

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672
2478 SCOM 104: HOUSE SPEC. COMM. OIL & GAS, 1997-98

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1 1.7 "Maximum Quantity" means the applicable annual percentage of Sale Oil
2 that the State will deliver to Mapco under Article II.

3 1.8 "Month" means a period beginning at 12:01 a.m., Alaska Standard Time, on
4 the first Day of the calendar Month and ending at 12:01 a.m., Alaska Standard Time, on the first
5 Day of the following calendar Month.

6 1.9 "Point of Delivery" means the location where the State receives Royalty Oil
7 in-kind from the Lessees, which is currently, under Article 2.3 of the Field Cost Agreement, the
8 TAPS Pump Station No. 1 Prudhoe Bay Custody Transfer Meter ("Transfer Meter").

9 1.10 "Royalty Oil" means the total volume of crude petroleum oil and other
10 hydrocarbons, including such substances as crude oil, condensate, natural gas liquids, or return oil
11 from the Prudhoe Bay Unit Crude Oil Topping Plant, that may be blended with crude oil before the
12 Point of Delivery and tendered as a common stream by the Lessees to the State as Royalty Oil, the
13 State may take in-kind at the Point of Delivery under the Leases as Royalty Oil regardless of
14 whether the State is taking the Royalty Oil in-kind.

15 1.11 "Royalty Settlement Agreement" means any written royalty settlement
16 agreement between the State and a Lessee that affects the Royalty Value of the State's Royalty Oil.

17 1.12 "Royalty Value" means an amount equal to the per barrel value the State
18 would have received from the Lessees for its Royalty Oil if the State had taken its royalty in-value
19 instead of in-kind, plus any costs incurred by the State as a result of taking the royalty in-kind rather
20 than in-value.

1.13 "Sale Oil" means all Royalty Oil the State has agreed to sell to Mapco and Mapco has agreed to purchase under this Agreement, whether from the Prudhoe Bay Unit or solely from the Initial Participating Areas of the Prudhoe Bay Unit.

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

1.15 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between the Lessees and the State.

ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity.

2.1.1 Sale Oil Quantity. The State agrees to sell to Mapco and Mapco agrees to purchase from the State annually a Maximum Quantity of Sale Oil, which shall be a percentage of the Royalty Oil produced in the Prudhoe Bay Unit. If the State delivers Sale Oil produced from the total Prudhoe Bay Unit, Mapco agrees to purchase as Maximum Quantity the following percentages of the Daily Royalty Oil:

December 1, 1998 through December 31, 1999 - 27.0 percent:
January 1, 2000 through December 31, 2000 - 28.5 percent:
January 1, 2001 through December 31, 2001 - 30.0 percent:
January 1, 2002 through December 31, 2002 - 32.0 percent: and
January 1, 2003 through December 31, 2003 - 33.5 percent.

If the State elects under Article 2.1.5 to deliver Sale Oil produced solely from the Prudhoe Bay Unit Initial Participating Areas, Mapco agrees to purchase as Maximum Quantity the following percentages of the Royalty Oil produced in a Day from the Prudhoe Bay Unit Initial Participating Areas:

1 December 1, 1998 through December 31, 1999 - 33.8 percent:
2 January 1, 2000 through December 31, 2000 - 35.2 percent:
3 January 1, 2001 through December 31, 2001 - 36.6 percent:
4 January 1, 2002 through December 31, 2002 - 38.5 percent; and
5 January 1, 2003 through December 31, 2003 - 40.1 percent.
6

7 2.1.2 Reduction in Maximum Quantity. Mapco may elect one time
8 annually to permanently reduce the Maximum Quantity of Sale Oil in effect. Mapco shall provide
9 the State with a separate written notice of each election to reduce the Maximum Quantity of Sale
10 Oil. Except when the additional notice provisions of Article 2.1.4 are invoked, a reduction in
11 Maximum Quantity shall be effective on the first Day of the Month following expiration of a
12 minimum of one hundred Days after written notice of the election is delivered to the State. The
13 Maximum Quantity in effect may not be increased or reinstated at any time.

14 2.1.3 Monthly Nomination. Mapco may nominate to decrease or increase
15 the quantity of Sale Oil it will purchase in a specified Month. Mapco shall provide the State with a
16 separate written notice of each monthly nomination. Except when the additional notice provisions
17 of Article 2.1.4 are invoked, a monthly nomination shall be effective on the first Day of the Month
18 following expiration of a minimum of one hundred Days after written notice of Mapco's nomination
19 is delivered to the State. In no event shall the total quantity of Sale Oil delivered to Mapco in a
20 Month exceed the Maximum Quantity of Sale Oil in effect at the time of delivery.

21 2.1.4 Additional Notice Provisions. Mapco acknowledges that if a Lessee
22 invokes the force majeure provisions of its Royalty Settlement Agreement, the State may be
23 required to give up to six Months notice to the Lessee prior to decreasing the State's nomination of
24 Royalty Oil to be taken in-kind in any Month. If a Lessee invokes the force majeure terms of its
25 Royalty Settlement Agreement because Mapco exercises its rights under Article 2.1.2 or Article

1 2.1.3. Mapco shall, for an additional ninety Days after the effective date of Mapco's one hundred
2 Days written notice of the election or nomination, purchase the quantity of Sale Oil that Mapco was
3 obligated to purchase in the Month immediately preceding the effective date of the election or
4 nomination. If a Lessee invokes the force majeure terms of its Royalty Settlement Agreement, the
5 State shall reduce the quantity of Sale Oil it delivers to Mapco only to the extent the Lessee honors
6 the State's nomination, and the State shall not be obligated to further reduce the quantity of Sale Oil
7 it delivers to Mapco until expiration of ninety days after the effective date of Mapco's one hundred
8 Days written notice of the election or nomination.

9 2.1.5 Initial Participating Areas Quantity. The State may elect to deliver to
10 Mapco and Mapco agrees to purchase from the State, Royalty Oil that is produced solely from the
11 Prudhoe Bay Unit Initial Participating Areas, as defined in the Unit Agreement, rather than Royalty
12 Oil from all participating areas and Leases within the Prudhoe Bay Unit. If the State elects to
13 deliver to Mapco Royalty Oil produced solely from the Prudhoe Bay Unit Initial Participating Areas,
14 Mapco agrees to purchase a Maximum Quantity of Sale Oil produced from the Prudhoe Bay Unit
15 Initial Participating Areas.

16 2.1.6 Waiver of Specific Quantity. The volume of Royalty Oil available
17 to the State may vary and may be interrupted from time to time depending on a variety of factors,
18 including the rate of production from the Leases. The State disclaims and Mapco waives, any
19 guarantee, representation, or warranty, either express or implied, that a specific quantity of the total,
20 daily, monthly, average, or aggregate volume of Royalty Oil will be delivered as Sale Oil under this
21 Agreement. Mapco disclaims any interest in, or right to, stored Royalty Oil that the State is or may
22 become entitled.

1 2.1.7 Underlifted or Stored Royalty Oil. If the State underlifts or stores
2 Royalty Oil at the Prudhoe Bay Unit, or if the State recovers underlifted or stored Royalty Oil, the
3 quantity of Sale Oil delivered under this Agreement shall be calculated as if no Royalty Oil were
4 underlifted, stored or recovered.

5 2.1.8 State's Warranty of Title. The State warrants that it has good and
6 marketable title to the Royalty Oil delivered and sold as Sale Oil under this Agreement.

7 2.2 Quality.

8 2.2.1 Quality of Sale Oil. The Royalty Oil the State delivers to Mapco as
9 Sale Oil shall be of the same quality as the Royalty Oil from the Prudhoe Bay Unit delivered by the
10 Lessees to the State at the Point of Delivery. The quality of the Royalty Oil delivered to the State,
11 and thus, the quality of the Sale Oil the State delivers to Mapco may vary from time to time. The
12 State disclaims, and Mapco waives, any guarantee, representation, or warranty, either expressed or
13 implied, of merchantability, fitness for use, or suitability for any particular use or purpose, or
14 otherwise, and of any specific, average, or overall quality or characteristic of Sale Oil delivered
15 under this Agreement. Mapco specifically waives any claim that any liquid hydrocarbons, including
16 such substances as crude oil, condensate, natural gas liquids, or return oil from the Prudhoe Bay
17 Unit Crude Oil Topping Plant, that may be blended with crude oil before the Point of Delivery and
18 tendered as a common stream by the Lessees to the State as Royalty Oil, are not Sale Oil for
19 purposes of this Agreement.

20 2.3 Price of the Sale Oil.

21 2.3.1 Price of Sale Oil. The price of Sale Oil the State delivers to Mapco
22 each Month shall be the Royalty Value of all Royalty Oil from the Prudhoe Bay Unit that Month

1 plus \$.15 per barrel, or if the State delivers Sale Oil only from the Prudhoe Bay Unit Initial
2 Participating Areas, the Royalty Value of all Royalty Oil from the Prudhoe Bay Unit Initial
3 Participating Areas that Month plus \$.15 per barrel. Appendix A illustrates calculation of the price
4 if Mapco had purchased Sale Oil during the Month of January, 1997.

5 2.3.2 Price Modifications. If, during the term of this Agreement, the
6 Royalty Value is modified as a result of modification of a Royalty Settlement Agreement, a
7 corresponding retroactive modification to the price of Sale Oil shall take effect on the same Day as
8 the effective date of the Royalty Value modification. Interest, as set forth in Article 6.7, shall accrue
9 retroactively on the amount of any overpayment or underpayment for Sale Oil resulting from the
10 price modification from the effective date of the Royalty Value modification until the amount of the
11 overpayment or underpayment, plus interest, is paid in full.

12 2.4 Reservation Fee. If, in any Month, Mapco does not nominate the Maximum
13 Quantity of Sale Oil then in effect, in addition to payment of the price of the Sale Oil Mapco
14 nominated in that Month, Mapco shall pay as a reservation fee an amount equal to .75 percent of the
15 price per barrel, as determined under Article 2.3, on the difference in quantity between the
16 Maximum Quantity of Sale Oil then in effect and the quantity of Sale Oil Mapco nominated in that
17 Month.

18 2.5 Reopeners.

19 2.5.1 Non-Intervention. Mapco shall not intervene or otherwise participate
20 in any way in any reopeners, negotiations or other discussions under or pertaining to any Royalty
21 Settlement Agreement, in any current or future royalty settlement negotiations, agreements.

1 reopeners, litigation or other proceedings between the State and a Lessee, nor shall Mapco have any
2 independent right to invoke any provision of a Royalty Settlement Agreement.

3 2.5.2 Notice of Reopeners. Because of the potential for an increase in the
4 price of Sale Oil as a result of any modifications of a Royalty Settlement Agreement, the State shall
5 provide Mapco with written notice of any modification or reopener request initiated by BP, ARCO,
6 Exxon or the State. The notice may include information on the nature of the requested modification,
7 the requested effective date of the modification, and the position taken by BP, ARCO, or Exxon and
8 the State.

9 2.5.3 Binding Effect. Mapco agrees to be conclusively bound by the terms
10 of any modification, whether made under reopener provisions or otherwise, of a Royalty Settlement
11 Agreement, and by the terms of any judgment or settlement resulting from any future royalty
12 settlement agreement, regardless of whether Mapco agrees with or consents to the terms of the
13 modification, reopener, judgment, or settlement.

14 2.6 Delivery of Sale Oil.

15 2.6.1 Date of First Delivery. The State will tender first delivery of the Sale
16 Oil to Mapco at the Point of Delivery on December 1, 1998.

17 2.6.2 Subsequent Deliveries. After the first delivery, the State shall
18 thereafter tender delivery of the Sale Oil to Mapco at the Point of Delivery immediately upon the
19 State's receipt of the Royalty Oil from the Lessees.

20 2.7 Passage of Title and Risk of Loss. Title to, and risk of loss of, the Sale Oil
21 shall pass from the State to Mapco for all purposes when the State tenders delivery of the Sale Oil to

1 Mapco at the Point of Delivery. Mapco shall bear all risk and responsibility for the Sale Oil after
2 passage of title.

3 2.8 Indemnification After Passage of Title. Mapco shall indemnify and hold the
4 State harmless from and against any and all claims, costs, damages (including reasonably
5 foreseeable consequential damages), expenses, or causes of action arising from or related to any
6 transaction or event in any way related to the Sale Oil after title has passed to Mapco.

7 2.9 Transportation Arrangements. Mapco shall make all arrangements for
8 transportation of the Sale Oil from the Point of Delivery, through and away from the TAPS, and
9 shall be responsible for any TAPS pipeline fill and storage tank bottom requirements related to
10 transportation of the Sale Oil after passage of title. Upon the State's request, Mapco shall provide
11 the State with evidence or other reasonable assurance of: 1) the arrangements for transportation of
12 the Sale Oil from the Point of Delivery, through and away from the TAPS; 2) arrangements for
13 resale, exchange, or other disposal of the Sale Oil; and 3) if requested, information on specific
14 deliveries of Sale Oil by Mapco to the TAPS and identification of tankers that will transport the Sale
15 Oil. Mapco's failure to provide information, evidence, or assurances requested by the State shall, at
16 the State's election and after notice to Mapco, constitutes a material default under this Agreement.

17 2.10 Absolute Obligations. Mapco's obligations to provide security as required by
18 Article XVI, pay reservation fees, and purchase, transport and dispose of Sale Oil are absolute.
19 These obligations shall not be excused or discharged by the operation of any disability of Mapco,
20 event of force majeure, impracticability of performance, change in conditions, or other reason or
21 cause.

1 ARTICLE III

2 IN-STATE PROCESSING

3 3.1 In-State Processing. Mapco shall use its best efforts to insure that Sale Oil will
4 be processed at its Alaska refinery or be exchanged for other crude oil that will be processed at its
5 Alaska refinery. Except as provided in Article 3.3, Mapco shall process not less than 80 percent of
6 the of Sale Oil its Alaska refinery. "Process" means the manufacture of refined petroleum products.

7 3.2 Exchanges of Crude Oil. Mapco may enter into agreements to exchange Sale
8 Oil for other crude oil only as provided in this Article. An exchange of Sale Oil for other crude oil
9 may not reduce the price Mapco has agreed to pay the State for the Sale Oil or result in any cost or
10 expense to the State. "Exchange" means: 1) a direct trade of Sale Oil for an equal volume of other
11 crude oil; 2) a direct trade of Sale Oil for other crude oil that involves either cash or volume
12 adjustments, or both, based solely on differences in the quality or location of the crude oils
13 exchanged; 3) sequential transactions in which Mapco trades Sale Oil to one party and, in exchange,
14 receives crude oil from a party other than the party to whom Mapco traded the Sale Oil; and 4)
15 matching purchases and sales of Sale Oil for other crude oil.

16 3.3 Waiver of In-State Processing Requirement. The Commissioner may,
17 in the Commissioner's sole discretion, waive the in-state processing requirement, in whole or in
18 part, if the Commissioner is satisfied that Mapco is using its best efforts to fulfill its Article 3.1
19 obligations.

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ARTICLE IV

MAPCO'S REPRESENTATIONS AND OBLIGATIONS

4.1 Good Standing and Due Authorization. Mapco warrants that it is, and shall remain at all times during the term of this Agreement: 1) a corporation organized and existing under the laws of the United States or of a state, territory or the District of Columbia: 2) qualified to do business in Alaska: and 3) in good standing with the State. Mapco warrants that it has all corporate power and authority necessary, and has performed all corporate action required, to enter into and fulfill its obligations under this Agreement.

4.2 Financial Condition. Mapco warrants that all financial information submitted to the State: 1) is complete, accurate, and fairly represents Mapco's financial condition at the time of submission: and 2) there has been no material change in Mapco's financial condition, business operations, or properties since it submitted the financial information to the State. Mapco warrants that the financial information was prepared in accordance with generally accepted accounting principles. Mapco shall immediately inform the State of any material change in it's financial condition, business operations, agreements, or property that may affect its ability to perform its obligations under this Agreement. Mapco shall immediately inform the State of any significant change in ownership of Mapco, or of Mapco's parent company or affiliates.

4.3 Financial Statements. Within one hundred and twenty Days after the end of its fiscal year, Mapco shall, at its own cost and expense, submit to the State a complete financial report in a form or forms prescribed by the State. The report shall include Mapco's balance sheet as of the close of the fiscal year and the income statement for that year prepared in accordance with generally accepted accounting principles. Mapco may comply with this requirement by submitting a

1 copy of Mapco Petroleum Corporation's annual report filed with the United States Securities and
2 Exchange Commission pursuant to Sec. 13 or 15(d) of the Security Exchange Act of 1934.

3
4 ARTICLE V

5 MEASUREMENTS

6 5.1 Measurements. The quantity and quality of Sale Oil the State delivers under
7 this Agreement shall be determined by measurement at the Transfer Meter at the Point of Delivery.
8 Procedures used for metering and measuring the Sale Oil shall be in accordance with the procedures
9 in effect in the Prudhoe Bay Unit.

10
11 ARTICLE VI

12 INVOICING AND PAYMENT

13 6.1 Production Month Invoices. On or before the tenth business day of each
14 Month after the first Month of delivery of Sale Oil, the State shall send to Mapco, a statement of
15 account with an invoice for the total amount due for the estimated quantity of Sale Oil delivered to
16 Mapco during the immediately preceding Month and the estimated price applicable to those
17 deliveries. The State will base its estimates on the best information reasonably available to the
18 State. The State shall adjust production month invoices as provided in Article 6.3 and Article 6.5.

19 6.2 Payment of Production Month Invoices. Mapco shall pay the total amount of
20 each production month invoice, in full, on or before the third business Day after the date of the
21 statement of account that includes the invoice. Any amount not paid in full on or before the third
22 business Day after the date of the statement of account, shall accrue interest as provided in Article

1 6.7. and become subject to the late payment provisions of Article 6.9. and any other remedies
2 available to the State under this Agreement and at law.

3 6.3 Initial Adjustments. Mapco acknowledges that any time after a production
4 month invoice is sent, the State may receive more accurate information concerning the actual
5 quantity and price for Sale Oil delivered to Mapco in that Month. Mapco agrees that any time such
6 information becomes available to the State, in the next statement of account the State may make
7 initial adjustments to the immediately preceding invoice, and invoice Mapco for the initial
8 adjustments, plus interest as provided in Article 6.7 on the amount of any adjustment.

9 6.4 Payment of Initial Adjustments. Mapco shall pay the total amount of each
10 initial adjustment invoice, plus interest as provided in Article 6.7, in full, on or before the third
11 business Day after the date of the statement of account that includes the initial adjustment invoice.
12 If an adjustment is due to Mapco for an overpayment, the State shall credit or refund to Mapco the
13 amount of the overpayment, plus interest as provided in Article 6.7, on or before the third business
14 Day after the date of the statement of account that includes the initial adjustment invoice. Any
15 amount Mapco does not pay in full when due shall become subject to the late payment provisions of
16 Article 6.9, and any other remedies available to the State under this Agreement and at law.

17 6.5 Subsequent Adjustments. Mapco acknowledges that any time after
18 production month and initial adjustment invoices are sent, the State may receive more accurate
19 information concerning the actual quantity and price for Sale Oil delivered to Mapco in any Month.
20 Mapco agrees that any time more accurate information becomes available to the State, the State shall
21 make subsequent adjustments to amounts previously invoiced in production month or initial
22 adjustment invoices, and send Mapco a statement of account with a subsequent adjustment invoice

1 for the amount of any adjustments to the previous invoices, plus interest on any adjusted amount as
2 provided in Article 6.7.

3 6.6 Payment of Subsequent Adjustments. Mapco shall pay in full the total
4 amount of each subsequent adjustment invoice, plus interest as provided in Article 6.7, on or before
5 the thirtieth Day after the date of the statement of account that includes the subsequent adjustment
6 invoice. If an adjustment is due to Mapco for an overpayment, the State shall credit or refund to
7 Mapco the amount of the overpayment, plus interest as provided in Article 6.7, on or before the
8 thirtieth Day after the date of the statement of account that includes the adjustment invoice. Any
9 amount Mapco does not pay in full when due shall become subject to the late payment provisions of
10 Article 6.9, and any other remedies available to the State under this Agreement and at law.

11 6.7 Interest. All amounts Mapco does not pay in full when due under this
12 Agreement, and all amounts invoiced as adjustments for underpayments and overpayments for Sale
13 Oil delivered to Mapco, shall bear interest from the date accrued until paid in full at the rate
14 provided by Alaska Statute 38.05.135(d), or as that statutory provision may later be amended. In
15 this Agreement "date accrued" means the third business day after the date of the statement of
16 account that contains the production month invoice to which the initial or subsequent adjustment
17 applies. Appendices A and B illustrate accrual of interest.

18 6.8 Non-termination and limitations. Mapco acknowledges that the State may
19 continue to make subsequent adjustments after termination of this Agreement, and agrees that the
20 provisions of Article VI shall survive termination of this Agreement for any reason. The amount of
21 a subsequent adjustment rendered more than six years after the date of delivery of the Sale Oil upon
22 which it is based, shall bear interest for no more than six years from the date accrued, as defined in

1 Article 6.7. The six year limitation on interest shall not apply to payments Mapco fails to make
2 when due or to subsequent adjustments resulting from: 1) regulatory, reopener, or court (including
3 appeals) proceedings commenced during the six year period, regardless of whether Mapco or the
4 State is a party; or 2) bona fide audits of a Lessee commenced by the State within the six year
5 period.

6 6.9 Late Payment Penalty. In addition to all other remedies available to the
7 State, if Mapco fails to make timely payment in full of any amount due, in addition to the amount
8 not paid when due, plus interest as provided in Article 6.7 from the date accrued until paid in full,
9 Mapco shall pay the State an amount equal to five percent of the amount not paid as a late payment
10 penalty. Appendix B contains an illustrative example of interest and late payment penalties.

11 6.10 Disputed Payments. If a dispute arises concerning the amount of an invoice,
12 Mapco agrees to pay the full amount of the invoice when due pending final resolution of the dispute.

13 6.11 Confidential Information. The State and Mapco agree that the State may
14 invoice Mapco for, and Mapco agrees to pay, amounts that are based upon confidential information
15 held or received by the State. If confidential information is used as the basis for an invoice, upon
16 receipt of a written request from Mapco, the State shall furnish to Mapco a certified statement of the
17 Commissioner to the effect that, based upon the best information available to the State, the invoiced
18 amounts are correct.

19 6.12 Manner of Payment. Mapco shall pay all invoices in full within the times
20 specified and without any deduction, set off, or withholding. Mapco shall pay all invoices by wire
21 transfer of immediately available funds to the State's account at the following address :

1 State Street Bank & Trust Company
2 Boston, Massachusetts
3 ABA #011000028
4 For credit to the State of Alaska
5 General Investment Fund, AY01
6 Account #00657189
7 Attn: Kim Chan, Public Funds
8

9 Mapco may pay an invoice in such other manner or to such other address the State has specified in
10 an invoice or by other written notice. All other payments due shall be paid in the same manner and
11 according to the same time schedule provided in this Article. If payment falls due on a Saturday,
12 Sunday, or legal federal holiday, payment shall be made on the next business Day.

13 6.12.1 Direct Payment to Lessees. If the State directs Mapco in an invoice
14 or other writing to remit all or a portion of a payment required under this Agreement directly to one
15 or more of the Lessees, Mapco shall remit the payment to the Lessee or Lessees in the manner
16 designated by the State, and within the time limits specified in Article VI. The State may, in
17 writing, authorize a Lessee to request direct remittance of all or a portion of a payment due under
18 this Agreement, and to designate the manner for payment. Unless otherwise specified by the State
19 in writing, the balance of a direct partial payment to a Lessee, and all subsequent payments, shall be
20 made to the State in accordance with Article VI.

21 6.12.2 Direct Payment to Other Third Parties. Upon a determination by
22 the State that remittance to a third party of an amount due under this Agreement will assist the State
23 in monitoring or enforcing the Agreement, the State may direct Mapco in an invoice or other writing
24 to remit all or a portion of a payment due under this Agreement directly to a designated third party
25 other than a Lessee, and Mapco shall remit the payment to the designated third party in the manner
26 designated by the State, and within the time limits specified in Article VI. Unless otherwise

1 specified by the State in writing, the balance of a direct partial payment to a third party, and all
2 subsequent payments, shall be made to the State in accordance with Article VI.

4 ARTICLE VII

5 EFFECTIVE DATE AND TERM

6 7.1 Condition Precedent to Effective Date. This Agreement is subject to approval
7 under Alaska Statute 38.06.055 as a condition precedent to becoming effective. After the State and
8 Mapco have entered into this Agreement, it shall become effective and enforceable on the date upon
9 which it is approved pursuant to Alaska Statute 38.06.055.

10 7.2 Term. The State shall begin deliveries of Sale Oil under this Agreement on
11 December 1, 1998. This Agreement shall terminate at the end of the Day on December 31, 2003.
12 Termination of this Agreement shall not relieve either party from any expense, liability, or other
13 obligation or any remedy that has accrued or attached prior to the date of termination. The
14 provisions of Article VI shall survive termination of this Agreement.

16 ARTICLE VIII

17 DEFAULT OR TERMINATION

18 8.1 Default.

19 8.1.1 Events of Default. The Commissioner may, in the Commissioner's
20 sole discretion, suspend or terminate the State's obligations to tender, deliver and sell Sale Oil to
21 Mapco, and may exercise any one or more of the rights and remedies provided in this Agreement, or
22 at law, if any one or more of the following events of default occur:

- 1 (i) Except as otherwise provided in Article VIII. Mapco fails to perform
2 any of its obligations under this Agreement, and cannot cure the non-
3 performance or the non-performance continues for more than thirty
4 Days after the State has notified Mapco of its non-performance:
- 5 (ii) Within five Days after written request from the State, Mapco fails to
6 provide written assurances satisfactory to the State of its intention to
7 perform its obligations under this Agreement and evidence or
8 assurances of transportation arrangements under Article 2.9:
- 9 (iii) Mapco fails to pay in full any sum of money owed under this
10 Agreement within one business day after the State gives Mapco
11 notice that payment is due and has not been paid:
- 12 (iv) There is a substantial change in Mapco's financial condition, business
13 operations, agreements, or property, or ownership that may affect
14 Mapco's ability to perform its obligations under this Agreement, and
15 within five Days after a request by the State, Mapco is unable or
16 unwilling to provide the State with adequate assurance of continued
17 performance:
- 18 (v) Any representation or warranty made by Mapco in this Agreement is
19 found to have been materially false or incorrect when made; or
- 20 (vi) Mapco fails, or is unable for any reason (including reasons beyond
21 Mapco's control), to maintain the security letter of credit required

1 under Article XVI. regardless of Mapco's willingness or ability to
2 perform any other obligations under this Agreement.

3 8.1.2 Default by Failure to Pay. Mapco shall immediately provide the State
4 with written notice if Mapco is unable to pay any of its debts when due or is otherwise insolvent.
5 Upon such notice from Mapco, or if the State independently determines that Mapco is unable to pay
6 any of its debts when due or is otherwise insolvent, the State's obligations to deliver and sell Sale
7 Oil to Mapco shall automatically and immediately terminate without any requirement of notice to
8 Mapco or other action by the State. Upon termination of the State's obligations under this Article,
9 Mapco shall be liable for payment and performance of all its obligations for Sale Oil the State
10 delivered to Mapco before termination and for a minimum of one hundred Days after termination,
11 plus an additional ninety days if a Lessee invokes the force majeure term of its Royalty Settlement
12 Agreement. Within thirty days after termination under Article 8.1.2, the State shall have the right,
13 upon written notice to Mapco, to reinstate all of the State's and Mapco's obligations under this
14 Agreement retroactive to the date of termination.

15 8.2 State's Remedies. If Mapco defaults under this Agreement, in addition to all
16 other remedies available to the State under this Agreement and or at law, the following remedies
17 shall be available to the State in the Commissioner's sole discretion.

18 8.2.1 Mapco's Obligations Become Due. All monetary obligations Mapco
19 has accrued under this Agreement, even if not yet due and payable, shall immediately be due and
20 payable in full.

21 8.2.2 State May Dispose of Sale Oil. Until Mapco's default is cured or
22 this Agreement terminates, the State may dispose of the Sale Oil to third parties and may suspend

1 the in-state processing obligations. If the State exercises either of these remedies, regardless
2 whether this Agreement is terminated, Mapco shall be and remain liable to the State for the amount
3 of difference between the price for the Sale Oil under Article II and the actual price the State
4 received from disposition of the Sale Oil to third parties.

5 8.2.3 Indemnification for Loss. Mapco shall hold the State harmless and
6 indemnify it against all liability, damages, expenses, attorney's fees and costs, and losses arising out
7 of Mapco's default, termination of the State's obligations, disposal of the Sale Oil to third parties,
8 and suspension of the in-state processing requirements.

9 8.2.4 Other Rights and remedies. The State shall have the right
10 cumulatively to exercise all rights and remedies provided in this Agreement and by law, and obtain
11 all other relief available under law or at equity, including mandatory injunction and specific
12 performance.

13 8.3 Limitation of Mapco's Remedies. If the State breaches or defaults any of its
14 obligations under this Agreement, Mapco shall not obtain a temporary restraining order or
15 preliminary injunction preventing the State from disposing of the Sale Oil subject to this Agreement.

16 8.4 Termination. Termination shall become effective upon the first Day of the
17 Month following expiration of a minimum of one hundred Days after Mapco's written notice of
18 termination is delivered to the State. If, however, the additional notice provisions of Article 2.1.4
19 are invoked, termination shall become effective upon the first Day of the Month following
20 expiration of six Months and ten Days after Mapco's written notice of termination is delivered to the
21 State. Termination shall not relieve either party from any expense, liability, other obligation, or

1 remedy that has accrued or attached prior to termination. The provisions of Article VI shall survive
2 termination of this Agreement.

3
4 ARTICLE IX

5 DISPOSITION OF OIL

6 9.1 Disposition of Oil Upon Default or Termination. Mapco acknowledges that
7 the State may be required to provide six Months notice to the Lessees before the State may decrease
8 its in-kind nomination of Royalty Oil in any Month. It is within the Commissioner's sole discretion
9 to request a waiver of any notice provision, condition, or requirement of a Lease or Royalty
10 Settlement Agreement. If this Agreement terminates for default or any other reason, Mapco shall
11 continue to accept and pay for Sale Oil through the first Day of the Month following expiration of a
12 minimum of one hundred Days after the date of termination, if the Commissioner, in the
13 Commissioner's sole discretion so requires. If, however, the additional notice provisions of Article
14 2.1.4 are invoked, Mapco shall continue to accept and pay for Sale Oil until the expiration of six
15 Months and ten Days after the Date of default or notice of termination.

16 9.2 Inability to Receive Sale Oil. If Mapco is unable or refuses to accept or
17 receive Sale Oil, Mapco shall nevertheless remain liable for disposal and payment for Sale Oil as
18 though it had been accepted by Mapco. The Commissioner may, in the Commissioner's sole
19 discretion, waive this requirement.

20 9.3 Security for Disposal of Sale Oil. To secure Mapco's obligations to purchase
21 and dispose of Sale Oil, upon the Commissioner's request, Mapco shall assign or otherwise transfer
22 to the State, or its designee, all or part of Mapco's right, title and interest in any arrangements for

1 transportation of the Sale Oil through and away from the TAPS, whether such interests are under
2 nominations, leases, contracts, charter parties, or other agreements. The State will incur liability or
3 obligations under such assignment or transfer only to the extent the State actually exercises its rights
4 to succeed to Mapco's interests under and obtain the benefits of the assignments.

5
6 ARTICLE X

7 NONWAIVER

8 10.1 Nonwaiver. The failure of either party to insist upon strict or a certain
9 performance, or acceptance by either party of a certain performance or course of performance under
10 this Agreement shall not: 1) constitute a waiver or estoppel of the right to require certain
11 performance or claim breach by similar performance in the future; 2) affect the right of either party
12 to enforce any provision; or 3) affect the validity of any part of this Agreement.

13
14 ARTICLE XI

15 SEVERABILITY

16 11.1 Severability. If a court decrees any provision of this Agreement to be invalid,
17 all other provisions of this Agreement shall remain valid. If, however, invalidation of a provision
18 impairs a material right or remedy under this Agreement, either party may terminate this Agreement
19 by notice to the other party as provided under Article 8.4.

1 ARTICLE XII

2 FORCE MAJEURE

3 12.1 Effect of Force Majeure. Except for Mapco's absolute obligations to provide
4 security, pay reservation fees, and purchase, transport and dispose of Sale Oil, neither party shall be
5 liable for failure to perform if performance is substantially prevented by force majeure after good
6 faith efforts to perform. Except, however, if Mapco is prevented by force majeure from performing
7 any material obligation for sixty successive days or more, the State, in the Commissioner's sole
8 discretion, shall have the right to terminate this Agreement. Before the State exercises this right, the
9 Commissioner may require Mapco to negotiate in good faith to restore performance. In this
10 Agreement the term "force majeure" means an event or condition not within the reasonable control
11 of the party claiming the benefit of the excuse.

12 12.2 Notice of Force Majeure. If a party believes that force majeure has occurred,
13 the party shall immediately notify the other party of its claim of force majeure. The party claiming
14 force majeure shall use reasonable diligence to remedy the force majeure. Except for Mapco's
15 absolute obligations to provide security, pay reservation fees, and purchase, transport and dispose of
16 Sale Oil, the disabled party's obligations to perform that are affected by the force majeure shall be
17 suspended from the time of notification to the other party until the disability caused by the force
18 majeure should have been remedied with reasonable diligence.

1 ARTICLE XIII

2 NOTICES

3 13.1 Method. Unless otherwise specifically provided in this Agreement, all
4 notices, requests, demands or statements shall be in writing and delivered to the address specified in
5 this Article in person, by telecopier or other form of facsimile, by United States mail, postage
6 prepaid, registered or certified with a return receipt requested, to the party to be notified. A
7 statement of account the State delivers to Mapco by telecopy shall be deemed delivered to Mapco
8 when the State's telecopier confirms that it was received at Mapco's telecopy number during normal
9 business hours. A notice, request, demand or statement delivered by United States mail shall be
10 deemed delivered on the earlier of expiration of seven Days after it is deposited in the mail, or upon
11 the date of receipt by the party to whom it is directed. A notice, request, demand or statement
12 delivered in any other manner shall be effective only if and when received by the party to whom it is
13 directed. The address of the parties shall be as follows.

14 State:

15 State of Alaska
16 Commissioner of Natural Resources
17 400 Willoughby Avenue
18 Juneau, Alaska 99801

19
20 and

21 Director, Division of Oil and Gas
22 3601 C Street, Suite 1380
23 Anchorage, Alaska 99503-5948
24 Telecopy Number: (907)562-3852

25
26 Mapco:

27 President
28 Mapco Alaska Petroleum Inc.
29 3201 C Street, Suite 700
30 Anchorage, Alaska 99503-3960
31 Telecopy Number: (907)273-3333

1 13.2 Change of Address. Each party may notify the other of changes to its address
2 by delivering written notice of the change.

3
4 ARTICLE XIV

5 RULES AND REGULATIONS

6 14.1 Rules and Regulations. This Agreement is subject to all applicable laws of
7 the State of Alaska, and orders, rules and regulations of the United States, the State of Alaska, and
8 any duly constituted agency of the State of Alaska.

9
10 ARTICLE XV

11 SOVEREIGN POWER OF THE STATE

12 15.1 Sovereign Power of the State. This Agreement shall not be interpreted to
13 limit in any way the State's ability to exercise any sovereign or regulatory powers, whether
14 conferred by constitution, statute or regulation. The State's exercise of any sovereign or regulatory
15 power shall not be deemed to enlarge any of Mapco's rights, or limit any of Mapco's obligations or
16 liabilities under this Agreement.

17
18 ARTICLE XVI

19 SECURITY

20 16.1 Letter of Credit. Seventy five Days before the Date of First Delivery, Mapco
21 shall deliver to the State an irrevocable stand-by letter of credit (hereafter the "Letter"). The Letter
22 shall be in a form satisfactory to the Commissioner and shall be in effect by the Date of First

1 Delivery. It shall be issued for the benefit of the State by a state or national banking institution of
2 the United States that is insured by the Federal Deposit Insurance Corporation and has an aggregate
3 capital and surplus amount of not less than One Hundred Million Dollars (\$100,000,000) (hereafter
4 the "Issuer"), or other banking institution acceptable to the Commissioner. The principal face
5 amount of the Letter shall be an amount estimated by the Commissioner to be equal to the value of
6 all Sale Oil to be delivered by the State to Mapco during the seventy five Days immediately
7 following the Date of First Delivery. The Letter shall not require the State to submit any
8 documentation in support of drafts drawn against it other than a certified statement by the
9 Commissioner and the State's Attorney General that Mapco is liable to the State for an amount of
10 money equal to the amount of the draft, that the amount of money is due and payable in full, and it
11 has not been timely paid.

12 The Letter shall provide that the State has the right to draw and present drafts to the
13 Issuer through the seventy-fifth Day after the State's last delivery of Sale Oil to Mapco under this
14 Agreement. The Letter shall be renewed under the terms of this Article no later than seventy five
15 Days before its expiration date so that a Letter is in effect continuously from the Date of First
16 Delivery through the seventy-fifth Day after the date of the State's last delivery of Sale Oil to
17 Mapco. If the State does not receive a renewed Letter seventy five Days before the expiration of the
18 existing letter of credit: 1) Mapco shall be deemed to have materially breached this Agreement; 2) a
19 default under Article VIII will have occurred; and 3) all Mapco's obligations, expenses and
20 liabilities accrued as of that date, whether yet due and payable, shall become immediately due and
21 payable in full.

1 If the State asserts a claim or claims that equal a total amount of money greater than
2 the principal face amount of the Letter in effect. Mapco shall, upon the State's request, cause the
3 principal face amount of the Letter to be increased by an amount sufficient to secure the total
4 amount of the State's claims. Mapco is subject to this obligation even if Mapco denies, rejects, or
5 otherwise contests the State's claims.

6 If the principal face amount of the effective letter of credit is ever less than the
7 estimated price of seventy five Days of Sale Oil deliveries. Mapco shall automatically and
8 immediately cause the principal face amount of the effective Letter to be increased to an amount
9 equal to the estimated price of seventy five Days delivery of Sale Oil. If the principal face amount
10 of the effective Letter is greater than the estimated price of seventy five Days delivery of Sale Oil,
11 upon written approval of the Commissioner, in the Commissioner's sole discretion, Mapco may
12 decrease the principal face amount of the Letter to an amount equal to the estimated price of seventy
13 five Days delivery of Sale Oil.

14 16.2 Security Contract. Upon approval by the Commissioner, in the
15 Commissioner's sole discretion, as alternative security to the Letter required in Article 16.1, Mapco
16 may deliver to the State: 1) an irrevocable stand-by letter of credit in the principal face amount
17 estimated by the Commissioner to be equal to the value of Sale Oil to be delivered by the State to
18 Mapco during the forty Days immediately following the Date of First Delivery; and 2) an
19 irrevocable contract between a major oil company (hereafter the "Promisor") and Mapco, for the
20 direct benefit of the State, in which the Promisor agrees to assume full liability for Sale Oil upon
21 notice that Mapco is in default of this Agreement (hereafter "Security Contract"). The forty Day
22 letter of credit shall be subject to all the terms and conditions of Article 16.1. The Security Contract

1 shall designate the State as intended third party beneficiary and shall be in effect by the Date of First
2 Delivery. It shall provide that upon written notice by the Commissioner to Mapco and the Promisor
3 that Mapco is in default of this Agreement, the Promisor shall immediately assume full liability for
4 purchase, transportation and disposal of a minimum of ninety Days deliveries of Sale Oil from the
5 Point of Delivery. If, however, a Lessee invokes the force majeure terms of its Royalty Settlement
6 Agreement, the Promisor shall be liable for a total of one hundred and eighty days deliveries of Sale
7 Oil. It shall provide the State a direct right of action against Mapco and the Promisor, jointly and
8 severally, to enforce the Security Contract, regardless of whether the State takes action to enforce
9 this Agreement against Mapco. It shall also provide that the Promisor has no right of action against
10 the State and may not assert against the State any defense it may have against Mapco under the
11 Security Contract.

12 16.3 Other Security. The Commissioner may, in the Commissioner's sole
13 discretion, require such other or additional security from Mapco as the Commissioner considers
14 adequate to protect the State's interest.

15

16

ARTICLE XVII

17

EMPLOYMENT OF ALASKA RESIDENTS

18 17.1 Employment of Alaska Residents. Mapco shall comply with all valid
19 federal, state and local laws in hiring Alaska residents and companies, and shall not discriminate
20 against Alaska residents and companies. Within the constraints of law, Mapco voluntarily agrees to
21 employ Alaska residents and Alaska companies to the extent they are available, willing and
22 qualified for work performed in Alaska in connection with this Agreement. "Alaska resident"

1 means an individual who is physically present in Alaska with the intent to remain in the state
2 indefinitely. An individual may demonstrate an intent to remain in the state by maintaining a
3 residence in the state, possessing a resident fishing, trapping, or hunting license or receiving a
4 permanent fund dividend. "Alaska companies" means companies incorporated in Alaska or whose
5 principal place of business is in Alaska. If a court invalidates any portion of this provision, Mapco
6 agrees to employ Alaska residents and Alaska companies to the extent permitted by law.

7
8 ARTICLE XVIII

9 APPLICABLE LAW

10 18.1 Governing Law. This Agreement, and all matters arising from or related to
11 this Agreement, shall be governed, construed and determined by the laws of the State of Alaska.

12 18.2 Jurisdiction. Any legal action or proceeding arising out of or related to this
13 Agreement shall be brought in a state court of general jurisdiction sitting in the State of Alaska, and
14 Mapco hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

15 18.3 Venue. The parties agree that the venue for any legal action or proceeding
16 arising out of or related to this Agreement shall be in the Alaska Superior Court sitting in
17 Anchorage, Alaska.

1 ARTICLE XIX

2 WARRANTIES

3 19.1 Warranties. The purchase and sale of Royalty Oil under this Agreement are
4 subject only to the warranties the State has expressly set forth in this Agreement. The State
5 disclaims and Mapco waives all other warranties, express or implied in law.
6

7 ARTICLE XX

8 AMENDMENT

9 20.1 Amendment. This Agreement may be supplemented, amended, or modified
10 only by written instrument duly executed by the parties.
11

12 ARTICLE XXI

13 SUCCESSORS AND ASSIGNS

14 21.1 Successors and Assigns. No assignment, pledge, or encumbrance of this
15 Agreement shall be made by either party without first obtaining the written consent of the other
16 party, which shall not be unreasonably withheld. The Commissioner may consent on behalf of the
17 State. Subject to the requirement of written consent, this Agreement shall be binding upon and inure
18 to the benefit of each of the parties and their successors and permitted assignees.

1 ARTICLE XXII

2 RECORDS

3 22.1 Preservation of Records. Mapco shall maintain and preserve all books,
4 accounts, and records that relate to or arise from performance of this Agreement for six years from
5 the date of the transaction or date of the latest adjustment relating to the transaction, including
6 transactions for purchase or sale of Sale Oil and its refined products. Mapco shall also maintain and
7 preserve all books, accounts, and records, in its possession or control, that belong to any third party
8 with whom Mapco contracts for the performance of any part of this Agreement. Mapco and the
9 State shall not be required to retain any records for more than six years from the time of a
10 transaction unless retention of such records is specifically required by applicable law or regulation,
11 or this Agreement. Mapco shall maintain its records within the State or make the records available
12 to the State at Mapco's principal office in the State within thirty Days after written request by the
13 State.

14 22.2 Inspection of Records. Mapco and the State shall each accord to the other
15 and the other's authorized agents, attorneys, and auditors access during reasonable business hours to
16 any and all property, records, books, documents, or indices related to Mapco's or the State's
17 performance under this Agreement and which are under possession or control of the party from
18 which access is sought, so the other party may inspect, photograph and make copies of the property,
19 records, books, documents or indices. The State shall not be required to disclose any information,
20 data, or records that are required by State or federal law or regulation, or by agreement with the
21 person supplying the record, to be held confidential. If information the State obtains from Mapco
22 may be held confidential under State or federal law or regulation, Mapco must request in writing

1 that the State hold the information confidential, and the State shall keep the information confidential
2 to the extent and for the term provided by the applicable law or regulation.

3
4 ARTICLE XXIII

5 INTERPRETATION OF TERMS AND CONDITIONS

6 23.1 Interpretation of Terms and Conditions. Any disagreement or dispute about
7 the meaning or application of a word, term, or condition in this Agreement shall be decided
8 according to the dispute resolution procedure set forth in this Article. The procedure set forth in this
9 Article shall be initiated by either party providing written notice of the disagreement or dispute to
10 the other party. No later than 60 Days after either party provides written notice, Mapco and the
11 State shall each present any arguments and evidence supporting its view of the disputed term or
12 condition in writing to the Commissioner for consideration. Mapco shall not have the right to civil
13 litigation-type discovery or a civil litigation-type trial with the right to call or cross-examine
14 witnesses unless granted by the Commissioner, after request. Within thirty Days after both parties
15 submit their arguments and evidence, the Commissioner shall issue a finding interpreting the
16 meaning or application of the disputed word, term, or condition, and shall set forth the basis for the
17 conclusions. Mapco agrees to accept findings of the Commissioner under this Article that are
18 reasonable and not arbitrary.

1 ARTICLE XXIV

2 COUNTERPARTS

3 24.1 Counterparts. This Agreement may be executed in multiple counterparts. It is
4 not necessary for the parties to sign the same counterpart. Each duly executed counterpart shall be
5 deemed to be an original and all executed counterparts taken together shall be considered to be one
6 and the same instrument.

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SIGNATURES

the State:

THE STATE OF ALASKA


Commissioner
Department of Natural Resources

Date: 3/5/98

Mapco Alaska Petroleum Inc.

MAPCO ALASKA PETROLEUM Inc.

By: _____

Its: _____

Date: _____

Mapco Petroleum Inc.

MAPCO PETROLEUM Inc.

By: _____

Its: _____

Date: _____

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the State:

Mapco Alaska Petroleum Inc.

Mapco Petroleum Inc.

SIGNATURES

THE STATE OF ALASKA

Commissioner
Department of Natural Resources

Date: _____

MAPCO ALASKA PETROLEUM Inc.

By: *Laundon Newcomer* *JS*

Its: President

Date: 3/5/98

MAPCO PETROLEUM Inc.

By: *Laundon Newcomer* *JS*

Its: Vice-President

Date: 3/5/98

ACKNOWLEDGMENT

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the 5th day of March, 1998, 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.



Mayetta V. Jeffery
Notary Public in and for Alaska
My commission expires: 6-30-01

ACKNOWLEDGMENT

THIS IS TO CERTIFY that on the 5th day of March, 1998, before me,
appeared Randy M. Newcomer of Mapco Alaska Petroleum Inc., Anchorage, Alaska; that
Randy M. Newcomer 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.

Sharon R. Lawrence

Notary Public in and for Oklahoma

My commission expires: 9-18-2001

ACKNOWLEDGMENT

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THIS IS TO CERTIFY that on the 5th day of March, 1998, before me, appeared Randy M. Newcomer of Mapco Petroleum Inc., Tulsa, Oklahoma; that Randy M. Newcomer 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.

Sharon R. Lawrence
Notary Public in and for Oklahoma
My commission expires: 9-18-2001

APPENDIX A

SAMPLE CALCULATIONS OF MAPCO'S INVOICE PRICE

Numbers in these sample calculations of price are illustrative. They do not represent actual values that may have existed in the past or are forecasted for the future.

This appendix illustrates the mechanics of the price calculations and the data sources. Royalty Values, before field cost deductions, for the Prudhoe Bay Unit Lessees are taken from either columns H or I on each Lessee's Monthly Oil Royalty Report Summary. Sample Oil Royalty Report Summaries for the Lisburne Participating Area and the Prudhoe Bay Unit Initial Participating Areas appear in Appendix A, Attachment 1. Volumes are taken from the Production Allocation/Offtake Schedule for the participating areas serviced by the Lisburne Production Center and the Royalty and Taxes Due State of Alaska report for the Prudhoe Bay Unit Initial Participating Areas. See Appendix A, Attachment 2. A sample calculation using the volume and Royalty Value information as originally filed for January 1997 and a hypothetical RIK volume sold to Mapco in February 1997 is shown below. It is recognized that both royalty reporting and operator reporting forms may undergo format changes in the future. Such changes will not effect the mechanics of these calculations

January's Calculated Average Royalty Value:

$$\begin{aligned} &= \$607,508,676.79 / 31,777,362.10 \text{ barrels} \\ &= \$19.11766 \text{ per barrel (See Appendix A, Attachment 3)} \end{aligned}$$

February's production month invoice price for Sale Oil to Mapco (Mapco's Invoice Price)

$$\begin{aligned} &= \text{January's Royalty Value} + [\text{January's Royalty Value} \times \\ &\quad \text{Average Fractional Change in the West Coast} \\ &\quad \text{Destination Value Between January and February} \\ &\quad \text{(See Appendix A, Attachment 4)}] + \$15 \\ &= \$19.11766 + (\$19.11766 \times (-0.1367)) + \$15 \\ &= \$19.11766 - \$2.61338 + \$15 \\ &= \$16.65428 \end{aligned}$$

Under Article 2.1.5, if invoked, the Royalty Value would be calculated using the royalty values and production volumes for only the Prudhoe Bay Unit Initial Participating Areas.

Example 1: Production Month Invoice

Assumptions:

1. **Month is March.**
2. **Sale Oil delivered to Mapco in February = 403,000 barrels.**
3. **February's production month invoice price as calculated above = \$16.65428.**
4. **Statement of account, with February's production month invoice, sent to Mapco on March 3.**

5. Date February production month invoice payment due to State = March 7
(statement of account date plus three business days).

Method for calculating Mapco's production month invoice payment for February deliveries:

Volume x Mapco's Invoice Price = Production Month Invoice Amount

403,000 barrels x \$16.65428 = \$6,711,674.84

If payment in full is not received by the State on or before March 7, interest will accrue on the unpaid balance from March 7 through the date payment is received, and a late payment penalty will be assessed.

Note:

The Lessees are required to submit their royalty reports to the State for February's production by the last day in March. For this reason, the State's production month invoice to Mapco for February deliveries will be based on January's Royalty Values as adjusted by the average fractional change in the West Coast destination values of ARCO, BP, and Exxon. This is an interim invoice price and will be adjusted when the State receives more accurate information about the actual quantity and price for Sale Oil delivered to Mapco in that month. The State may adjust the invoice price and/or the actual quantity of Sale Oil and invoice Mapco in the initial adjustment invoice submitted with the following month's (April) statement of account. Subsequent adjustments are likely to follow.

Example 2: Initial Adjustment Invoice

Assumptions:

1. Month is April
2. Sale Oil delivered to Mapco in February = 403,000 barrels
3. February's Royalty Value for the Prudhoe Bay Unit = \$16.09963
4. Adjusted Mapco's invoice price for February = \$16.09963 + \$.15 = \$16.24963
5. Annual interest rate charged member banks for advances by the 12th Federal Reserve District as of January 1 is three percent; and seven percent as of April 1. Annual rate for contract = 11 percent for the first quarter and 12 percent for the second quarter.
6. Date of the statement of account that contains the initial adjustment invoice is April 1.
7. Date initial adjustment invoice payment is due to the State = April 7.

Method for calculating Mapco's initial adjustment invoice amount for February deliveries:

$$\text{Volume} \times \text{Mapco's Invoice Price} = \text{Initial Adjustment Invoice Amount}$$

$$403,000 \text{ barrels} \times \$16.24963 \text{ per barrel} = \$6,548,600.89$$

Amount previously paid by Mapco for February deliveries (calculated in Example 1)

$$= \$6,711,674.84$$

Overpayment for February deliveries

$$= (\$163,073.95)$$

Number of days between the date the initial adjustment invoice was due on April 7, and the date accrued, March 7 = 31 days. The statutory interest rate is converted to a daily rate for these calculations.

Days of interest first quarter = 24 days

Days of interest second quarter = 7 days

$$\text{Interest due first quarter} = (\$163,073.95) \times (11\%/365) \times 24 \text{ days} = (\$1,179.49)$$

$$\text{Interest due second quarter} = (-\$163,073.95 - 1,179.49) \times (12\%/365) \times 7 \text{ days} = (\$378.01)$$

$$\text{Total interest due Mapco} = (\$1,557.50)$$

$$\text{Credit due Mapco against statement of account amount dated April 1} = (\$164,631.45)$$

Example 3: Subsequent Adjustment Invoice

This adjustment is assumed to occur on October 1, after BP's six month true up of transportation costs, a reopener for one of the Royalty Settlement Agreements, or for some other reason.

Assumptions:

1. Month is October.
2. Sale Oil delivered to Mapco in February = 403,000 barrels
3. February's Royalty Value for the Prudhoe Bay Unit = \$16.36706
4. Adjusted Mapco price for February = \$16.36706 + \$.15 = \$16.51706
5. Annual interest rate charged member banks for advances by the 12th Federal Reserve District as of January 1 is three percent; as of April 1, July 1, and October 1 is seven percent. Annual rate for contract = 11 percent for the first quarter and 12 percent for the second, third, and fourth quarters.
6. Date of statement of account that contains the subsequent adjustment invoice is October 1.
7. Date subsequent adjustment invoice payment is due to the State = November 6.

Method for calculating Mapco's subsequent adjustment invoice amount for February deliveries:

Volume x Mapco's Invoice Price = Subsequent Adjustment Invoice Amount

403,000 barrels x \$16.51706 per barrel = \$6,656,375.18

Amount previously paid by Mapco for February deliveries
(calculated in Example 2) = \$6,548,600.89

Underpayment for February deliveries \$107,774.29

Number of days between the date the subsequent adjustment invoice payment was due on November 6 and the date accrued, March 7 = 244 days. The statutory interest rate is converted to a daily rate for these calculations.

Days of interest in the first quarter (March 7 through Mar 31) = 24

Days of interest in the second quarter (April 1 through June 30) = 91

Days of interest in third quarter (July 1 through September 30) = 92

Days of interest in fourth quarter (October 1 through November 6) = 37

Interest due for first quarter = $\$107,774.29 \times (11\%/365) \times 24 \text{ days}$ = \$779.52

Interest due for second quarter = $(\$107,774.29 + 779.52) \times 12\%/365 \times 91 \text{ days}$ = \$3,247.69

Interest due for third quarter = $(\$107,774.29 + \$779.52 + \$3,247.69) \times 12\%/365 \times 92 \text{ days}$
= \$3,381.61

Interest due for fourth quarter = $(\$107,774.29 + \$779.52 + \$3,247.69 + \$3,381.61) \times$
 $12\%/365 \times 7 \text{ days}$ = \$1,401.13

Total interest due to the State on November 6 = \$8,809.95

Subsequent adjustment invoice amount due the State on November 6 = \$116,584.24

If payment in full is not received by the State on or before November 6, additional interest will accrue from November 6 through the date payment is received, and a late payment penalty will be assessed.

OIL ROYALTY SUM
REVISED 1-88
DDSG # 3-88
DNR 10-4030

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

PAGE 1
UNIT USINERIE PARTICIPATING AREA
FIELD
ZONE
LEASE

COMPANY NAME ARCO Alaska, Inc.
ADDRESS P.O. Box 100300
CITY, STATE, ZIP Anchorage, AK 99510

REPORT FOR MONTH OF Jan 1997
REVISION NUMBER
DATE OF REVISION

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Product Description	Gross unit of Lease Production (Bbls) or (MCF)	Working Interest Ownership %	(a) x (b) (Bbls) or (MCF)	Royalty Rate (%)	(c) x (d) (Bbls) or (MCF)	Royalty In-Kind (Bbls) or (MCF)	Royalty in Value (a) - (f) (Bbls) or (MCF)	Royalty Value \$ per Bbl or MCF	Field Costs per Bbl or MCF	(h) - (i) Reported Royalty per Bbl or MCF	(g) x (j) Royalty in Value Dollars
CRUDE	381,382.00	48.00000%	152,512.80	12.50000%	19,064.10	10,415.07	8,649.03	\$19.50000	\$0.870	\$18.63000	\$181,131.43
RECONDITE W	930.00	48.00000%	372.00	12.50000%	46.50	25.40	21.10	\$19.88000	\$0.870	\$19.01000	\$1401.11
(11) TOTALS	382,312		152,884.80		19,110.60	10,440.47	8,670.13				\$182,532.54

*WEIGHTED AVERAGE VALUE

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

TITLE Authorized Representative TYPE NAME Robert J. Watson

PHONE NO (907) 263-1255

DATE 2/21/97

GAS ROYALTY: ATTACH FORM 10-422

OIL ROYALTY: ATTACH FORM 10-405

OIL AND/OR

GAS ROYALTY: VERIFICATION OF WIRE TRANSFER AMOUNTS OR A COPY OF THE CHECK MADE IN PAYMENT OF ITEM (5) MUST BE ATTACHED.

(03) COIP \$0.00
(04) Less field costs for FMK (\$9,003.21)
Less/Spd Costs for FMK \$0.00
(05) Revisions (which reconciliations or amended returns) \$0.00
(06) Amount Due \$152,449.33

Mail With Applicable Attachments To: State of Alaska
Department of Natural Resources
Division of Oil and Gas
Royalty Accounting Section
P.O. Box 7034
Anchorage, Alaska 99510 7034

EXHIBIT A - Attachment 1, page 1

100% COTTON
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CONFIDENTIAL - SECURITY INFORMATION

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LEVIN CONSULTING
P.O. BOX 608 W. 91st St.
NEW YORK, N.Y. 10024-0608
Tel: 212-724-1111

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LA 007	IN 011 001 011

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[illegible]

STYLING

POSITIVE OUTCOMES:

I do have this if I have a statement that is not including a company may include and business, and to the best of my knowledge and belief: I am not, aware, and complete

[illegible][illegible]

OIL ROYALTY SUMMARY
REVISED 1/83
FORM 10-422
DNR 10-422

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

PAGE 1
UNIT PHILADELPHIA BAY UNIT
FIELD
ZONE
LEASE

COMPANY NAME ARCO Alaska, Inc.
ADDRESS P.O. Box 100300
CITY, STATE, ZIP Anchorage, AK 99510

REPORT FOR MONTH OF Jan 1997
REVISION NUMBER
DATE OF REVISION

Product Description	(a) Gross unit or Lease Production (Bbls) or (MCF)	(b) Working Interest Ownership %	(c) (a) x (b) (Bbls) or (MCF)	(d) Royalty Rate (%)	(e) (c) x (d) (Bbls) or (MCF)	(f) Royalty In-Value (Bbls) or (MCF)	(g) Royalty Value \$ per Bbl or MCF	(h) Field Costs per Bbl or MCF	(i) Reported Royalty per Bbl or MCF	(j) (g) - (i) Royalty In-Value Dollars
OIL	23,202,500.00	26.40221%	6,125,072.00	12.50000%	765,746.60	415,004.20	\$19.88000	\$0.870	\$19.01000	\$6,532,403.50
TOTAL	23,202,500.00		6,125,072.00		765,746.60	415,004.20				\$6,532,403.50

*UNRECOVERED AVERAGE VALUE

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.

SIGNATURE Robert J. Winton
TYPE NAME Robert J. Winton
PHONE NO. 907.263-1955
DATE 2/28/97

GAS ROYALTY: ATTACH FORM 10-422
OIL ROYALTY: ATTACH FORM 10-422
OIL AND/OR GAS ROYALTY: VERIFICATION OF WIRE TRANSFER AGREEMENT OR A COPY OF THE CHECK MADE IN PAYMENT OF ITEM (d) MUST BE ATTACHED

Made With Applicable Attachments To: State of Alaska
Department of Natural Resources
Division of Oil and Gas
Royalty Accounting Section
P. O. Box 7034
Anchorage, Alaska 99510 7034

02/28/97
10,038,835.40

STATE OF ALASKA
ROYALTY REPORT FORM

AMOUNT OF
10,038,835.40

AMOUNT, \$0
ROYALTY PAID, \$0
PRODUCTION (ALASKA)
P.O. BOX 10000
ANCHORAGE, AK 99510-0000

STATE OF ALASKA
DIVISION OF OIL AND GAS
ROYALTY REPORT FORM
1000 10-0000, DATE 1997
ANCHORAGE, AK 99510-0000

FIELD, POOL OR LEASE, PERIODS MAY ONLY
PRODUCTION MONTH, JANUARY 1997
FIELD, POOL OR LEASE, PERIODS MAY ONLY
PRODUCTION MONTH, JANUARY 1997

PROD TYPE	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
	CRUDE OIL	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	REVENUE	
	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	ON LEASE	
	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	PRODUCTION	
	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	(DOLLAR)	
	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	
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QAL ROY RPT SUM
REVISED 1086)

ESTIMATED PAYMENT
State of Alaska
Department of Natural Resources
Oil and Gas Royalty Report Summary

Unit **Prudhoe Bay Unit**
Field **Prudhoe Bay**
Zone **Prudhoe Bay**
Lease

Company **Chevron U.S.A.**
Address **P.O. Box J Section 975**
City-State **Concord CA 94524**

Estimated Payment Pursuant
to ANS Royalty Settlement
Agreement Effective 01/01/92

Report for month of **January 1997**
Revision Number _____
Date of Revision _____

Revisions Included

	(a) Gross Unit or Lease Prod. (Bbls) or (MCF)	(b) Working Interest Ownership (%)	(c) (a) x (b) (Bbls) or (MCF)	(d) Royalty Rate (%)	(e) (c) x (d) (Bbls) or (MCF)	(f) Royalty In-Kind (Bbls) or (MCF)	(g) Royalty In Value (e) - (f) (Bbls) or (MCF)	(h) Royalty Value \$ per Bbl or MCF (See Page 2)	(i) Field Costs per Bbl or MCF (S)	(j) (h) - (i) Reported Royalty per Bbl or MCF (S)	(k) (j) x (l) Royalty In Value Dollars
Q1	2,038,666	0.6516610%	13,285.2	12.5%	1,660.7	905.1	755.6	\$23.248	(\$1.00)	\$22.248	\$16,810.59
Q2 Each	864,971	0.1828960%	1,409.00	12.5%	176.1	0	176.1	\$23.248	(\$1.00)	\$22.248	\$3,917.87
Total	2,903,637		14,694.2	12.5%	1,836.8	905.1	931.7	\$23.248	(\$1.00)	\$22.248	\$20,728.46

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.

- (3) COIP Gravity Adjustment
(4) Less Field Cost for RIK
(5) Other (Explain)
(6) Subtotal (2 thru 5)
(7) Revisions submitted with
original report (List above)
(8) Total Previous Interest Rptd
(9) Total Due

DATED BY

FILE **Superior**

TYPED NAME **A. T. Guthrie**

PHONE **510-827-7730**

DATE **24-Feb-97** (1.02.47 PM)

(2)	(l) Principal	(m) Int	(n) Total
\$20,728.46	\$0.00		\$20,728.46
(\$905.10)			(\$905.10)
\$0.00			\$0.00
\$19,823.36	\$0.00		\$19,823.36
\$0.00	\$0.00		\$0.00
\$0.00	\$0.00		\$0.00
\$19,823.36	\$0.00		\$19,823.36

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
OIL ROYALTY REPORT SUMMARY

PAGE 1 OF 2

COMPANY NAME: MOBIL OIL CORPORATION
ADDRESS: P.O. BOX 90000
CITY, STATE, ZIP: DALLAS TX 75265-0500

LEASE: PRUDHOE BAY

REPORT FOR MONTH January 1997
REVISION NUMBER: _____
DATE OF REVISION: _____

(A) GROSS UNIT OR LEASE PRODUCTION (BBL'S)	(B) WORKING INTEREST OWNERSHIP	(C) (A) * (B) (BBL'S)	(D) ROYALTY RATE %	(E) (C) * (D) (BBL'S)	(F) ROYALTY IN-KIND (BBL'S)	(G) ROYALTY IN-VALUE (BBL'S)	(H) ROYALTY VALUE \$ PER BBL SEE PAGE 2	(I) FIELD COSTS PER BBL	(J) (H) - (I) REPORTED ROYALTY \$ PER BBL	(K) (G) * (J) ROYALTY IN-VALUE DOLLARS
28,110,108.00	0.01300020									
OIL		353,091.20	0.125	44,136.40	24,057.30	20,079.10	\$19.539	\$0.870	\$18.669	\$374,856.72
NOI'S		0,035.00	0.125	1,129.38	815.50	513.80	\$19.539	\$1.000	\$18.539	\$9,528.73
NOI'S to KRU		4416.3	0.125	552.04	0.00	552.04	\$19.539	\$1.000	\$18.539	\$10,234.22
(1) Total		359,542.50	0.125	45,817.81	24,872.80	21,145.91	19.539	0.870	18.669	(2) \$394,617.67

*WEIGHTED AVERAGE VALUE

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

SIGNED:
TITLE:
PHONE NO:
DATE:

Clifford C. Russo
AUTHORIZED AGENT
Typed Name: G. C. Russo
214-951-3000
February 28, 1997

3) COTF Gravit Adjustment

Interest
1992 2,595.96
1-6/96 40.53
8/86 8.83
2,645.31

REVISED
REPORT
ONLY

10) Balance Subtract
Line 9 from Line 8
Columns (h) & (in) only

11) Interest Due on 10

12) Revision Amount (10 + 11)

Principal	(K) Interest	(M) Total
170.48		170.48
21,545.35		21,545.35
0.00		0.00
373,242.80	0.00	373,242.80
214.55217	2,645.31	48,511.98
2418,794.97	214.58	2418,109.47
		121,254.78

EXHIBIT A - Attachment 1, page 9

WEEK 140
1/20/97 DNR 10-4030

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

UNIT
FIELD
ZONE
LEASE
Prudhoe Bay
Sedwacht
960701 and 960801
JANUARY 1997

COMPANY NAME Phillips Petroleum Company
ADDRESS 1220 Plaza Office Building
CITY, STATE, ZIP Bartlesville, OK 74604

REPORT FOR MONTH OF
REVISION NUMBER
DATE OF REVISION

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Gross, Unit or Case Production (Bbls) or (MCF)	Working Interest Ownership %	(a) x (b) (Bbls) or (MCF)	Royalty Rate (%)	(c) x (d) (Bbls) or (MCF)	Royalty In-Kind (Bbls) or (MCF)	Royalty In-Value (e) (f) (Bbls) or (MCF)	Royalty Value \$ per Bbl or MCF (See Page 2)	Field Costs per Bbl or MCF (\$)	(h)-(i) Reported Royalty per Bbl or MCF (\$)	(g) x (j) Royalty In-Value Dollars
23,150.051	0.0151737	351,408.00	0.125	43,926.00	23,942.70	19,983.30	20.69	0.87	19.82	396,069.01
1,721.816	0.0078336	13,181.50	0.125	1,647.69	898.00	749.69	20.69	1.00	19.69	14,761.40
(j) TOTALS										(2)
24,870.867		364,589.50	0.125	45,573.69	24,840.70	20,732.99				\$410,830.41

BOUGHT AVERAGE VALUE

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

PREPARED BY: JOE PROVENZANO (910)461-3678

WED BY:

Donald I. Philips

By Law & Regulations Specimen 1. PED NAME Donald I. Philips

DATE NO.

02/10/97

RE

25 Feb 97

ROYALTY:

ATTACH FORM 10-422

ROYALTY:

ATTACH FORM 10-405

AND/OR GAS ROYALTY: VERIFICATION OF WIRE TRANSFER AMOUNTS OR A COPY OF
THIS CHECK MADE IN PAYMENT OF ITEM(S) MUST BE ATTACHED

- (1) COTP 1,373.15 @ 125
(4) Less Field Costs for RIK
(5) Other (Explain)
(6) Subtotal (2 thru 5)
(7) Revisions submitted with
original report (if any)
(8) Total Amount Due
(9) Previous Amount Due
(10) Balance Subtract Line 9 from
Line 8 Columns (b) & (m) only
(11) Interest Due on 10
(12) Revision Amount (10-11)

(b)	(i)	(m)
PRINCIPAL	INTEREST	TOTAL
171.64		\$171.64
(21,728.15)		(\$21,728.15)
389,273.90		\$389,273.90
0.00	0.00	\$0.00
389,273.90	0.00	\$389,273.90

JOB: H12001.PG PROG: L1104210-01
AS ON: 01/31/1997

ARCO ALASKA INC.
LISBURN PARTICIPATING AREA
PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
PRODUCTION MONTH JANUARY-1997

PAGE: 1
RUN TIME: 12:42
RUN DATE: 02/10/1997

WORKING INTEREST OWNER	NON. DECIMAL	ALLOCATED LIQUIDS	PBU CRUDE TIK	PIPELINE OFFTAKE	NGLS	LOAD DIESEL FROM OIL UNIT	ROYALTY BASE
EXXON	0.400000	175,766.00	372.00	176,138.00	23,253.20	0.00	152,884.80
BPX	0.200000	87,883.00	186.00	88,069.00	11,626.60	0.00	76,442.40
AAI	0.400000	175,766.00	372.00	176,138.00	23,253.20	0.00	152,884.80
TOTALS:	1.000000	439,415.00	930.00	440,345.00	58,133.00	0.00	382,212.00

JOB. NUMBER: PMU: LHM4210-01
AS OF: 01/31/1997

ARCO ALASKA INC.
POINT MCINTYRE PA
PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
PRODUCTION MONTH JANUARY-1997

PAGE: 1
RUN TIME: 15:15
RUN DATE: 02/10/1997

WORKING INTEREST OWNER	NON. DECIMAL	ALLOCATED LIQUIDS	35 PBU CRUDE TIK	PIPELINE OFFTAKE	33 NGLS	LOAD DIESEL FROM OIL UNIT	ROYALTY BASE
EXXON	0.362504	1,899,334.27	0.00	1,899,334.27	30,787.71	0.00	1,868,546.56
BPX	0.368379	1,825,326.54	0.00	1,825,326.54	26,296.13	0.00	1,799,030.41
AAI	0.269117	1,514,824.19	0.00	1,514,824.19	24,581.16	0.00	1,490,243.01
TOTALS:	1.000000	5,239,485.00 X	0.00	5,239,485.00	81,665.00 X	0.00	5,157,820.00

AS OF: 01/31/1997

ARCO ALASKA INC.
WEST BEACH PARTICIPATING AREA
PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
PRODUCTION MONTH JANUARY-1997

PAGE: 1
RUN TIME: 15:16
RUN DATE: 02/10/1997

WORKING INTEREST OWNER	NON. DECIMAL	ALLOCATED LIQUIDS	PBU CRUDE TIK	PIPELINE OFFTAKE	NGLS	LOAD DIESEL FROM OFF UNIT	ROYALTY BASE
EXXON	0.500000	29,463.50	0.00	29,463.50	1,984.50	0.00	27,479.00
AAI	0.500000	29,463.50	0.00	29,463.50	1,984.50	0.00	27,479.00
TOTALS:	1.000000	58,927.00	0.00	58,927.00	3,969.00	0.00	54,958.00

01/31/1997

ARCO ALASKA INC.
 NIAGARA PARTICIPATING AREA
 PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
 PRODUCTION MONTH JANUARY-1997

PAGE: 1
 RUN TIME: 12:43
 RUN DATE: 02/10/1997

WORKING INTEREST OWNER	NON. DECIMAL	ALLOCATED LIQUIDS	PBU CRUDE TIK	PIPELINE OFFTAKE	NGLS	LOAD DIESEL FROM DIF UNIT	ROYALTY BASE
BPX	1.000000	651,808.00	0.00	651,808.00	7,891.00	0.00	643,917.00
TOTALS:	1.000000	651,808.00	0.00	651,808.00	7,891.00	0.00	643,917.00

10:24

JOB: NIZUDWNG PRG: LN104210-01
AS OF: 01/31/1997

ARCO ALASKA INC.
NIAGUK 27 TRACT OPERATION
PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
PRODUCTION MONTH JANUARY-1997

PAGE: 1
RUN TIME: 12:44
RUN DATE: 02/10/1997

WORKING INTEREST OWNER	NON. DECIMAL	ALLOCATED LIQUIDS	POU CRUDE TIK	PIPELINE OFFTAKE	NGLS	LOAD DIESEL FROM OIF UNIT	ROYALTY BASE
EXXON	0.500000	62,528.00	0.00	62,528.00	651.50	0.00	61,876.50
AAI	0.500000	62,528.00	0.00	62,528.00	651.50	0.00	61,876.50
TOTALS:	1.000000	125,056.00	0.00	125,056.00	1,303.00	0.00	123,753.00

ARCO ALASKA, INC.
P1-09 TAIL TRACT OPERATION
PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
JANUARY 07

	ARCO	BB	EXXON	TOTAL
<u>CALCULATION OF REVENUE BASE</u>				
NOMINATION DECIMALS	1.000000	0.000000	0.000000	
ALLOCATED LIQUIDS	20.575.00	0.00	0.00	20.575.00
PIBU CRUDE TK	0.00	0.00	0.00	0.00
PIPELINE OFFTAKE	20.575.00	0.00	0.00	20.575.00
NGLS	354.00	0.00	0.00	354.00
LOAD DIESEL/LOAD OIL	0.00	0.00	0.00	0.00
OIL REVENUE BASE	20.221.00	0.00	0.00	20.221.00

CALCULATION OF ROYALTY BASE AT LEASE OWNERSHIP

LEASE OWNER DECIMALS	1.000000	0.000000	0.000000	
ALLOCATED LIQUIDS	20.575.00	0.00	0.00	20.575.00
PIBU CRUDE TK	0.00	0.00	0.00	0.00
PIPELINE OFFTAKE	20.575.00	0.00	0.00	20.575.00
NGLS	354.00	0.00	0.00	354.00
LOAD DIESEL/LOAD OIL	0.00	0.00	0.00	0.00
ROYALTY BASE	20.221.00	0.00	0.00	20.221.00

ROYALTY: OIL

ROYALTY-OWNING	552.36	0.00	0.00	552.36
ROYALTY-NO-VALUE	468.69	0.00	0.00	468.69
TOTAL ROYALTY	1,011.05	0.00	0.00	1,011.05

ROYALTY: PIBU CRUDE TK

ROYALTY-OWNING	0.00	0.00	0.00	0.00
ROYALTY-NO-VALUE	0.00	0.00	0.00	0.00
TOTAL ROYALTY	0.00	0.00	0.00	0.00

ROYALTY: NGLS

ROYALTY-OWNING	9.67	0.00	0.00	9.67
ROYALTY-NO-VALUE	8.03	0.00	0.00	8.03
TOTAL ROYALTY	17.70	0.00	0.00	17.70

B P Exploration (Alaska) Inc.
Prudhoe Bay Unit
Royalty and Taxes Due State of Alaska
January 1997

State of Alaska Royalty Information		Total	BP	ARCO	EXXON	MOBIL	PIHL	CHEV	TEX	EOGEC
Royalty Base		26,106,137.0	10,109,735.9	7,290,866.0	7,703,556.7	366,859.3	364,589.4	161,269.4	100,128.9	9,111.3
(Total Oil/LD-TM)										
Oil		23,202,500.0	9,570,000.1	6,125,972.0	6,538,664.3	353,091.2	351,408.0	148,575.1	90,240.3	8,940.2
Royalty Base										
(subject right)										
PAC		1,577,710.3	652,600.1	415,804.3	443,926.2	24,057.3	23,942.7	9,904.7	6,694.0	609.1
PWT		1,222,002.2	544,799.8	319,942.3	372,008.9	20,879.1	19,993.3	8,335.1	5,587.8	508.9
Total Royalty		2,800,312.5	1,197,400.0	735,746.6	817,333.0	44,936.4	43,936.0	18,321.8	12,281.0	1,117.5
NGL/LAR										
Royalty Base		2,034,666.0	152,840.7	646,998.0	1,162,073.1	9,035.0	13,181.5	13,285.2	1,880.7	171.1
PAC		134,864.1	10,357.8	46,801.8	79,166.2	615.5	898.0	905.1	128.1	11.7
PWT		115,999.1	8,617.3	39,071.1	68,092.9	512.9	719.7	755.6	107.0	2.7
Total Royalty		254,833.3	18,975.1	85,872.9	145,259.1	1,128.4	1,617.7	1,660.7	235.1	21.4
NGL/NGLB										
Royalty Base		944,971.0	378,095.1	477,914.4	2,819.4	4,733.1	0.0	1,409.0	0.0	0.0
PWT		108,121.4	47,201.0	59,739.3	352.4	591.6	0.0	178.1	0.0	0.0
Total Royalty Due		3,263,267.1	1,263,717.0	911,360.7	962,944.6	45,857.4	45,573.7	20,158.7	12,516.1	1,138.9

Taxes

Tax Base		20,303,001.2	8,382,312.9	5,360,151.7	5,721,656.7	308,954.8	307,482.0	128,253.2	85,967.2	7,822.7
(Less-LD)										
(NGL-Royalty)										
Oil Tax due		2,860,765.4	1,222,383.9	781,723.8	834,383.2	45,054.6	44,839.8	18,703.0	12,536.5	1,140.8
(16.66% * ELT)										
NGL Base		2,038,666.0	152,840.7	646,998.0	1,162,073.1	9,035.0	13,181.5	13,285.2	1,880.7	171.1
NGL - Royalty		1,783,832.8	133,835.6	601,123.9	1,016,813.8	7,905.6	11,533.8	11,624.6	1,645.6	149.7
NGL NGLF appt.		2,122,778.0	159,240.0	715,274.0	1,210,168.0	9,412.0	13,732.0	13,814.0	1,960.0	178.0

Current Royalty Rate 12.5%
 Current Tax Rate 15.0%
 Economic Limit Factor 0.072193
 Economic Limit Factor (for Gas) 0.764778

**Calculation of Royalty Value - Prudhoe Bay Unit
January 1997**

Lessee	Oil (barrels)	Royalty Value	Product of Volume Times Royalty Value
Lisburne Production Center			
Lisburne Participating Area			
ARCO	176,138.00	\$19.500	\$3,434,691.00
BP Exploration	88,069.00	\$18.120	\$1,595,810.28
Exxon	176,138.00	\$18.730	\$3,299,064.74
Point McIntyre Participating Area			
ARCO	1,514,824.19	\$19.500	\$29,539,071.71
BP Exploration	1,825,326.54	\$18.120	\$33,074,916.90
Exxon	1,899,334.27	\$18.730	\$35,574,530.88
West Beach Participating Area			
ARCO	29,463.50	\$19.500	\$574,538.25
BP Exploration	29,463.50	\$18.730	\$551,851.36
Niakuk Participating			
BP Exploration	651,808.00	\$18.120	\$11,810,760.96
West Niakuk Participating Area			
ARCO	62,528.00	\$19.500	\$1,219,296.00
Exxon	62,528.00	\$18.730	\$1,171,149.44
P109			
ARCO	20,575.00	\$19.500	\$401,212.50
Prudhoe Bay Initial Participating Area			
ARCO	6,812,971.60	\$19.880	\$135,441,875.41
BP Exploration	9,731,640.80	\$18.640	\$181,397,784.51
Chevron	159,860.30	\$23.248	\$3,716,432.25
Exxon	7,700,737.40	\$19.220	\$148,008,172.83
Forcengery	9,111.30	\$19.880	\$181,132.64
Mobil	362,126.20	\$19.539	\$7,075,583.82
Phillips	364,589.50	\$20.690	\$7,543,358.76
Tetaco	100,129.00	\$18.950	\$1,897,444.55
Totals	31,777,362.10		607,508,676.79
Average Royalty Value			\$19.11786

Monthly Average Change in ANS West Coast Destination Values

Production Month	ARCO Value	% Change Previous Month	BP Exploration Value	% Change Previous Month	Exxon Value	% Change Previous Month	Average Percentage Change
Jan-97	\$23.45	-0.21%	\$23.44	-0.26%	\$22.86	-0.26%	-0.24%
Feb-97	\$20.27	-13.56%	\$20.26	-13.57%	\$19.69	-13.87%	-13.67%

APPENDIX B

EXAMPLES OF INTEREST AND LATE PAYMENT PENALTY

The following illustrates the date from which interest will accrue and the date that a late payment penalty will be assessed.

January 1 - 31, 1998 - State delivers January 1998 Sale Oil.

February 6, 1998 - State sends Mapco a statement of account that contains the production month invoice for January.

February 11, 1998 - (The date of the statement of account that contains January's production month invoice plus three business days) - Mapco must pay the January production month invoice amount in full on or before this date. If Mapco does not pay on this date, interest and a late payment penalty will accrue from this date on the unpaid balance until paid in full.

March 9, 1998 - State sends Mapco the statement of account that contains the initial adjustment invoice for January 1998 Sale Oil. Mapco owes the State an additional sum.

March 12, 1998 - Mapco must pay the initial adjustment invoice amount in full plus interest from February 11, 1998 through the March 12. If Mapco does not pay on or before March 12, 1998, interest and a late payment penalty will accrue from this date on the unpaid balance until paid in full.

January 11, 1999 - State sends Mapco a subsequent adjustment invoice for January 1998 Sale Oil. Mapco is entitled to a credit. State pays interest from February 11, 1998 through January 14, 1999, the date the statement of account that contains the subsequent adjustment invoice amount is due.

April 10, 2008 - Exxon notifies the State that, due to a clerical error, it has revised its royalty value for January 1998. The revision causes the Royalty Value for January 1998 to change.

April 17, 2008 - the State sends Mapco a statement of account that contains a subsequent adjustment invoice for January 1998. Mapco owes the State an additional sum.

May 17, 2008 - Mapco must pay the subsequent adjustment invoice amount for January 1998 Sale Oil in full plus interest calculated from February 11, 1998 through February 11, 2004. If Mapco does not pay the subsequent adjustment invoice amount in full on or before May 17, 2008, interest and a late payment penalty will accrue on the unpaid balance from February 11, 1998 until paid in full.

November 10, 2008 - The court settles a dispute between the TAPS carriers and shippers; carriers are awarded a higher tariff for January 1998.

November 28, 2008 - The State sends Mapco a statement of account that contains a subsequent adjustment invoice and a State Warrant for the subsequent adjustment invoice amount plus interest. Mapco is entitled to a refund that includes interest calculated from February 11, 1998 through November 28, 2008.

SCOMM

104:13

Future worries Enstar

**Cook Inlet gas is
not bottomless**

By STAN JONES

Daily News reporter

Cook Inlet won't run out of natural gas next week, but some big players in the market are getting a little nervous about what happens in the next decade.

An application by two oil companies to extend their federal license to export liquefied gas from the Kenai Peninsula through 2009 is worrying Enstar Natural Gas Co. The current license runs through 2004.

Enstar supplies gas for electricity and heat to about 95,000 business and residential customers in Southcentral Alaska. The company said the future of Inlet supplies is cloudy enough that the application should be put on hold for a couple of years.

"We have concerns about whether it makes sense to

Please see Page D-8, GAS



GAS: Inlet reserves won't last forever; Enstar wants license postponed

Continued from Page D-7

keep hauling Cook Inlet's gas to Japan at the rate they are," said Enstar president Richard Barnes. "We don't know whether we will be short of gas at that point in time or not."

The Kenai liquefied-natural-gas plant is owned by Phillips Petroleum Co. and Marathon Oil Co. Their main customers are Japanese utilities.

A study chartered to support the export application to the federal Department of Energy suggests that by 2009 Cook Inlet still should have more than five years of gas, even if few new fields are discovered and demand is high.

But things could turn out better. Demand could be lower than projected, and there could be lots of discoveries. That

could leave Cook Inlet with about 10 years of gas in 2009.

Moreover, the study noted, a North Slope gas line could be built to Valdez, opening up the possibility of a spur to Southcentral Alaska to offset any drop in Cook Inlet production.

"We don't see any reason to delay," said Dave Perkins, Anchorage-based regional manager for Marathon. "We're really scratching our heads to see what the problem is."

But Barnes sees all of those possibilities as reasons to wait. In a couple years, he said, exploration results will show whether Cook Inlet has more gas fields. It also could be clear by then if and when a North Slope gas pipeline will be built.

"Say neither of those comes to fruition," Barnes

said. "We'll need that gas for heating homes and making electricity, not for making electricity in Japan or for industrial uses in Japan."

Cook Inlet produces about 210 billion cubic feet of gas a year, according to the Phillips/Marathon study. A little over one-third is exported through the Phillips-Marathon plant, about one-fourth is made into fertilizer chemicals at Unocal Corp.'s Kenai plant, and a little over one-fourth goes to homes, businesses, military bases and electric utilities in Southcentral Alaska. The rest — about one-tenth — is used to run Cook Inlet's oil and gas fields.

Bill Van Dyke, with the state Division of Oil and Gas, said he had reviewed the Phillips/Marathon Cook Inlet analysis and didn't find big problems with any of the

numbers.

Barnes said he didn't know yet if Enstar will formally oppose the Phillips/Marathon application to continue exporting Cook Inlet gas.

"That's a fine business for the state of Alaska to be part of," he said. "But let's make sure that that's not going to negatively impact the people who live here."

Unocal, which produces gas in Cook Inlet and consumes it at its Kenai plant, doesn't know if the Phillips/Marathon application is premature, said Kevin Tabler, the company's Alaska land manager. But Unocal is keeping an eye on supplies.

"We'd clearly like to see liquefied natural gas exports continue if it's the prudent thing to do," Tabler said. "But if Enstar's concerned, so are we."

One of Enstar's concerns

is something called "deliverability." That refers to the ability of gas fields to cope with the huge seasonal swings in demand seen in Southcentral Alaska. In the summer, when the weather is mild and daylight is nearly continuous, electric plants, homeowners and businesses don't use much gas. In the winter, when it's cold and dark, the demand for natural gas soars to two-and-a-half times the year-round average, said Enstar vice president David Sinclair.

For the present, Cook Inlet gas fields are strong enough to handle such swings in demand. But if they are drawn down far enough, they will be unable to cope with big demand peaks, even if they can supply enough gas on a year-round average.

As is common practice

with utilities Outside, Enstar might have to arrange to store gas in slack times, either in tanks or underground in old fields, to meet peak needs.

"It's both deliverability and supplies," Sinclair said. "If we wait a little bit, we might be able to remove some of the uncertainty."

Van Dyke, the state oil and gas official, said Cook Inlet will run out of gas eventually, and adding another five years to the Phillips/Marathon export license probably won't make much difference.

"North Slope gas in the long run solves everybody's problem," Van Dyke said. "The sooner we can get a gas line built and then run a spur over here to Cook Inlet, the sooner there are no problems."



Official Business

COMMITTEES:
Natural Resources
Legislative Council

Alaska State Legislature

Office of World Trade And State/Federal Relations

REPRESENTATIVE
RAMONA L. BARNES
District 22

Anchorage
P.O. Box 103382
Anchorage, AK 99510
(907) 337-7737
(907) 258-8163

State Capitol
Juneau, AK 99801-1182
(907) 465-3438

MEMORANDUM

TO: Members, House Special Committee on World Trade
and State/Federal Relations

FROM: Representative Ramona L. Barnes, Chair
House Special Committee on World Trade
and State/Federal Relations

DATE: January 23, 1997

SUBJECT: Committee Substitute for HCR 1

A handwritten signature in cursive script, appearing to read "Ramona", written over the "FROM:" line of the memorandum.

Please note the Committee packet for today's meeting includes a draft CS for HCR 1, "Relating to a new Alaska liquefied natural gas project".

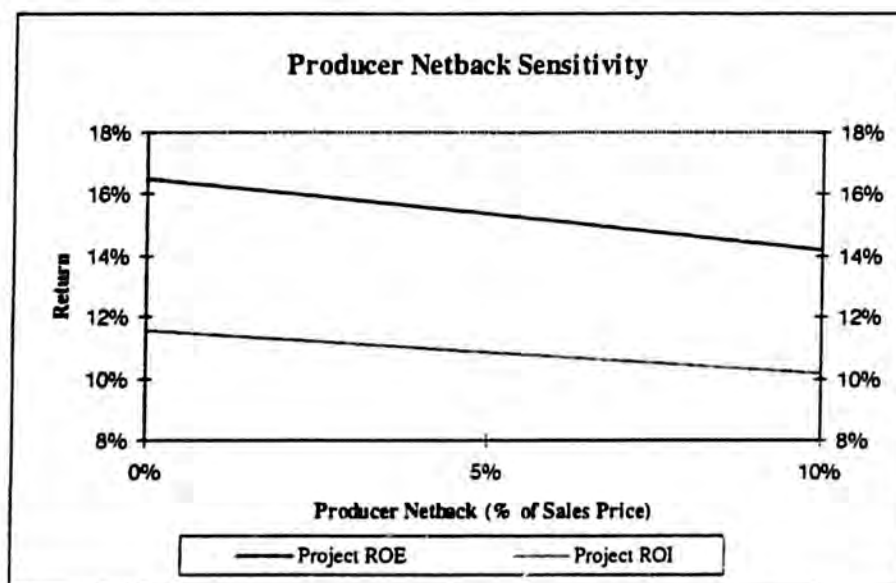
The CS for HCR 1 (WTR) simply adds a section which was inadvertently left out of the original resolution.

The CS adds lines 2 to 6 on page four of the resolution.

Producer netback: The producers could receive a payment of economic rent in the form of a positive netback. The returns to the Project under a number of positive netback sensitivities are as follows:

Producer Netback Sensitivities

NOMINAL AFTER-TAX	PROJECT ROE	PROJECT ROI
Netback at 10% of LNG sales price	14.2%	10.2%
Netback at 5% of LNG sales price	15.4	10.9
Reference Case (0% netback)	16.5	11.6



Where the Project is required to pay a netback price to the producers for gas sales to the Project and the producers are also Project Sponsors, payment of the netback revenues will have the following impact on their overall returns:

NOMINAL AFTER-TAX	ROE TO PRODUCER	ROI TO PRODUCER
Netback at 10% of LNG sales price	16.3%	11.3%
Netback at 5% of LNG sales price	16.3	11.4
Reference Case (0% netback)	16.5	11.6

While the Project's returns decline from instituting a netback price on the sale of gas to the Project, the returns to the State of Alaska increase from the imposition of royalty and severance taxes. Aggregate revenues to the State of Alaska increase to \$16.1 billion over the life of the Project with a netback of 10%⁹.

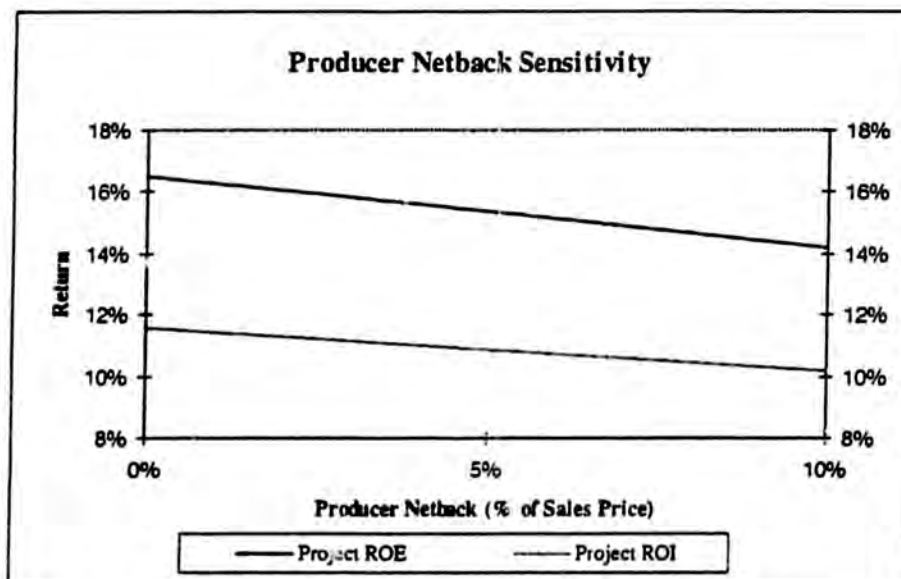
⁹ If a 4% effective tax rate were assumed, revenue to the State of Alaska would be \$10.8 billion.



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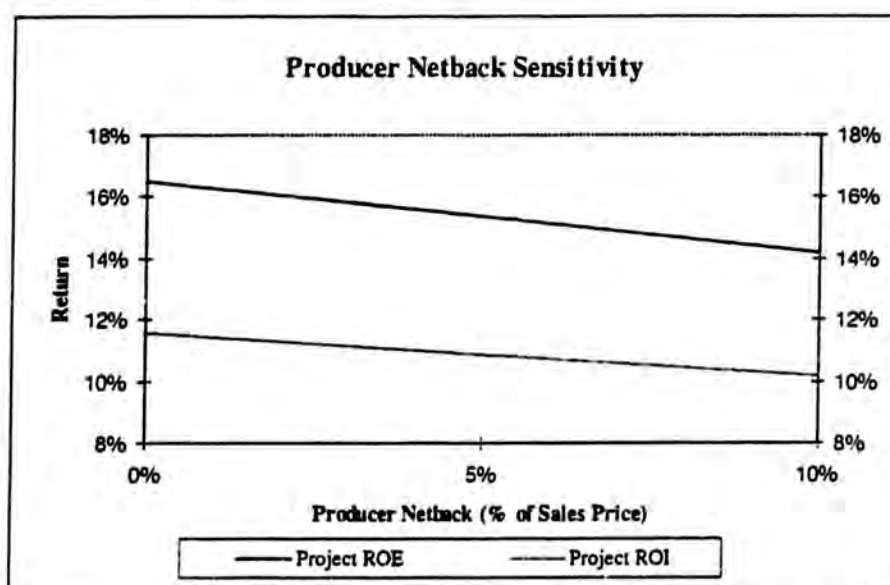
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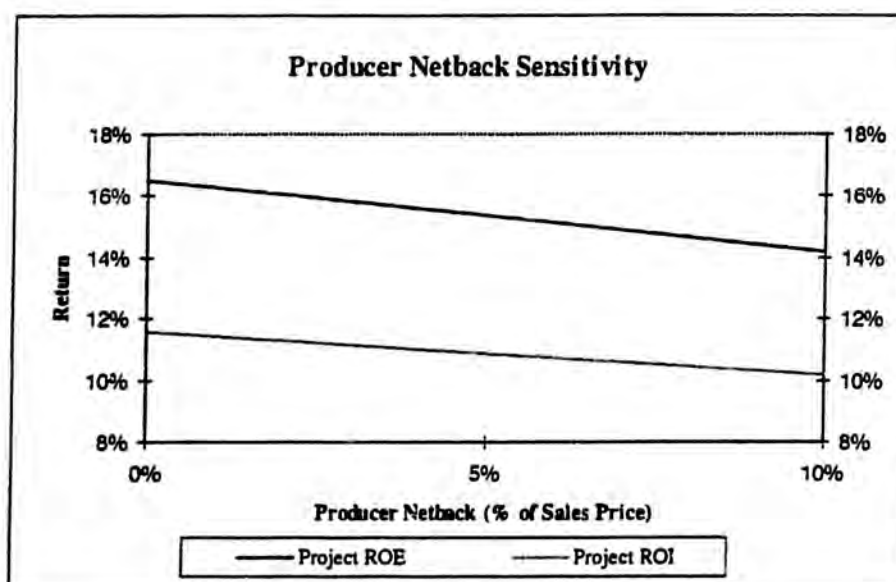
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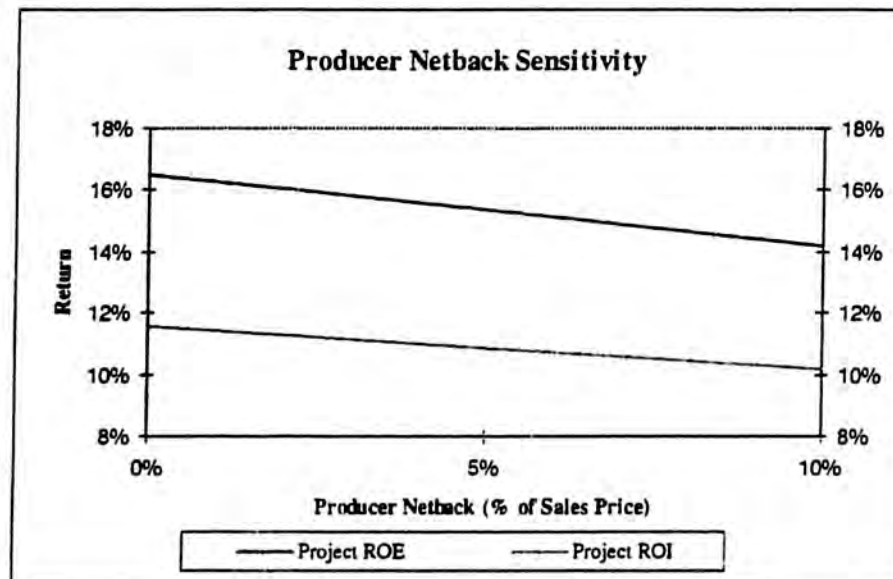
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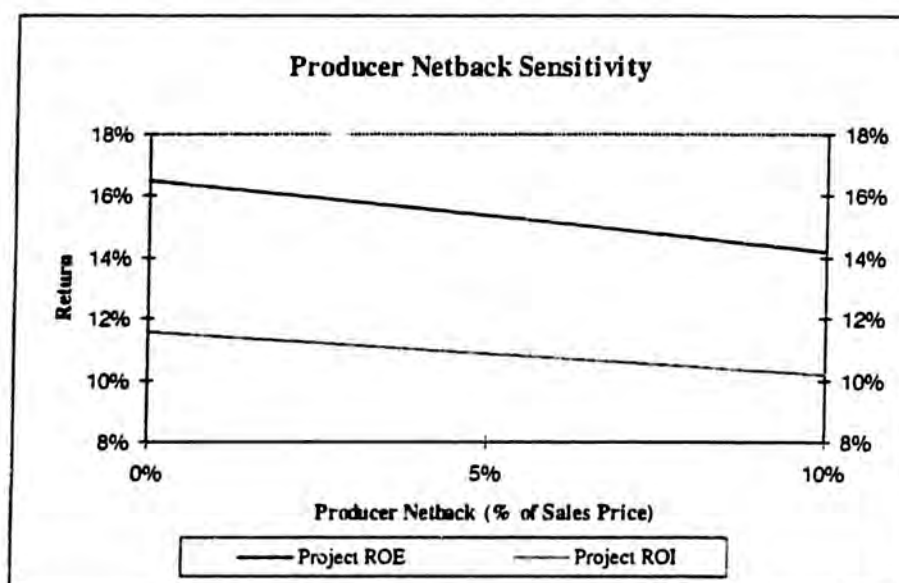
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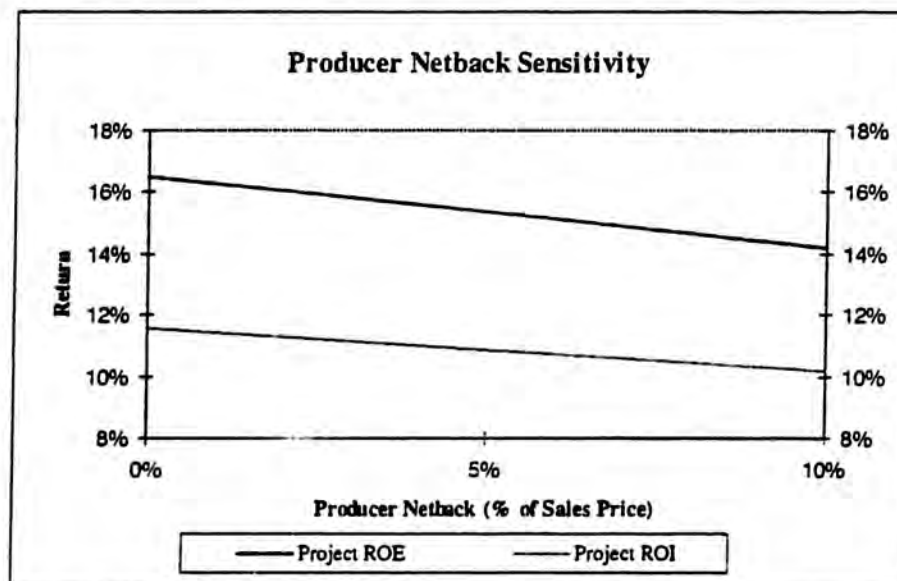
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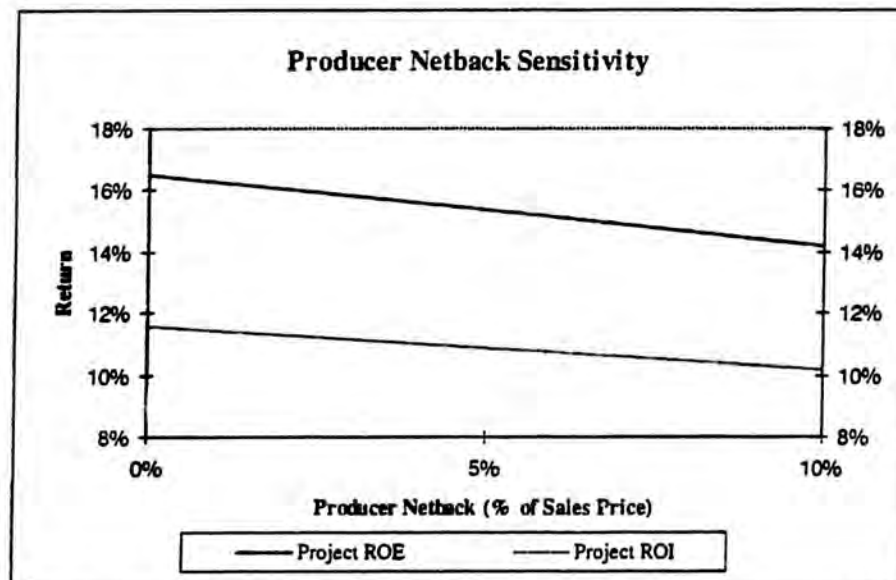
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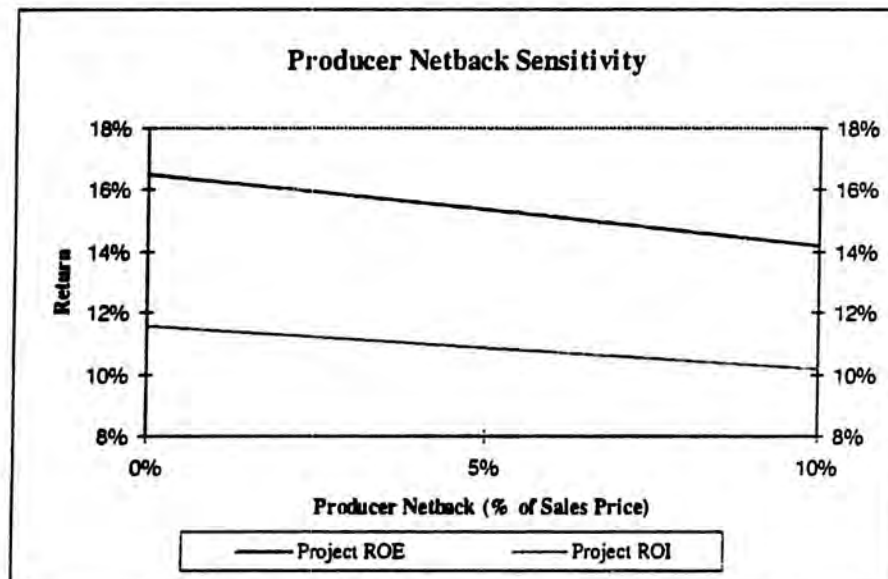
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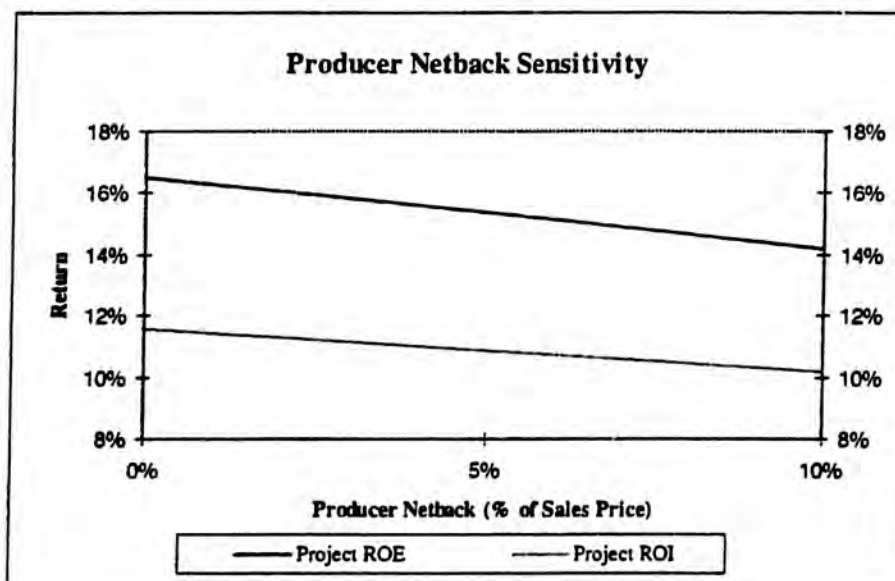
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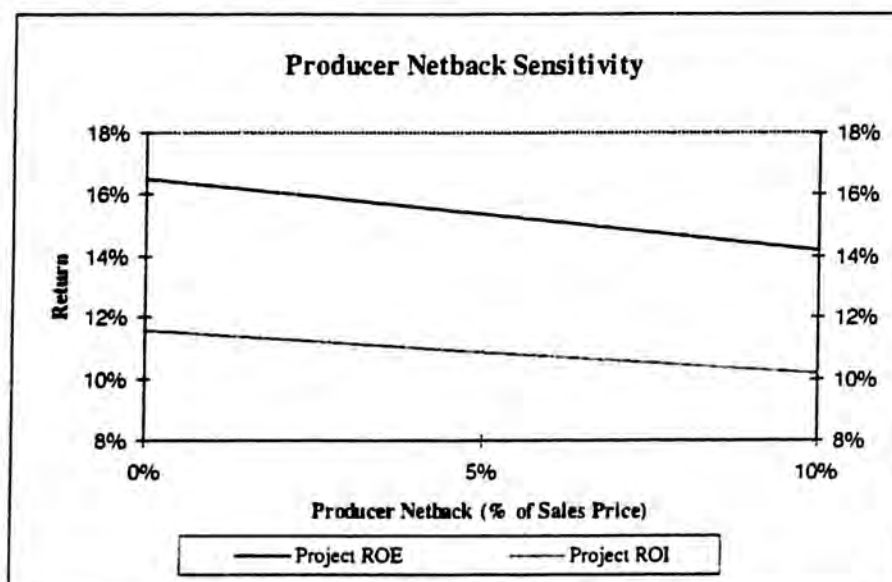
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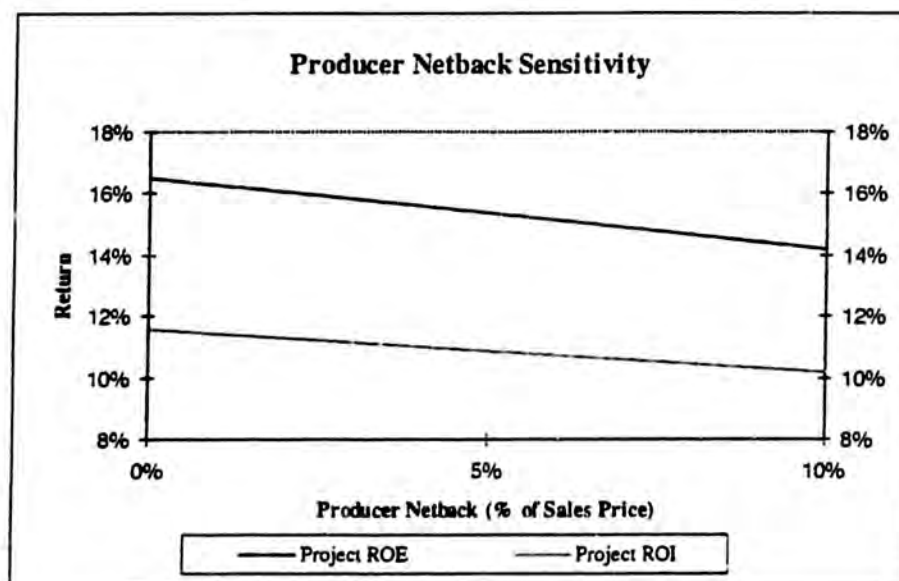
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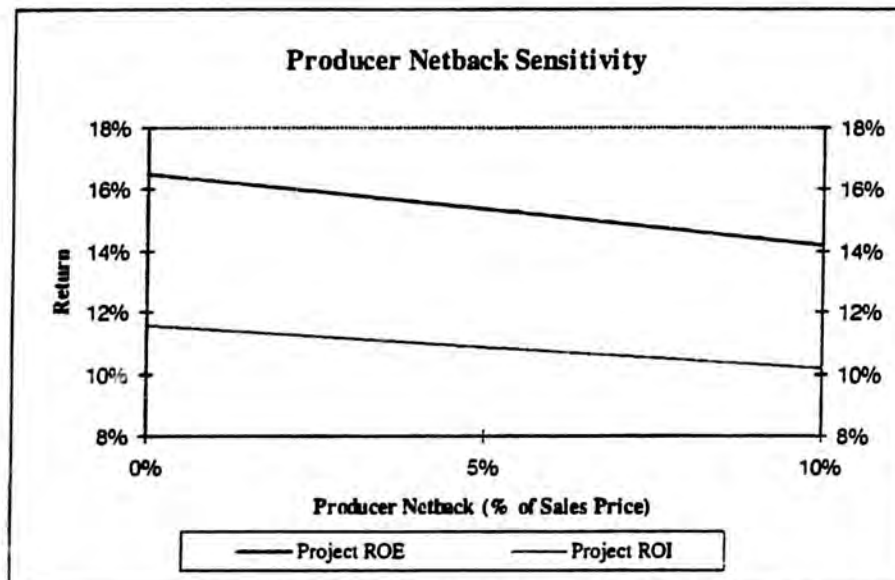
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