALTY IN KIND DUE	(G) ROYALTY IN VALUE DUE	(H) ROYALTY VALUE SPER DUE	(I) FIELD COSTS SPER DUE	(J) REPORTED ROYALTY SPER DUE	(K) ROYALTY IN VALUE DUE LARS
281.00	0.500000	140.50	0.125000	1791	1.58	9.16	11.050	5.615	5.405	50.59
(1) TOTALS										(2) 50.59

\*WEIGHTED AVERAGE VALUE

	PRINCIPAL	(1) INTEREST	(m) TOTAL
(1) COST GRAVITY ADJUSTMENT	0.00	N/A	0.00
(2) LESS FIELD COSTS FOR R/T	(48.43)	N/A	(48.43)
(3) OTHER (4) SPER UNIT (5) TOTAL (6) DUE	0.00	N/A	0.00
(4) SUBTOTAL ((2) + (3) + (5))	2.16	0.00	2.16
(7) REVISIONS	14.02	1.27	15.29
(8) TOTAL AMOUNT DUE ((4) + (7))	16.18	1.27	17.45

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

SIGNED BY	<i>Michael Jones</i>
PRINTED NAME	MICHAEL JONES
TITLE	STATE ROYALTY UNIT SUPERVISOR
PHONE NUMBER	(713) 656 6619
DATE	24 Feb 95
PREPARED BY	MICHAEL JONES (713) 656 6619

Volume  
 Revised  
 7/1/85  
 PC MS  
 11/66

HB 320

TONY KNOWLES  
GOVERNOR



P.O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500  
Fax (907) 465-3532

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

April 22, 1995

The Honorable Gail Phillips  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker Phillips:

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 and Tesoro Alaska Petroleum Company for the sale of Prudhoe Bay Unit royalty oil. Also transmitted with this bill are copies of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending approval of that contract in accordance with AS 38.06.040(a)(3) and 38.06.050(a), and the report required by AS 38.06.070(c).

The contract is described in a final finding issued by the commissioner of the Department of Natural Resources on April 21, 1995. A copy of the commissioner's final finding and the signed contract are attached. Copies of the commissioner's preliminary finding and the draft contract previously were sent to the legislature and made available to 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 previous Administrations 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 can take effect.

Second, this legislation would ratify the royalty oil contract. This ratification would cure any procedural defect that might have occurred in the process of entering into this contract.

I urge your prompt consideration and passage of this bill.

Sincerely,

Tony Knowles  
Governor

HOUSE BILL NO. 320

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 4/22/95  
Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act approving the sale of Prudhoe Bay Unit royalty oil by the State of  
2 Alaska to Tesoro Alaska Petroleum Company; and providing for an effective  
3 date."

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

5 \* Section 1. The "Agreement for the Sale and Purchase of State Royalty Oil" between the  
6 State of Alaska and Tesoro Alaska Petroleum Company, dated April 21, 1995, is approved and  
7 ratified.

8 \* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

**HB**

**320**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 4/29/95

FURTHER:

DATE TURNED INTO OFFICE: 5-2-95

Finance Committee considered HOUSE BILL NO. 320

Approving the sale of Prudhoe Bay Unit royalty oil by the State of Alaska to Tesoro Alaska Petroleum Company; efd.

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

**Senate Bill:**

- same title
- new title
- House Bill:**
- same title
- technical change
- new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Steve Zinn</i>	✓				
<i>Bill E. C. [unclear]</i>	✓				
<i>Paul F. Zimoff</i>	✓				
Co-Chair: <i>Rick Halford</i>	✓				
Co-Chair:					

**NEW FISCAL NOTE(S):**

Department                      Date      Zero      Fiscal


**PREVIOUS FISCAL NOTE(S):\***

Department                      Date      Zero      Fiscal

#1	DNR	4/19/95	⊖	⊖
#2	DOR	4/19/95	⊖	

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

## STATE OF ALASKA

### 1995 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_ Dept Affected: Natural Resources  
 Title: An act approving the sale of Prudhoe Bay Unit BRU: Resource Development  
royalty oil by the State to Tesoro Alaska Petroleum Co. Component: Oil & Gas Development  
 Sponsor: Rules Committee  
 Requestor: Governor Component Serial No. 439

#### Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
----------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

#### FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY95) cost: \$ 0.0

#### POSITIONS

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

**ANALYSIS:** (Attach a separate page if necessary)  
 The State will sell royalty oil to Tesoro Alaska Petroleum Co. at a price based on the royalty value of Prudhoe Bay Unit (PBU) royalty oil sold by Exxon. In 1994, this value averaged \$.15 per barrel more than the volume-weighted average royalty value of royalty oil lifted by all of the PBU producers. This difference will decline over the life of the contract as the surplus of Alaska North Slope oil shipped to the Gulf Coast declines. It is expected that this difference will just offset potential revenue losses of royalties and severance taxes which may result from the sale. These losses are caused when, in selling royalty oil, the State reduces the volume of oil sold by the producers in Alaska. The proportion of oil sold by the producers in the higher value West Coast (including Alaska) is reduced and the average royalty value and value of severance tax oil is also reduced.

Prepared by: Kevin Banks Phone: 762-2589  
 Division: Oil & Gas Date: 19-Apr-95  
 Approved by Commissioner: \_\_\_\_\_ Date: 4/20/95  
 Agency: Natural Resources

# FISCAL NOTE

STATE OF ALASKA  
 1995 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Royalty Oil Sale to Tesoro by the State BRU: Revenue Operations  
 Component: Oil and Gas Audit  
 Sponsor: Governor  
 Requester: \_\_\_\_\_ COMPONENT SERIAL NO. 115

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
----------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY95) cost: \$ 0.0

**POSITIONS**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary)

Passage of the Bill reflecting LAWLOG: 95-0052 will not impact the Department Of Revenue. Any change in royalty receipts should be reflected by the Department of Natural Resources.

Prepared by: Bob Baratko Phone: 465-2312  
 Division: Administrative Services Date: 4/19/95  
 Approved by Commissioner: Deborah Voigt Date: 4/19/95  
 Agency: Department of Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

**COMMITTEE COPY**



The Alaska Royalty Oil and Gas Development Advisory Board

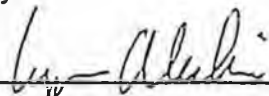
Resolution 95-1

On March 21, 1995, the acting director of the division of oil and gas ("director") provided the Alaska Royalty Oil and Gas Development Advisory Board ("Board") with preliminary findings and proposed contract for a three-year sale of approximately 40,000 barrels per day of Prudhoe Bay Unit royalty oil to Tesoro Alaska Petroleum Company ("Tesoro"). Tesoro will process the oil in its refinery in Nikiski, Alaska.

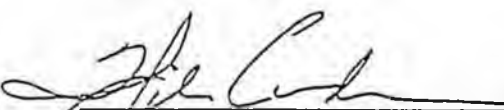
The propose contract was discussed between representatives of the division of oil and gas and Tesoro over the past four months culminating in a draft contract. On March 21, 1995, the director made public the proposed contract and the Preliminary Finding and Determination of the Commissioner of the Department of Natural Resources. The director notified the public that the proposed sale would be discussed at the Board's meeting on April 6, 1995 and invited them to attend.

On April 6, 1995, the Board met to discuss the sale and to take public comment on it. The meeting was attended by representatives of the division of oil and gas, representatives of Tesoro, and members of the public. The Board received a presentation from the division staff regarding the proposed sale and contract, questioned the staff about them, and made several suggestions. The staff will implement those suggestions. At the conclusion of the discussion, the voting members of the Board, who attended the meeting, unanimously approved the proposed sale and recommended that the proposed contract be approved by the legislature.

Based on the Board's review of the contract for the sale and purchase of royalty oil between the state of Alaska and Tesoro, the Commissioner's finding and determination regarding the proposed sale, and the information presented at a public meeting of the Board, the Board is of the opinion that the proposed disposition of Prudhoe Bay Unit royalty oil to Tesoro meets the requirements of AS 32.06 and 11 AAC 26. The Board adopts the Commissioner's finding and determination, and recommends that the Nineteenth Legislature approve the agreement for the sale and purchase of royalty oil from the Prudhoe Bay Unit to Tesoro Alaska Petroleum Company.

  
\_\_\_\_\_  
Lynn Aleshire

 04-06-95  
\_\_\_\_\_  
Tom Cook

  
\_\_\_\_\_  
Wilson Condon

  
\_\_\_\_\_  
Becky Gay

\_\_\_\_\_  
Willie Hensley

  
\_\_\_\_\_  
John Shively

APR 10 1995

The Alaska Royalty Oil and Gas Development Advisory Board

Resolution 95-1

On March 21, 1995, the acting director of the division of oil and gas ("director") provided the Alaska Royalty Oil and Gas Development Advisory Board ("Board") with preliminary findings and proposed contract for a three-year sale of approximately 40,000 barrels per day of Prudhoe Bay Unit royalty oil to Tesoro Alaska Petroleum Company ("Tesoro"). Tesoro will process the oil in its refinery in Nikiski, Alaska.

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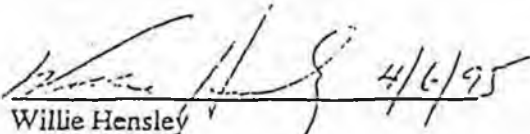
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\_\_\_\_\_  
Lynn Aleshire

\_\_\_\_\_  
Tom Cook

\_\_\_\_\_  
Wilson Condon

\_\_\_\_\_  
Becky Gay

  
\_\_\_\_\_  
Willie Hensley

\_\_\_\_\_  
John Shively

THE FULL TEXT OF THIS MATERIAL IS CONTAINED IN  
MEMBERS' FILES FOR SB 164.

Final Finding and Determination

to Sell Royalty Oil

to

Tesoro Alaska Petroleum Company



Alaska Department of  
**NATURAL  
RESOURCES**

Division of Oil and Gas  
3601 "C" Street, Suite 1380  
Anchorage, Alaska 99503-5948

April 21, 1995

THE FULL TEXT OF THIS MATERIAL IS CONTAINED IN  
MEMBERS' FILES FOR SB 164.

*An Analysis of the Department of Natural Resources'  
Proposed Three-Year Contract for the Sale of  
Prudhoe Bay Royalty Oil to Tesoro Alaska  
Petroleum Company*

Tesoro Alaska Petroleum Company  
March 29, 1995

THE FULL TEXT OF THIS MATERIAL IS CONTAINED IN  
MEMBERS' FILES FOR SB 164.

AGREEMENT FOR THE SALE AND PURCHASE

OF

STATE ROYALTY OIL

to

TESORO ALASKA PETROLEUM COMPANY

THE STATE OF ALASKA  
Department of Natural Resources

Dated as of April 21, 1995

*Cross-Reference to - HB 320*

BILL: SB 164

SHORT TITLE: APPROVE TESORO ROYALTY OIL

AGREEMENT

BILL VERSION:

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

CURRENT STATUS: (S) FIN

STATUS DATE: 04/27/95

THEN RLS

TITLE: "An Act approving the sale of Prudhoe Bay Unit royalty oil by the State of Alaska to Tesoro Alaska Petroleum Company; and providing for an effective date."

04/22/95	1190	(S)	READ THE FIRST TIME - REFERRAL(S)
04/22/95	1190	(S)	RESOURCES, FINANCE
04/22/95	1190	(S)	ZERO FISCAL NOTES (REV, DNR)
04/22/95	1190	(S)	GOVERNOR'S TRANSMITTAL LETTER
04/22/95	1191	(S)	HOUSE AND SENATE JOINT JOURNAL SUPP #12
04/22/95	1191	(S)	CONTAINS SALE & PURCHASE AGREEMENT OF
04/22/95	1191	(S)	STATE ROYALTY OIL TO TESORO AK PETROLEUM
04/27/95	1269	(S)	RES RPT 6DP
04/27/95	1269	(S)	PREVIOUS ZERO FNS (REV, DNR)
04/27/95	1269	(S)	REFERRED TO FINANCE

*Fin 4/29*

*Cross-Reference to - HB 320*

BILL: SB 164  
AGREEMENT

SHORT TITLE: APPROVE TESORO ROYALTY OIL

BILL VERSION:

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

CURRENT STATUS: (S) FIN  
THEN RLS

STATUS DATE: 04/27/95

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04/27/95	1269	(S)	RES RPT 6DP
04/27/95	1269	(S)	PREVIOUS ZERO FNS (REV, DNR)
04/27/95	1269	(S)	REFERRED TO FINANCE

*Fin 4/29*

HB 320

TONY KNOWLES  
GOVERNOR



P.O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500  
Fax (907) 465-3532

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

April 22, 1995

The Honorable Gail Phillips  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker Phillips:

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 and Tesoro Alaska Petroleum Company for the sale of Prudhoe Bay Unit royalty oil. Also transmitted with this bill are copies of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending approval of that contract in accordance with AS 38.06.040(a)(3) and 38.06.050(a), and the report required by AS 38.06.070(c).

The contract is described in a final finding issued by the commissioner of the Department of Natural Resources on April 21, 1995. A copy of the commissioner's final finding and the signed contract are attached. Copies of the commissioner's preliminary finding and the draft contract previously were sent to the legislature and made available to 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 previous Administrations 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 can take effect.

Second, this legislation would ratify the royalty oil contract. This ratification would cure any procedural defect that might have occurred in the process of entering into this contract.

I urge your prompt consideration and passage of this bill.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Knowles".

Tony Knowles  
Governor



# SENATE FINANCE COMMITTEE REPORT

DATE: 4/29/95

FURTHER:

DATE TURNED INTO OFFICE: 5-2-95

Finance Committee considered HOUSE BILL NO. 320

Approving the sale of Prudhoe Bay Unit royalty oil by the State of Alaska to Tesoro Alaska Petroleum Company; efd.

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

**Senate Bill:**

- same title
- new title
- House Bill:**
- same title
- technical change
- new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Steve Fain</i>	✓				
<i>Bill E. ...</i>	✓				
<i>Paul T. Zhuravoff</i>	✓				
Co-Chair: <i>Rick Halford</i>	✓				
Co-Chair: _____					

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal


**PREVIOUS FISCAL NOTE(S):\***

Department                      Date    Zero    Fiscal

#1	DNR	4/19/95	<del>0</del>	<del>0</del>
#2	DOR	4/19/95	<del>0</del>	

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

**HB**

**322**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred: April 29, 1995

FURTHER REFERRALS:

Date of Committee Action: 2/7/96

The FINANCE Committee considered:

HB 322

HOUSE BILL NO. 322

GRANTS FOR HOUSING DURING DISASTER

"An Act authorizing grants for temporary housing assistance during emergencies and disasters."

recommends it be replaced with the following committee substitute CS HB 322 (FIN)  the same title  a new title

additional referral to \_\_\_\_\_ Committee

attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_

APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) DMVA

zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Mark Hanley</i>	Hanley	X			
<i>Terry Martin</i>	Martin	X			
<i>Vitt Kohnig</i>	Kohnig	X			
<i>Grussendorf</i>	Grussendorf	X			
<i>Mike Navarre</i>	Navarre	✓			
<i>Paul Brown</i>	Brown	✓			
<i>John Kelly</i>	Kelly	✓			
<i>Gene Theriault</i>	Theriault	X			
<i>Richard Foster</i>	Foster	X			

CO CHAIR'S SIGNATURE

*Mark Hanley*  
Hanley

*Richard Foster*  
Foster

# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HB322

Revision Date: 12-Jan-96 Dept Affected: Military & Veterans Affairs  
 Title: An Act authorizing grants for temporary housing assistance during emergencies and disasters. BRU: Alaska National Guard  
 Sponsor: House So Cmte Military & Veterans Affairs Component: Commissioner's Office  
 Requestor: House So Cmte Military & Veterans Affairs Component Serial No. 414

Expenditures/Revenues (Thousands of Dollars)

	FY97	FY98	FY99	FY00	FY01	FY02
<b>OPERATING EXPENDITURES</b>						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES ( )</b>	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

	FY97	FY98	FY99	FY00	FY01	FY02
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

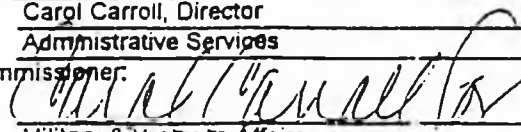
Estimate of any current year (FY96) cost: \$ none

POSITIONS

	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

**ANALYSIS:** (Attach a separate page if necessary)

Zero fiscal impact. This bill gives the Division of Emergency Services a more efficient way of providing temporary housing during disasters. The cost of temporary housing would continue to be charged to the disaster itself.

Prepared by: Cargl Carroll, Director Phone: 465-4730  
 Division: Administrative Services Date: 12-Jan-96  
 Approved by Commissioner:  Date: 12-Jan-96  
 Agency: Military & Veterans Affairs

*amended*

HOUSE BILL NO. 322

IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON MILITARY AND VETERANS' AFFAIRS

Introduced: 4/25/95

Referred: Special Committee on Military and Veterans' Affairs, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing grants for temporary housing assistance during emergencies  
2 and disasters."

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

4 \* Section 1. AS 26.23.100(a) is amended to read:

5 (a) Whenever the governor has proclaimed a disaster emergency, or the  
6 President, at the request of the governor, has declared an emergency or a major  
7 disaster to exist in this state, the governor may

8 (1) purchase, lease, or make other arrangements with any agency of the  
9 United States or state for temporary housing units to be occupied by disaster victims  
10 and to make those units available to any political subdivision of the state;

11 (2) make housing assistance grants to eligible disaster victims who  
12 have located temporary housing for the costs of the housing that are not covered  
13 under temporary housing assistance from the Federal Emergency Management  
Agency, ~~or~~ under private insurance, as a condition of accepting a housing  
of any other source;

*amended*

1 assistance grant from the state under this paragraph, the recipient shall agree to  
2 repay the state for the assistance to the extent that the recipient is reimbursed or  
3 otherwise compensated from any source for the same costs of temporary housing  
4 that were covered by the state grant;

5 (3) assist any political subdivision of this state that is the location of  
6 temporary housing for disaster victims to acquire sites necessary for the temporary  
7 housing and do all things necessary to prepare the site to receive and use temporary  
8 housing units by

9 (A) advancing or lending funds available to the governor from  
10 an appropriation made by the legislature or from any other source;

11 (B) passing through funds made available by any agency, public  
12 or private; or

13 (C) becoming a copartner with a political subdivision for the  
14 execution and performance of any temporary housing for disaster-victim  
15 projects and, for those purposes, pledging the credit of the state on terms  
16 considered appropriate, having due regard for current debt transactions of the  
17 state;

18 (4) [(3)] under whatever relevant regulations the governor may adopt,  
19 temporarily suspend, or modify, for not more than 60 days, any public health, safety,  
20 zoning, transportation, or other requirement of law or regulation of the state, when by  
21 proclamation, the governor declares a suspension or modification essential to provide  
22 temporary housing for disaster victims.



Official Business

# Alaska State Legislature

## House

Pouch V  
State Capitol  
Juneau, Alaska 99811

### HB 322 SPONSOR STATEMENT

HB 322 has been introduced to improve the administration of temporary housing during state declared disaster emergencies. This legislation was introduced in the 1994 session as HB 421, and passed the House on March 14, 1994 by 40-0. It died in Senate Rules Committee at the end of the 1994 legislative session.

This bill would increase the efficiency of the Division of Emergency Services by removing an unnecessary administrative burden required by current statutory language. Current statutes (AS 26.23.100) do not authorize DMVA to make grants to individuals for providing temporary housing during disasters. The Division of Emergency Services is therefore required to provide the housing directly to individuals, by assigning staff to contact housing providers, arrange for leases, renew lease arrangements periodically as needed, and generally act as an intermediary between the lessors and the persons using the temporary housing. This task is administratively burdensome and increases the cost of administering the temporary housing program.

Federal disasters allow the granting of funds direct to individuals for them to make their own temporary housing arrangements. Temporary housing in federal disasters is paid 100% by the Federal Emergency Management Agency (FEMA).

Adopting language to authorize the state to grant funds for temporary housing in state disasters, similar to the authority existing in federal disasters, would reduce administrative costs during state disasters, remove liability for the state as a lessor, and reduce government involvement in personal issues. Making an immediate temporary housing grant award payment to eligible applicants would allow each family in a state disaster to secure housing which best fits their housing needs.

Two state disasters have occurred recently which have required the provision of temporary housing: the Kodiak storm disaster of November 1991, and the Tenakee fire disaster of July 1993.



**DIVISION OF LEGAL SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA**

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101


130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

**MEMORANDUM**

April 27, 1995

**SUBJECT:** Sectional Summary of HB 322. (Work Order No. 9-LS1112\A)

**TO:** Representative Pete Kott  
Attn: George Dozier

**FROM:** Terri Lauterbach   
Legislative Counsel

You have requested a sectional summary of the above-described bill. Since you have not asked any specific questions about the bill, this summary is quite brief. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1 authorizes the governor to make grants to disaster victims for temporary housing assistance.

TML:kb  
95-306.klb

MEMORANDUM

STATE OF ALASKA

Department of Military and Veterans Affairs

TO: Pat Pourchot  
Legislative Director  
Office of the Governor

DATE: March 16, 1995

PHONE: 465-4730

FROM: Jake Lestenkof  
Commissioner

SUBJECT: DMVA Legislative  
Proposals

I have reviewed the original legislative proposals forwarded by this department to you last December. While none of them can be considered priority policy issues for the Governor, two of them are important enough to our department to initiate some activity.

It is my understanding that you do not want to have the Governor introduce any measures unless they are significant policy issues. Nevertheless, I believe that, with your concurrence, I would be able to find some friendly legislators to introduce the measures which I believe are important to our department. If we can get bills at least introduced and heard in one or two committees, it will greatly enhance our ability to get them passed by the second session of this legislature, instead of waiting for two years to accomplish some legislative progress.

I seek your approval to approach specific legislators on the following issues:

**1. Temporary Housing During Disasters:**

This proposal will allow for the granting of funds directly to disaster victims of state disasters to allow them to make their own temporary housing arrangements. Currently state law does not allow this, and temporary housing is arranged by state personnel, increasing the administrative burden during a disaster and exposing the state to potential liabilities. Similar legislation almost passed the Legislature last session (HB421 died in Senate Rules).

**2. Hiring of Exempt Employees During Disasters:**

Our experience during the 1994 Fall Floods disaster has highlighted an administrative procedure for temporary hiring during emergencies which is burdensome and limits the department's effective and timely response. All temporary hires for emergency response activities must now go through the routine procedure for hiring non-permanent employees: if they are not hired

from a register, they are limited to a duration of only 120 days. "Emergency hires" are only allowed to stay on board for 30 days. Allowing temporary hires for emergency response to be established as exempt positions (similar to the hiring authority for DNR's fire suppression activities--see AS 39.,25.110(19) ) will allow temporary employees needed for emergency response to be hired quickly and retained as long as needed.

In addition to the two proposals described above, DMVA also submitted housekeeping bills for your consideration. I would like to forgo the action on these housekeeping changes until the 1996 session of this legislature.

I would welcome the opportunity to meet you to discuss the strategy to be used and legislators or committees to be approached in addressing the three proposals above.

cc:

Roger Schnell, Deputy Commissioner  
Brig Gen Ken Taylor, Commander, Air National Guard  
Col Mike McCourt, Chief of Staff, Army National Guard  
Ervin Paul Martin, Director, Division of Emergency Services  
John Fleming, Director, National Guard Youth Corps  
Roger Patch, Director, Facilities Maintenance Division  
Jeff Morrison, Director, Administrative Services Division

1995 LEGISLATIVE PROPOSAL FORM

DEPARTMENT: Military and Veterans Affairs (File: LEG95-1B.DOC)

SUBJECT OF PROPOSED BILL: Temporary housing during emergencies

DEPARTMENT PRIORITY NO. \_\_\_\_\_

SPECIFY: Governor's Legislation \_\_\_\_ / Friendly Legislation \_\_\_\_

**SUMMARY OF INTENT** : Include what the problem is, how this proposal solves it, how many incidents have occurred which necessitates this change, and include a short synopsis of how your proposal fits with the Governor's objectives.

This bill would increase the efficiency of the Division of Emergency Services by removing an unnecessary administrative burden involved in providing temporary housing during state-declared disaster emergencies. Current statutory language does not authorize DMVA to make grants to individuals for providing temporary housing during disasters. The Division of Emergency Services is therefore required to provide the housing directly to individuals, by assigning staff to contact housing providers, arrange for leases, renew lease arrangements every three months, and generally act as an intermediary between the lessors and the persons using the temporary housing. This task is administratively burdensome and increases the cost of administering the temporary housing program.

Federal disasters allow the granting of funds direct to individuals for them to make their own temporary housing arrangements. Adopting language to authorize the state to grant funds for temporary housing in state disasters, similar to the authority existing in federal disasters, would reduce administrative costs, remove liability for the state as a lessor, and reduce government involvement in personal issues. Making an immediate temporary housing grant award payment to eligible applicants would allow each family in a state disaster to secure housing which best fits their housing needs.

Two state disasters have occurred recently which have required the provision of temporary housing: the Kodiak storm disaster of November 1991, and the Tenakee fire disaster of July 1993.

**ESTIMATED FISCAL IMPACT** (briefly describe):

Operating: Unknown. A separate appropriation from the Disaster is authorized for each disaster declaration.

Capital: None

Revenue: None

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:** None

**WHO WILL SUPPORT THIS BILL:** Department leadership

**WHO WILL OPPOSE THIS BILL:** None known at this time.

**BRIEFLY OUTLINE ANY PRECEDENTS FOR THIS PROPOSAL IN ALASKA OR OTHER STATES:** In federally declared disasters, the State of Alaska is authorized by the Federal Emergency Management Agency (FEMA) to make grants for temporary housing. The state guidelines for state-declared disasters should parallel the FEMA guidelines for federally declared disasters.

**IF A SUBSTANTIALLY SIMILAR BILL HAS BEEN DRAFTED AND NOT INTRODUCED, OR INTRODUCED AND NOT PASSED, PLEASE GIVE LAWLOG OR BILL NUMBER (cite year):** This legislation was introduced in the 1994 session as HB421, and passed the House. It died in Senate Rules after the Senate Finance Committee made changes which altered the character of the bill to the point where it was not acceptable by DMVA.

\_\_\_\_\_  
**COMMISSIONER'S SIGNATURE**

\_\_\_\_\_  
**DATE**

\_\_\_\_\_  
Governor's Office Notes:

[File: LEG95-1B.DOC]

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS  
BRIEFING PAPER HB421

**Background:**

Whenever people are displaced from their homes because of a disaster, part of the disaster assistance provided by the Division of Emergency Services (DES) is the provision of temporary housing. The authority for doing this is addressed in A.S. 26.23.100. The current authority is limited to the state making direct payments for providing temporary housing. The statutes also allow the state to work through local governments to provide temporary housing.

Current statutes do not authorize DMVA to make housing assistance grants to persons displaced from their homes during state-declared disasters. Without this authority, DMVA must negotiate lease/rental terms for every individual or family requiring temporary housing during a disaster. This task is administratively burdensome and increases the administrative costs of a disaster by requiring time to monitor and manage the lease agreements. However, the process for providing temporary housing in a federally-declared disaster is significantly more efficient.

In a federally-declared disaster, Federal Emergency Management Agency (FEMA) staff directly administers the temporary housing program, using 100% federal funds. The federal temporary housing program makes grants directly to individuals for them to arrange their own temporary housing. Granting funds to recipients to arrange their own housing reduces administrative costs, removes liability from the government as a lessor, and reduces government involvement in personal issues.

**Impact of proposed legislation:**

HB421 will specifically permit DMVA to grant funds to eligible disaster victims who have located temporary housing. The eligibility of disaster victims would be determined by the staff of the Division of Emergency Services (DES) using criteria established in the Temporary Housing Assistance Plan promulgated by DES. This granting authority will greatly expedite the ability of DMVA to respond to providing for temporary housing during a disaster, and would allow each family or individual affected to secure housing which best fits their housing needs.

The addition of this granting authority will add another tool in the ability of DES to respond to temporary housing needs. It will not be the only way these needs are met, and circumstances of a particular event will influence the choice of approaches to temporary housing.

# STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

## DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

P O BOX 110900  
JUNEAU, ALASKA 99811-0900  
PHONE: (907) 465-4603  
FAX: (907) 465-4605

April 27, 1994

Senator Steve Frank  
Co-chair, Senate Finance Committee  
Alaska State Legislature

Senator Drue Pearce  
Co-chair, Senate Finance Committee  
Alaska State Legislature

Dear Senators Frank and Pearce,

Re: HB 421, Temporary Housing During Disasters

Thank you for scheduling a hearing on HB 421 so quickly. As Representative Mulder's staff, Tim Sullivan, pointed out in your hearing of April 26, we expect passage of this bill to improve our ability to respond quickly to meeting the emergency housing needs of disaster victims.

Tim has relayed to me some of the concerns voiced during the hearing, and I wanted to let you know my response to those concerns.

The committee raised a concern over the temporary housing assistance provided by the state being subordinate to any similar assistance available from the federal government or from private insurance providers. Under our current plans and procedures, this is already the case.

In any federally declared disaster, we maximize the federal funds available for all purposes, including housing. Normally, the Federal Emergency Management Agency takes over the temporary housing program during federally declared disasters, and there is little, if any, involvement of state agencies or funds for temporary housing in federal disasters. Although I have not had the opportunity to review any specific language proposed in a committee substitute regarding this issue, I do not believe it would present any problems if added to the bill.

The requirement to subordinate temporary housing assistance to private insurance reimbursements is something that we conceptually support as well, since our procedures already incorporate this requirement. It does not make sense to pay someone for temporary housing needs if they are also being paid by their private insurance.

Since the issue of subordination of temporary housing grants to federal and private insurance benefits is already addressed in departmental procedures, there is no objection to incorporating it into statutory language as well. However, it would not be necessary to do so, if your committee chose not to make this amendment.

The final issue raised in committee concerns a limit on the amount of temporary housing funds, with a possible link to the previous section in Alaska Statutes regarding the individual and family grants limit of \$5,000 [AS 26.23.090 (b)(2)]. Apparently the committee wanted to limit the total amount for both these programs (combined) to \$5,000 for each disaster victim. I do not believe this would provide the public with the assistance they need and deserve if they become victims of a disaster.

The individual and family grant (IFG) program is intended to provide for immediate necessary items lost as a result of a disaster. Any insurance claims paid to disaster victims for their immediate needs is deducted from the amount paid under IFG grants. These grants normally pay the following types of immediate needs: food, clothing, medicine, etc. State law limits the amount of an IFG grant to no more than \$5,000; however, they are frequently less than that amount, as they are intended only to meet immediate needs.

The temporary housing program addressed in AS 26.23.100 provides for alternate housing when people (homeowners or renters) are displaced from their homes. Displacements as a result of disasters can be for long periods of time. The current temporary housing plan allows for state funding of temporary housing for a maximum of 18 months, with reviews every three months to verify continued eligibility. There is no dollar limit to the amount now spent on temporary housing; the only limit is the 18 month time frame. Without the ability to grant funds to disaster victims for temporary housing (which HB 421 would allow), the state must negotiate all lease agreements and make payments directly to landlord of the temporary housing. The intent of HB 421 was to simplify and streamline the method in which the state pays for temporary housing, and not to create additional restrictions on the program.

Placing a dollar restriction on temporary housing would create a financial hardship to displaced disaster victims when they can least afford it. Often, homeowners have their home completely destroyed, but are still required to make mortgage payments. Combining this limitation with the IFG grant amount would create



further hardship by requiring disaster victims to choose between meeting their needs for the immediate and necessary items funded by IFG grants, or meeting their needs for temporary housing.

The purpose of the temporary housing program is to enable disaster victims to live close to their pre-disaster jobs, family, friends, schools, and community. This facilitates their recovery from the disaster by assuring some stability and normalcy until they can obtain permanent housing in their community. I do not believe it is consistent with the philosophy of providing necessary disaster relief to limit the amount to be paid for temporary housing. This action could have the effect of creating an enclave of homeless people who cannot afford to get back on their feet after a disaster.

The intent of both the IFG program and the temporary housing program is to provide rapid temporary emergency relief, and not to add to the trauma of a disaster by limiting the amount of relief such that basic emergency needs go unmet.

I believe that the limitation being proposed would result in serious deficiencies in the state's ability to fairly and compassionately meet the needs of disaster victims. I urge you to reject any such limitation in HB 421.

I hope this information is useful to you in your further consideration of HB 421.

Sincerely,

Ervin Paul Martin. Director  
Division of Emergency Services

cc: Representative Eldon Mulder  
Hugh L. Cox III, Commissioner  
Dick Eliason, Governor's Legislative Liaison

[HB421L1]

tance. The governor may make a grant to an individual and family under this subsection as follows:

(1) when the President declares a major disaster, the governor may make a grant of an amount whose total of federal and state shares does not exceed the maximum amount authorized by 42 U.S.C. 5178(f) for grants payable to individuals and families;

(2) when the President does not declare a major disaster but the governor declares a disaster emergency, the governor may make a grant of an amount not to exceed \$5,000.

(c) [Repealed, § 18 ch 178 SLA 1990.] (§ 3 ch 104 SLA 1977; am §§ 9, 18 ch 178 SLA 1990)

**Effect of amendments.** — The 1990 amendment deleted "the total of federal and state shares not to exceed \$5,000" following "financial grants" and "in any single major disaster declared by the president" following "individual or family" and substituted "the disaster" for "a major di-

saster" in the first sentence of subsection (b); added the second sentence of subsection (b); and repealed subsection (c), which penalized fraudulent or wilful misstatements of fact in connection with financial assistance applications.

**Sec. 26.23.100. Temporary housing.** (a) Whenever the governor has proclaimed a disaster emergency, or the President, at the request of the governor, has declared an emergency or a major disaster to exist in this state, the governor may

(1) purchase, lease, or make other arrangements with any agency of the United States or state for temporary housing units to be occupied by disaster victims and to make those units available to any political subdivision of the state;

(2) assist any political subdivision of this state that is the location of temporary housing for disaster victims to acquire sites necessary for the temporary housing and do all things necessary to prepare the site to receive and use temporary housing units by

(A) advancing or lending funds available to the governor from an appropriation made by the legislature or from any other source;

(B) passing through funds made available by any agency, public or private; or

(C) becoming a copartner with a political subdivision for the execution and performance of any temporary housing for disaster-victim projects and, for those purposes, pledging the credit of the state on terms considered appropriate, having due regard for current debt transactions of the state;

(3) under whatever relevant regulations the governor may adopt, temporarily suspend or modify, for not more than 60 days, any public health, safety, zoning, transportation, or other requirement of law or regulation of the state, when by proclamation, the governor declares a suspension or modification essential to provide temporary housing for disaster victims.

Proposed statutory language to be added in a bill:

\*Sec 1. AS 39.25.110 is amended by adding a new section to read:

(30) persons employed by the Department of Military and Veterans Affairs for a disaster emergency

[File: BILPROP1.DOC]