

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

526 SCOMM16: JOINT SPEC. COMM. ROYALTY OIL & GAS 1977-78 526

with respect to the State of Alaska royalty crude oil for purposes of any mandatory crude oil allocation program under applicable law or regulations of the Department of Energy or its successors then in effect upon the call therefor by Buyer under the provisions of this Article 2.4. In order to effectuate the purposes of this paragraph Seller shall furnish Buyer such information as Buyer reasonably requests from time to time concerning leases of which the State is Lessor and possesses the right to receive its royalty in kind. At such time as the average daily quantity of crude oil available to be delivered pursuant to the provisions of Articles 2.1 and 2.3 reaches or exceeds 150,000 barrels per day for more than two (2) consecutive months after such option has been exercised by Buyer, Seller shall have the right to terminate Seller's taking of royalty crude oil in kind under the other leases as described above in this Article 2.4, upon prior written notice which is thirty (30) days more than the period necessary to provide legal notice to Seller's lessees of Seller's return to taking its royalty in value rather than in kind, but on not less than ninety (90) days' written notice to Buyer. Thereafter, Buyer shall again be entitled to exercise its rights under this Article 2.4 should the aggregate average quantity of 145,000 barrels of crude oil per day available to be delivered under Articles 2.1 and 2.3 not be attained for more than two (2) consecutive months. If for any reason Buyer's election or elections to receive oil under this Article 2.4, along with the other obligations of Buyer to receive oil under this Agreement result in Seller being required to take from its Lessees or the lessees referred to in Articles 2.3 and 2.4

more than 150,000 barrels per day, Buyer will take all such oil from Seller and shall advise Seller so that Seller may give notice to its Lessees to reduce the quantities of oil it is taking in kind pursuant to Buyer's nominations to an aggregate of 150,000 barrels per day.

✓ 2.5 Increases or Decreases of Crude Oil. Notwithstanding any other provision of this Agreement to the contrary, after the Date of First Delivery and from time to time thereafter, Buyer shall have the right upon notice to Seller to require Seller to exercise its right under the Prudhoe Bay Unit Agreement (and under any other lease the oil from which is being sold to Buyer under Articles 2.3 and 2.4 if the terms of such lease so permit) to increase or decrease, ^{up to 150,000} by the terms of said Unit Agreement (or lease), the quantity of royalty oil to be delivered to Seller, and the quantity of royalty oil to be delivered to and purchased by Buyer under this Agreement shall be so adjusted; provided, however, that the provisions of this Article 2.5 shall not operate or be construed to require that Seller deliver and sell to Buyer the percentage portions of Seller's royalty oil out of the Leases or out of the leases referred to in Articles 2.3 and 2.4 which Seller has expressly reserved as not to be sold and deliverable hereunder, and further provided that Seller shall not be required to deliver more than 150,000 barrels per day hereunder as an average daily delivery during any calendar month. In addition to the time for notice specified in the Prudhoe Bay Unit Agreement (or any such other lease), Buyer agrees to give Seller an additional thirty (30) days' notice of any nominations under this paragraph. In order to provide maximum administrative efficiency, nominations

under this Article 2.5 shall be made not more than once every thirty (30) days.

2.6 Delivery of TAPS Fill by Seller. Upon initiation of deliveries pursuant to Article 2.2, Seller in addition to all other quantities of crude oil deliverable hereunder shall deliver to Buyer on or prior to the Date of First Delivery a sufficient quantity of crude oil for Buyer to fulfill its tariff obligations to supply Trans-Alaska Pipeline System pipeline fill and storage tank bottom requirements. Buyer shall pay for such quantity of oil on the date of termination pursuant to the provisions of Article IX, X or XIV hereof, at the price stipulated in Article VIII as if such oil had been delivered to Buyer at the Point of Delivery forty-five (45) days prior to the said date of termination. In the event that Buyer, prior to the completion of the Petrochemical Facility, suspends its purchase of oil from the Leases after having initiated deliveries and after Seller has delivered the pipeline fill and storage tank bottom requirements as provided by this Article 2.6, Buyer shall pay for such quantity of oil as if it had been delivered at the Point of Delivery on the date Buyer suspended its purchases. Thereafter Seller shall again be obligated to provide pipeline fill and storage tank bottom requirements upon Buyer's reinitiation of deliveries of oil out of the Leases as provided by other provisions of this Article II.

Asphalt
Corrosion
for
copy of
tariff
obligations
3/21/78

✓ ARTICLE III

POINT OF DELIVERY AND PASSAGE OF TITLE

✓ 3.1 Point of Delivery. Delivery of the oil sold from

Seller to Buyer under Article 2.1 shall be made at the Seller's or Lessees' A.C.T. meter at the inlet inception point of the Trans-Alaska Pipeline System at Pump Station Number 1, Prudhoe Bay, Alaska. Delivery of any oil sold pursuant to the provisions of Articles 2.3 and 2.4 shall be at the same point of delivery that such oil is delivered to Seller by the lessee paying such oil as royalty oil in kind to Seller. Delivery under this Article 3.1 may be made at such other point or points of delivery as may be mutually agreed between Buyer and Seller. The Point or Points of Delivery set forth in this Article 3.1 shall hereinafter be referred to as the "Point of Delivery" or "Points of Delivery."

✓ 3.2 Passage of Title. Title to the oil to be sold hereunder shall pass from Seller to Buyer upon delivery.

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

*should be eliminated
accord to state's legal consultant, since ALPETO will take royalty on
before the completion of
petrochemical facility*

ARTICLE IV

REPRESENTATIONS AND OBLIGATIONS OF BUYER

Buyer represents, warrants and agrees that:

✓ 4.1 Good Standing. Buyer is and at all times hereunder

will remain a corporation qualified to do business in, and in good standing with, the State of Alaska.

4.2 Construction of a Petrochemical Facility in the State of Alaska.

✓ 4.2.1 Construction Obligations. In consideration of the obligations assumed by each party herein, Buyer will proceed with reasonable diligence to design, construct, start up and thereafter initiate operation of a petrochemical manufacturing facility with fuels refining capacity in the State of Alaska. Such facility shall include facilities for the manufacture of energy fuels, aromatics, olefins and petrochemical derivatives of such basic feedstocks, and will include "offsite" facilities such as power supply, water supply, port facilities and administration buildings. Final process configuration and production rates of the various products listed above will be determined by (i) marketing considerations based on sales contracts for the products and (ii) process optimization of the overall facility design to produce the desired products in the most effective manner. Variations in process optimization will occur throughout the anticipated life of the facility. Such facilities shall be hereinafter referred to as the "Petrochemical Facility."

What does that really mean?

✓ 4.2.2 Siting of Petrochemical Facility. Buyer has chosen several preferred sites for the location of its Petrochemical Facility. Buyer shall notify the Commissioner no later than six (6) months after the Effective Date which site it has chosen (and the reasons for its choice of such site in reasonable detail), which such

site shall be subject to the approval of the Commissioner within ninety (90) days after receipt of notice by Seller of Buyer's choice of site. In making his decision, the Commissioner shall consider, among other things, the desires of the people who live in the immediate surroundings of any proposed site. Failure of Buyer to receive written reply from the Commissioner within such ninety (90) day period shall be deemed an approval of the site selection; provided, however, that such approval shall in no manner diminish or alter Buyer's obligation to obtain all requisite state and federal permits, licenses and applications or to comply with other applicable laws or regulations. In the event the Commissioner disapproves a proposed site, Buyer shall resubmit with additional pertinent information its original proposed site or shall propose an alternate site to the Commissioner within ninety (90) days from the date Buyer receives notice of disapproval. Resubmissions or submissions of alternate sites shall continue in like manner until a site is approved by the Commissioner. *By order ALPETCO cancels contract 9/1/60*

Site submissions under 10.3.
4.2.3 Progress Reports by Buyer. From the Effective Date and until the conditions stated in Articles 10.2(1) through 10.2(3) have been satisfied, on or before the twentieth (20th) day of each month, the Buyer shall furnish the Commissioner a written progress report as of the end of the preceding calendar month describing compliance with the requirements of such Articles, the engineering, design and construction activities of Buyer with respect to the Petrochemical Facility, progress in the marketing of the products therefrom, and the proposed financings and scheduled expenditures of the Buyer. After fulfillment of all the conditions stated

in Articles 10.2(1) through 10.2(3) and until all the conditions stated in Articles 10.2(4) through 10.2(9) have been satisfied, Buyer shall furnish like progress reports (also to be on the twentieth (20th) day of the month) each calendar quarter as of the end of the calendar month immediately preceding the month in which the report is made, beginning on the twentieth (20th) day of the third month next following the month during which the conditions under Articles 10.2(1) through 10.2(3) were fulfilled. Such reports, or portions thereof, shall be held confidential as requested by Buyer to the extent permitted by law.

What is the intent of legal confidentiality?
✓ 4.3 Production of Energy Fuels for Intrastate Use. In order to provide fuels for distribution within the State of Alaska, Buyer shall design and construct the Petrochemical Facility to include a capacity to process 30,000 barrels of crude oil per day into energy fuels. If Buyer does not utilize the royalty oil sold and delivered hereunder, or traded or exchanged oil, in the Petrochemical Facility, then it shall utilize its best efforts to assure that at least 30,000 barrels per day of said royalty oil will be processed instate for production into energy fuels for intrastate distribution and sale, unless such processing would be surplus to the then prevailing intrastate domestic and industrial needs.

from 10/1/84
4.4 Establishment of Charitable Foundation. Buyer covenants and agrees to establish the Alaska Endowment Trust, the purpose of such trust being to further the social, educational, cultural and environmental conditions in the State of Alaska. The

Alaska Endowment Trust shall be established under the terms of a trust instrument proposed by Buyer and approved by the Governor of Alaska and Alaska Legislature; the trust corpus shall be administered by a Board of Trustees unaffiliated with Buyer. Trustees shall be appointed by the Governor of Alaska and confirmed by the Alaska Legislature. The corpus of the Alaska Endowment Trust shall be created from contributions by Buyer of amounts equal to five percent (5%) of the net after-tax profits, as hereinafter defined, realized from the operation of the Petrochemical Facility and sale of fuels and petrochemical products produced from the Petrochemical Facility. Each such annual contribution shall be paid on or before July 1 of each year based upon the net after-tax profits of the immediately preceding calendar year, the first such year of measurement to commence on January 1 next following ten (10) years after the Petrochemical Facility is completed, as measured by the delivery of the certificate of completion and operability by the prime contractor of Buyer in charge of construction of the Petrochemical Facility or sixteen (16) years after the Effective Date, whichever is earlier. "Net after-tax profits" shall mean the net income of Buyer prior to deduction or accrual of amounts payable under this Article 4.4 and shall be determined in accordance with generally accepted accounting principles applied on a consistent basis after deduction for all taxes which would have been provided for in the financial statements of Buyer for the year but for the payment of the amounts payable under this Article 4.4. Since the parties

*less than 5%
What does this mean? What is the intent with the trust?*

have assumed that payments under this Article 4.4 will be deductible as an expense for purposes of any tax imposed on the income of Buyer, in the event any taxing authority does not permit such deduction, the amount payable hereunder shall be adjusted to reflect such non-deductibility. Charges made by or to any Affiliate shall be reasonable and shall not exceed those charges which would have been made in arm's length bargaining with an unaffiliated party in light of all the circumstances of the transaction, including the length of term of any contracts, financing terms and any other direct and indirect benefits offered or received. All sales between Buyer and any Affiliate shall be at a fair market price or value for such goods or services in light of all the circumstances, including the length of term of any contractual relationship, financing terms and any other direct or indirect benefits offered or received.

ARTICLE V

REPRESENTATIONS AND OBLIGATIONS OF SELLER

Seller represents, warrants and agrees that:

✓ 5.1 Seller's Royalty Oil. Pursuant to the Leases and the leases presently in effect and referred to in Article 2.4, Seller has the right to take its royalty in kind (amount), which royalty oil it represents is at least twelve and one-half percent (12-1/2%) of any crude oil production removed or sold from the Leases, unless otherwise described in Exhibit "A".

✓ 5.2 Title. Seller hereby warrants good and marketable title to the oil sold by it hereunder and its right to sell the same,

and warrants that all such oil is owned by Seller free from all liens, encumbrances and adverse claims.

5.3 Storage of Oil. Under Paragraph 13 of the Lease Contracts, Seller may be entitled, under certain conditions, to storage of Seller's royalty oil from Lessees free of charge. Seller hereby licenses to Buyer its storage rights, if any, under the Leases (and under any other leases the oil from which is being sold to Buyer pursuant to Articles 2.3 and 2.4) effective upon the Date of First Delivery, to the fullest degree permissible under the Lease Contracts and to an extent proportionate to the proportion of Seller's royalty oil being delivered hereunder. Seller further agrees that it will aid and work with Buyer to resolve any uncertainties or ambiguities concerning Seller's right to storage under the Lease Contracts, including the institution and pursuit of litigation at Buyer's ^{have} cost to ^{to} clarify Seller's legal rights of storage under said Paragraph 13. ^{that} Buyer and Seller agree that their mutual objective shall be to ^{be de-} maximize the Seller's and Buyer's rights to receive storage of the oil from the Lessees. ^{permitted} Notwithstanding anything stated herein, Seller does not warrant that it possesses any right or rights to storage under the Lease contracts or any other leases. Buyer agrees that any failure to obtain storage hereunder from the Lessees shall not relieve Buyer of its obligations under Article 10.2. Buyer will indemnify Seller and hold it harmless against all claims, costs, loss or liabilities arising from Buyer's use of said storage facilities or rights.

Prudhoe Bay
✓ 5.4 Covenant to Aid in Obtaining Governmental Permits.

to what does it refer?

In order to construct the Petrochemical Facility, Buyer must obtain numerous permits, licenses and authorizations from state, federal and other governmental authorities. Seller agrees to utilize its best efforts to support, lend aid and facilitate the grant or approval of Buyer's applications for such permits, licenses and authorizations; provided, however, that the obligations stated herein shall not require Seller to support, lend aid or facilitate the grant or approval of any permits, licenses and authorizations which do not comply with applicable rules, regulations or laws, and provided further that Seller's obligations herein shall not require Seller to waive, rescind, modify or otherwise alter (either in substance or procedure) any of Seller's regulatory responsibilities. Seller, acting through the Commissioner, within thirty (30) days after the Effective Date shall appoint a state official who shall act as Seller's coordinator for the purpose of facilitating the granting of permits by Seller and to act as a liaison officer for Buyer and Seller with the federal government. Such designation may be changed from time to time by the Commissioner.

✓ 5.5 Delivery of Information to Buyer. Seller shall deliver to Buyer without cost to Seller (unless any costs to Seller be indemnified by Buyer) within thirty (30) days after the Effective Date:

- what does this refer to? (or what?)*
- (i) the most recent report it possesses or can obtain from third parties concerning the volume of hydrocarbons originally in place and the portions or fractions thereof which will be recovered from the Prudhoe Bay unit reserves, accompanied by any related studies or data pertaining to such report;

production as a result of gas lifting - Dasher Report
concern with reduction of oil
why should ASPCO be given this info?

(ii) the most recent anticipated production schedules of oil, solution gas, gas cap gas and condensate in its possession or obtainable from third parties out of the Prudhoe Bay unit by year; and

(iii) the most recent information, projections or estimates in its possession or obtainable from third parties of anticipated crude oil discovery and production in Alaska during the term of this Agreement.

During the term of this Agreement, as reasonably requested by Buyer in writing, Seller shall furnish updated information pertaining to Subparagraphs (i) through (iii) of this Article 5.5. Certain information and documents, including but not limited to well logs and related production data pertaining to the Leases and other leases referred to in Articles 2.3 and 2.4 may be required by law or regulation to be held confidential by Seller, its representatives and agents, and such documents shall not be required to be delivered hereunder. Seller understands and acknowledges the importance of reports taken from such data in securing financing for the Petrochemical Facility, and Seller agrees to use its best efforts to obtain and furnish to Buyer all such relevant data and reports as requested by Buyer. Seller agrees to retain, at Buyer's cost, independent consultants acceptable to Buyer to review confidential data, to prepare such updated reports and to state such opinions as may be reasonably requested by and furnished to Buyer to the extent permitted by applicable law and regulation. Seller's obligations under this section are for the purpose of aiding Buyer in obtaining up-to-date information, some or all of which may have been furnished to Seller by third parties; accordingly, Seller does not, by provid-

ing Buyer with the information specified in Subparagraphs (i) through (iii), warrant or represent the accuracy of such information, nor does Seller obligate itself to attempt in any way to bring about the conditions or projections contained in the information provided.

01/10/51
ARTICLE VI

QUALITY

01/10/51
✓ 6.1 Standard. The oil to be delivered by Seller to Buyer at the Point of Delivery hereunder shall be the same quality as the oil delivered by the working interest owners from the Leases and the leases. Except for the foregoing, Seller does not warrant, represent or guarantee, either expressly or impliedly the quality, merchantability, fitness for use, or suitability for any particular use or purposes, or otherwise of any oil to be delivered to Buyer under this Agreement. There are no warranties, representations or agreements concerning the quality of the oil which extend beyond the description of the oil in this Article VI.

Prudhoe Bay Lease

ARTICLE VII

MEASUREMENTS AND TESTS

7.1 Testing Standards and Procedures. The quantity and quality of the crude oil sold and purchased from the Leases shall be determined at Lessees' A.C.T. meters at Pump Station One, Prudhoe Bay, Alaska. The quantity and quality of the crude oil sold and purchased from the other leases shall be determined at the Lessee's point of delivery. All measurements hereunder shall represent one hundred percent (100%) volume, consisting of United States barrels of forty-two (42) gallons, the quantity and gravity of which shall be adjusted to a temperature of sixty degrees (60°) Fahrenheit. Full deduction

shall be made for all basic sediment and water content according to the ASTM Standard Method then in effect. Unless agreed otherwise between Buyer and Seller or set forth herein, procedures for measuring and testing and for metering the crude oil shall be completed in accordance with standard oil field practices. Procedures for metered deliveries under the Leases shall be in accordance with accepted oil field practices in effect at Prudhoe Bay, Alaska. At the direction of Buyer, Seller shall direct the Lessors or lessees to test the accuracy of their measuring equipment if and to the extent that the provisions of the Prudhoe Bay Unit Agreement or any other agreement between Seller and Lessees or lessees permit Seller to make such request. Notice of the time and nature of each test of Lessees' or lessees' measuring equipment shall be given by Seller to Buyer sufficiently in advance to permit convenient arrangement for Buyer's representative to be present. Tests and adjustments shall be made in the presence of representatives of Buyer if present at the time scheduled for such test and adjustment. At Buyer's election and subject to obtaining the permission of any necessary third parties, Buyer may also install equipment to measure or gauge all oil received by Buyer hereunder at the Point of Delivery, and Buyer shall bear the entire acquisition, calibration, maintenance and operating cost of any such loading, measuring or testing equipment required by Buyer.

7.2 Delivery of Crude Oil Samples by Seller. Upon reasonable request by Buyer, Seller at its cost shall utilize its best efforts to aid Buyer in obtaining a representative sample of one barrel of crude oil taken at Valdez, Alaska, in order for Buyer

to perform an assay to analyze the composition, gravity, sulphur content and other characteristics of such crude oil sample. If any sample of the oil is delivered to Buyer, there is no representation or warranty by Seller that any other oil delivered hereunder will conform to the sample, it being understood that Seller will deliver only such oil as shall be delivered to it by the Lessees or lessees under the Leases or leases. Seller shall provide Buyer copies of all other assays obtained or received by it during the term thereof.

ARTICLE VIII

PRICE

8.1 Price.

✓ 8.1.1 Price of Oil Delivered Out of the Leases. As to oil sold and delivered hereunder out of the Leases, the price to be paid by Buyer to Seller shall be equal to the sum the Seller would have received from the Lessees had Seller received its royalty in value instead of taking the quantity of royalty oil delivered hereunder as its royalty in kind (amount). Seller and Buyer recognize that the method and basis of computing the royalty due Seller from Lessees under the Leases is currently a matter of dispute and litigation among the Seller and its Lessees, said litigation being entitled State of Alaska, et. al. vs. Amerada Hess Corp. et al., (No. CA 77-847, Superior Court of the State of Alaska, First Judicial District at Juneau). Pending resolution of said dispute among Seller and Lessees, by judicial decision or settlement in the above-

See legal comment in document

products?

referenced case, the in value royalty under the Leases, and therefore the price hereunder, shall be computed in accordance with Exhibit "B", attached hereto and by reference made a part hereof. After such time as said dispute shall be resolved among Seller and its Lessees, the parties hereto will be bound by the terms of such resolution, judicial or otherwise. Seller and Buyer expressly recognize that adjustment in prices previously paid may be necessary following said resolution and said adjustment shall be duly made, with interest, pursuant to the applicable provisions of Article IX. *Payment of oil*

Any settlement agreement which agrees to the imposition of costs which are reimbursable by Buyer to Seller under Article 8.2, however, shall not be final and binding upon Buyer, unless Buyer has consented in advance to such settlement. 2

✓ 8.1.2 Price of Oil Sold Under Article 2.3. Oil sold pursuant to the provisions of Article 2.3 shall be the same lower price on the same terms and conditions as Seller is proposing to offer such oil.

✓ 8.1.3 Price of Oil Sold Under Article 2.4. The price of the oil sold pursuant to the provisions of Article 2.4 shall be the greater of (i) the best and highest price offered by a bona fide offeror for a like quality and quantity of the crude oil to be produced from such lease out of which oil is being delivered; or (ii) a price equal to the sum Seller would have received from its lessee or lessees had Seller received its royalty in value instead of taking the quantity of royalty oil delivered hereunder as its royalty in kind (amount).

✓ 8.2 Reimbursement of Certain Costs of Seller. In addition to the price stated in Article 8.1, Buyer shall also reimburse Seller for Seller's pro rata share of (i) any basic sediment and water removal costs if Seller is required to pay such costs as a result of Seller's election to take its royalty oil in kind; and (ii) any other direct costs reasonably incurred and paid by Seller which would not have been incurred by Seller had the Seller taken its royalty in value rather than in kind and if such costs under Article 8.2(i) and (ii) were not previously reflected in applicable computations of value for payments of royalty in value. Seller shall use its best efforts to minimize any such costs incurred by Seller by reason of Seller's taking royalty oil in kind; such best efforts shall include but not be limited to litigation in cooperation with Buyer, at Buyer's cost, to the extent necessary to contest the imposition of unwarranted or improper charges; provided, however, that Seller shall in no event be required to advocate legal positions or adopt legal strategies which it, in its discretion, deems contrary to its own interests, in any such litigation. Seller at this date does not know of any potential costs to be incurred by it as a result of its taking in kind rather than in value other than the costs stipulated in Article 8.2(i) above.

✓ 8.3 Minimum Taking in Value by Seller. In order to facilitate the establishment of prices under Article 8.1 Seller agrees at all times during the term of this Agreement to take and receive in value rather than in kind the minimum number of barrels per day required to obtain a report of the in-value price from each Lessee.

✓ 8.4 Federal Price Regulation. In the event a maximum price is established by the federal government during the term of this Agreement which applies to the royalty oil and which is lower than the prices established under this Article VIII above, then Buyer shall pay the Seller that maximum price for royalty oil delivered to Buyer, but only during such period such maximum price is in effect.

ARTICLE IX

PAYMENTS AND ACCOUNTING

✓ 9.1 Billing. Seller shall furnish Buyer monthly, on or before the tenth (10th) business day of each month after the first full month of delivery of crude oil, a statement of account of all crude oil delivered through and measured at the Point of Delivery during the immediately preceding month according to the best information available to Seller, the price or prices applicable thereto according to the best information available to Seller, the basis for computation of the applicable price or prices in full detail and the total net amount due. Seller shall render its billings to Buyer based upon the values, receipts, costs and computations reported by the Lessees to Seller. Seller shall thereafter adjust its initial billings pursuant to Article 9.5. Buyer and its authorized agents shall be permitted access during reasonable business hours to Seller's books and records pertinent to this Agreement to determine the correctness of the billings of Seller to the extent not contrary to law.

✓ 9.2 Payment. Buyer shall make payment on or before the twenty-fifth day of the calendar month in which such statement is rendered or fifteen (15) days after rendition of the invoice called for in Article 9.1, whichever is later, by direct wire transfer of federal reserve funds through the Federal Reserve Bank wire transfer system to the following address or such other address as Seller may designate upon seven (7) days' prior written notice:

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

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

✓ 9.3 Billing Disputes. Should any portion of the account furnished to Buyer by Seller be disputed in good faith, Buyer and Seller agree to mutually arrive at a fair and equitable resolution of such dispute, if possible, and Buyer agrees to pay the amount so determined to be due to Seller within fifteen (15) days after such resolution. Buyer shall pay for such amounts as it does not in good faith dispute, in accordance with the provisions of this Article IX.

✓ 9.4 Late Payment Charge. If Buyer fails to make timely payment to Seller of any amount due under this Agreement, including

any payment delayed by a bona fide dispute which is later determined to be validly owing, or if Buyer is required to pay and does pay any amount which is later determined not to be validly payable to Seller, interest shall accrue and be payable on said sum from the date when such payment was due or was paid, as the case may be, until the same is paid or repaid, at the lower of (i) a rate per annum equal to the prime rate then being charged by Chemical Bank of New York, New York, plus one and one-quarter percent (1-1/4%) per annum, or (ii) the maximum lawful rate of interest per annum which may be charged to Buyer under the laws of the State of Alaska.

✓ 9.5 Adjustments to Billings. Each month Seller shall adjust its statement of accounts to reflect the actual amounts delivered and the price or prices applicable thereto. Seller shall from time to time adjust its prior billings to reflect adjustments necessitated as a result of (i) a final judgment or settlement entered in certain pending litigation between Seller and the Lessees styled State of Alaska, et al. vs. Amerada Hess Corporation, et al. No. CA 77-847, in the Superior Court of the State of Alaska, First Judicial District at Juneau; (ii) adjustments necessitated as a result of the filing with the Seller by the Lessees of more current reports applicable to the billing period in question; (iii) actual adjustments necessitated as a result of changes to values, receipts, costs and computations previously reported by the Lessees and utilized by Seller as a basis for billing under Article 9.1, if such adjustments are based upon actual later severance tax or royalty

oil payments by or refunds to the Lessees; or (iv) adjustments required as a result of clerical or arithmetical errors in the billings of Lessees or of Seller; provided, however, that no adjustments, whether credits or debits, under Articles 9.5(ii) through 9.5(iv) shall be made by Seller or demanded by Buyer more than twelve (12) months after billing except as to matters which are the subject of (x) pending litigation by either party, (y) pending regulatory proceedings (or appeals thereof) whether or not Seller or Buyer is a party thereto, or (z) bona fide audits by Seller which audits have been terminated or completed by Seller within twelve (12) months after initiation of same.

Due to the potentially large sums of money involved, any adjustments to any billing under the provisions of this Article 9.5 by Seller made more than sixty (60) days after such billing was initially rendered shall be paid to or refunded by Buyer or Seller over the same period over which such adjustments accrued or thirty-six (36) months, whichever is longer, beginning with the first payment next following the date such adjustment has been determined; provided, however, no such payment extension permitted hereunder shall extend beyond the term stipulated in Article 10.1, and accordingly the full balance of any unpaid adjustments shall become due and payable on the termination date hereof.

✓ 9.6 Cancellation in Event of Non-Payment. Except for amounts disputed in good faith, should Buyer fail to make any payment due to Seller under this Agreement (i) within sixty (60) days

from the date said payment is due or (ii) within thirty (30) days from the date that Seller gives written notice of non-payment to Buyer in the manner provided in Article 16.1 hereinbelow (except that said notice shall be directed to the attention of the President of Buyer), whichever occurs earlier, this Agreement shall automatically be cancelled.

ARTICLE X

TERM

✓ 10.1 Term. Subject to the further provisions of Articles 10.2 and 10.3 this Agreement shall become effective on the Effective Date and except as extended by Article XV hereof shall continue and remain in force and effect for a period of twenty-seven (27) years from the Effective Date.

✓ 10.2 Termination by Seller. This Agreement shall terminate upon failure of Buyer to take each and every one of the following actions within the time specified for each, including any time extensions provided for in this Article 10.2:

(1) Within six (6) months after the Effective Date:

(a) Actually expend at least Two Million Dollars (\$2,000,000.00) in Total Project Costs.

(b) Negotiate with interim lenders and obtain commitment to provide funds deemed necessary by Buyer for organizational costs and initial design costs of the Petrochemical Facility.

(c) Commence planning for optimization of design of the Petrochemical Facility.

(d) Notify Seller of Buyer's final selection of site location, such notification to be accompanied or preceded by site studies and recommendations based on preliminary engineering, including compression tests and cost estimates of infrastructure, offsite and marine facilities.

The Commissioner may extend the above six (6) month period as to Articles 10.2(1)(b), (c) and (d) thirty (30) days, but only in the event Buyer has, prior to such extension, fulfilled the requirements of Article 10.2(1)(a).

(2) Within twelve (12) months after the Effective Date:

(a) Actually expend at least Three Million Dollars (\$3,000,000.00) in Total Project Costs.

(3) Within eighteen (18) months after the Effective Date:

(a) Expend or commit to expend or cause contractually bound third parties to expend or commit to expend at least Ten Million Dollars (\$10,000,000.00) in Total Project Costs.

(b) Negotiate sale terms with prospective purchasers of products from the Petrochemical Facility; delineate product requirements, production ratios and quantities for the range of products to be produced from the Petrochemical Facility; and draft contracts for the sale of products from the Petrochemical Facility.

(c) Enter into contracts for the sale of at least seventy percent (70%) of the product output from the Petrochemical Facility.

(d) Obtain or cause contractually bound third parties to obtain written commitments to lend or invest at least One Billion Five Hundred Million (\$1,500,000,000.00) in the aggregate for payment of Total Project Costs.

(e) Obtain a commitment or commitments for interim financing for the construction of the Petrochemical Facility.

(f) Complete and file an Environmental Impact Assessment on the Petrochemical Facility.

*Amendment
110.2*

*with
without (State
or Feds)?
to an Impact
Assessment & also
wouldn't EIS
have to be
done to f.c.
are all
perhaps?*

*3/19/86
Environmental
Impact Assessment
done by
the
agency
11/1/86
done by
the
agency*

What is the legal definition of this?

(g) Complete and file all material state, local and federal permit applications.

(h) Complete plant design and optimization necessary to obtain a definitive project cost estimate ("definitive" meaning a cost estimate containing no more than fifteen percent (15%) variance in anticipated costs).

The Commissioner may extend the above eighteen (18) month period as to any one or more of the criteria or events stated in Articles 10.2(3)(a) through (h) six (6) months.

(4) Within twenty-four (24) months after the Effective

Date:

(a) Expend or commit to expend or cause contractually bound third parties to expend or commit to expend at least One Hundred Million Dollars (\$100,000,000.00) in Total Project Costs. *Amendment No. 2*

The Commissioner may extend the above twenty-four (24) month period as to the attainment of the criteria stated in Article 10.2(4)(a) six (6) months.

(5) Within thirty (30) months after the Effective Date:

(a) Execute definitive documents relating to the long-term loan of funds for the Petrochemical Facility.

// (b) Commence construction of the Petrochemical Facility. //

The Commissioner may extend the above thirty (30) month period as to one or more of the events or criteria stated in Articles 10.2(5)(a) and (b) above six (6) months.

X (6) Within thirty-six (36) months after the Effective Date:

(a) Expend or commit to expend or cause contractually bound third parties to expend or commit to expend at least Six Hundred Million Dollars (\$600,000,000.00) in Total Project Costs. *Amendment No. 2*

The Commissioner may extend the above thirty-six (36) month period as to the attainment of the criteria stated in Article 10.2(6) (a) six (6) months.

(7) Within forty-eight (48) months after the Effective

Date:

Amendment No. 2
(a) Expend or commit to expend or cause contractually bound third parties to expend or commit to expend at least One Billion Dollars (\$1,000,000,000.00) in Total Project Costs.

The Commissioner may extend the above forty-eight (48) month period as to the attainment of the criteria stated in Article 10.2(7) (a) six (6) months.

(8) Within sixty (60) months after the Effective Date:

(a) Expend or commit to expend or cause contractually bound third parties to expend or commit to expend at least One Billion Two Hundred Million Dollars (\$1,200,000,000.00) in Total Project Costs.

The Commissioner may extend the above sixty (60) month period as to the attainment of the criteria stated in Article 10.2(8) (a) nine (9) months.

(9) Within seventy-two (72) months after the Effective

Date:

(a) Expend or commit to expend or cause contractually bound third parties to expend or commit to expend at least One Billion Five Hundred Million Dollars (\$1,500,000,000.00) in Total Project Costs.

The Commissioner may extend the above seventy-two (72) month period as to the attainment of the criteria stated in Article 10.2(9) (a) twelve (12) months.

opening up the delay for completion. To this "desirability of" since we have a force majeure clause

(13) In addition to the periods of time which the Commissioner may extend the periods for performance of the criteria stated in this Article 10.2, the Commissioner may further extend the time for performance of any of the criteria stated in Article 10.2(1) through 10.2(9) for that period of time necessary to permit the Commissioner and the Alaska State Legislature to consider an amendment or modification of this Agreement, particularly of the provisions contained in Article 10.2. Such time extension shall not, however, extend beyond a period of time in excess of ninety (90) consecutive days during which the Alaska State Legislature is in session, *> significant cause?* *to be* *improvement* *of a* *great* *decision?* *no* *shall* such time extension include a consecutive period of less than ninety (90) days during which the Alaska State Legislature is in session without the prior written consent of Buyer.

✓ 10.3 Termination by Buyer. In the event that Buyer after expending all reasonable efforts fails to obtain the necessary binding commitments from interim and permanent lenders for all the funds necessary to permit construction of the Petrochemical Facility under a loan or loans providing for repayment of such loans during the life of this Agreement or fails to obtain site approval from the Commissioner after submitting at least two sites to the Commissioner pursuant to Article 4.2.2, Buyer may thereupon elect to cease design and construction of the Petrochemical Facility and terminate this Agreement without liability to either party by giving Seller notice of termination; on the thirtieth (30th) day after the giving of such notice this Agreement shall terminate, and Buyer shall deliver to Seller all documents and data pertinent to the Petrochemical Facility (or

copies thereof) in its possession, including engineering and site selection information as may be reasonably requested by Seller.

✓ ARTICLE XI

APPROVAL OF CONTRACT BY STATE OF ALASKA
AND EFFECTIVE DATE

✓ This Agreement shall take effect on the date on which this Agreement has been approved by concurrent resolution of a majority of each house of the Tenth Alaska State Legislature ("Effective Date").

ARTICLE XII

SECURITY

What is that? Definition?
✓ 12.1 Creation of Security Interest. To secure payment of all amounts due Seller for oil sold hereunder, Seller retains and Buyer hereby grants a purchase money security interest in all of the oil delivered and to be delivered to Buyer hereunder and in all oil obtained by Buyer in exchange for oil purchased hereunder; the products made or processed from any such oil, including all substances, if any, commingled therewith, or added thereto; and in the proceeds of the sale of any such oil or products, including the accounts receivable of Buyer arising from its sales of oil or products manufactured therefrom. The security interest shall attach to the oil at the time and Point of Delivery but shall terminate as to oil or products therefrom sold to a bona fide purchaser of Buyer in the ordinary course of Buyer's business but the said security interest shall attach to the accounts receivable arising therefrom. Notwithstanding the provisions of this Article 12.1, Seller agrees that (i) the security interest in the oil shall not attach at the time and Point of Delivery but instead at the time the oil arrives and is delivered to Buyer at the outlet flange measuring device of the Valdez, Alaska terminal facility of the Trans-Alaska Pipeline System ("TAPS") as to any oil shipped under any tariff pertaining to the TAPS which contains a prohibition against carriage of oil on which a lien of a party other than the carrier thereof exists or which grants to any carrier the right to reject carriage of oil on which such a lien

exists if Buyer has provided Seller a bond, letter of credit, marketable securities or other security, as described in Article 12.2 in an amount or of a value equivalent to the value of oil of Buyer in the TAPS on which no lien of Seller exists, unless Seller or Buyer has obtained and furnished for Buyer evidence that such prohibition or right of rejection has been effectively terminated or waived and is unenforceable; and (ii) no lien shall attach to any oil or products produced therefrom or accounts receivable created from the resale thereof as to which payments to Seller have been made for the account of Buyer if (a) such payments are not derived from the sale of property otherwise subject to the security interest of the Seller and (b) such payments are secured or are to be secured by such oil, the products produced therefrom or the accounts receivable created from the resale thereof. Seller agrees that any document filed to perfect Seller's purchase money security interest described in this Article 12.1 shall contain an exclusion to the effect set forth in the next preceding sentence. Buyer agrees that it shall not agree, or consent to, or permit the filing of, any lien or security interest in the oil other than the lien of a TAPS carrier nor shall it transfer title thereto prior to its arrival and delivery to Buyer at the outlet flange measuring device of the Valdez, Alaska terminal facility of the TAPS or prior to the attachment of Seller's security interest thereto upon such delivery. Buyer further agrees that it will not grant or consent to any security interest in the oil or other security in favor of any third party unless such third party agrees in writing prior thereto that such security interest is subordinate to the security interest of the Seller, except as provided otherwise in Article 12.1(ii). Buyer agrees to execute and file all documents necessary to perfect Seller's said security interest in the oil, proceeds from the oil and accounts receivable referred to above. "Proceeds of the sale" shall include proceeds derived from insurance or other payments resulting

from damage to or destruction of the oil or other property covered by the security interest. To secure such payment Buyer shall cause all policies of insurance on the oil or other property to which the security interest attaches to name the Seller as coinsured as its interests may appear.

✓ 12.2 Alternative Security. In lieu of the security interest provided in Article 12.1, Buyer may provide alternative security in the form of a bond attached hereto and made a part hereof as Exhibit "C", executed by the Buyer, as principal, and a corporate surety agreed to by the Commissioner and authorized to write such bonds in the State of Alaska, as surety for a sum which shall substantially reflect the amounts owed by Buyer to Seller plus an amount equal to the value of any oil delivered by Seller to Buyer and not yet billed pursuant to Article IX; provided that whenever Seller has reasonable grounds for asserting and does assert any claims against Buyer in excess of the penal sum of the bond of Buyer then in effect hereunder, Buyer after being so requested by Seller shall either increase the penal sum of such bond to an amount reasonably sufficient to cover the claim of Seller and all expenses which may be incurred by it in connection therewith or shall furnish other security satisfactory to Seller, such as a renewed security interest in the oil or a portion thereof sold hereunder, regardless of whether the Buyer does or does not recognize the validity of the Seller's claim (so long as reasonable grounds for asserting such claim exist); provided further that the Buyer may at any time and from time to time deposit and maintain with the Commissioner at Buyer's expense in lieu of any such bond, either (i) an irrevocable letter or letters of credit addressed to the Commissioner issued by a state or national banking institution of the United States which is a member of the Federal Deposit Insurance

Corporation and has an aggregate capital and surplus of not less than \$50,000,000, or (ii) marketable securities which are approved by the Commissioner, and which shall be transferable by the Commissioner or by delivery by stock power attached or other means, such letter or letters of credit to be in an aggregate amount, or such marketable securities to be of an aggregate then fair market value, of not less than the amount then required for Buyer's bond hereunder any such letter or letters of credit and marketable securities, together with any proceeds thereof, to be held by the Commissioner for the security and benefit of the Seller; and either of (i) or (ii) to be in form and substance approved by the Seller. The amount of said letter or letters of credit or marketable securities shall be subject to increase in the same manner that the face amount of the bond is subject to increase. If marketable securities are so furnished, other marketable securities which meet the requirements of this Subparagraph (a) may be substituted at any time and from time to time for any previously furnished marketable securities, and the marketable securities so furnished shall be increased if at any time the fair market value of the securities then held by the Commissioner is less than, or may be reduced if the fair market value thereof exceeds, the amount of the bond then required of Buyer hereunder, or (iii) security which in the opinion of the Commissioner is of equal value to the security above described.

What does this refer to?

ARTICLE XIII

TRADE OR EXCHANGE OF CRUDE

30M for intra-state use

✓ 13.1 Subject to the provisions of Article 4.3 hereof and the further provisions of this Article 13.1, Buyer may trade or exchange any or all of the royalty crude oil for other crude oil or products. No trade or exchange by Buyer shall reduce the price to be paid to Seller under Article VIII hereof, and any such trade or exchange shall be without cost or expense to Seller. Buyer agrees not to trade or exchange royalty oil with another party unless that party agrees to give Buyer written permission to terminate the trade or exchange relationship upon the termination of this Agreement. Buyer shall require of any trade or exchange partner specific acknowledgment of Buyer's obligations under Article 26.6 and written permission from Buyer's trade or exchange partner to terminate the trade exchange arrangement upon termination of this Agreement. Buyer shall also require of its trade or exchange partner that it agrees to include provisions similar to this section in contracts for the sale, trade or exchange of the royalty oil and that all subsequent purchasers and trade or exchange partners will do likewise.

ARTICLE XIV

DEFAULT

Supplier - Purchaser relationship

✓ 14.1 Default. If

✓ (i) either party shall fail to perform any of the covenants or obligations imposed upon it by this Agreement, except when such failure shall be excused under the force majeure provisions of Article XV, or

Force
Majewski

✓ (ii) for any period of six (6) consecutive months, beginning one (1) year after the Petrochemical Facility has initiated processing of crude oil into petrochemicals, and subject to the provisions of Article XV, Buyer fails to purchase in the aggregate at least one-third (1/3) of the crude oil which could be purchased by Buyer out of the Leases and the leases referred to in Article 2.4 during any calendar month, or

✓ (iii) Buyer becomes insolvent or commits any act constituting an act of bankruptcy, or

✓ (iv) Buyer voluntarily files an action under the United States Bankruptcy Act, or

✓ (v) Buyer fails to obtain the dismissal of any involuntary bankruptcy proceeding filed against it under the provisions of the United States Bankruptcy Act within thirty (30) days of the filing thereof,

then and in any such event, the other party may, at its option and without waiving any other remedy for breach hereof, indicate such party's election to cancel this Agreement by notice in writing specifying in detail wherein the default has occurred. Except for the instances stipulated in Articles 14.1(iii) through (v) above, and except for payment by Buyer to Seller, which shall be governed by Article 9.6, the party in default shall have thirty (30) days from the receipt of such notice to remedy such default and to pay the other party for all loss or damage incurred as a result of such default and indemnify such party against future claims or loss arising out of such default. Upon failure of the defaulting party to remedy its breach within the time stipulated above, this Agreement may be cancelled by the non-defaulting party by service of written notice thereof upon the defaulting party. Any cancellation under Article 9.4 or this Article 14.1 [except Article 14.1(ii)] shall not

prejudice the right of the party not in default to collect any amounts due it hereunder for any damage or loss suffered by it and shall not waive any other remedy to which the party not in default may be entitled for breach of this Agreement.

✓ 14.2 Disposition of Oil Upon Default, Cancellation or Termination. It is agreed that if Buyer shall for any reason fail to take the royalty oil hereunder as and when made available to the Buyer pursuant to Buyer's previous nominations, Buyer shall nevertheless pay Seller as though it had taken delivery of said royalty oil, unless Seller through an understanding with Lessees or the lessees referred to in Articles 2.3 and 2.4 is able to cancel delivery of the quantities called for in said nominations of Buyer. In the event of any cancellation or termination of this Agreement, whether under Articles 10.2 or 10.3, or because of default under this Article XIV or Article 9.6, Buyer shall have an obligation to continue to purchase Seller's royalty oil for up to seven (7) months following termination or cancellation of this Agreement in such quantities as Buyer has elected pursuant to the nomination procedure set forth in Article 2.5 in the six (6) months preceding termination of this Agreement, if Seller is required by the Lessees or the lessees under Articles 2.3 and 2.4 to accept delivery in kind for such period.

✓ 14.3 Materiality of Breach. No default or breach of, or failure of performance under, this Agreement shall be deemed to have occurred under this Agreement unless such default, breach or failure of performance is material or substantial under all the cir-

*Not important
What about
not meeting time-
force under 10.2
(State's legal
consultant)*

cumstances or involves the non-payment of any sum due under this Agreement which is not the subject of a bona fide dispute.

ARTICLE XV

FORCE MAJEURE

✓ 15.1 Relief from Obligations. Except for Buyer's and Seller's obligations to make payment under this Agreement and except for Buyer's obligation to take oil nominated by it, neither party hereto shall be liable for any failure to perform the terms of this Agreement when such failure is due in whole or substantial part to a "force majeure" as hereinafter defined; provided, however, that if an event constituting a force majeure shall prevent substantial performance of a party's obligations hereunder in light of all the circumstances, so as to prevent the party not claiming force majeure from obtaining the benefit of its bargain for a period in excess of four (4) years, said party not claiming force majeure shall have the option to terminate this Agreement. Said option must be exercised before the force majeure ceases to exist. The aforesaid proviso shall not permit the Seller to terminate in the event the force majeure in question is based upon Buyer's inability to obtain requisite state permits, authorizations, or licenses if Buyer has exercised the due diligence required by Article 15.2(ix). Other remedies otherwise available for default or breach in the event of termination after such four year period shall not thereby be affected.

✓ 15.2 Definition of "Force Majeure". The term "force majeure" as employed in this Agreement shall mean (i) acts of God;

(ii) strikes, lockouts or industrial disputes or disturbances;
(iii) civil disturbances, arrests and restraint from rules or people;
(iv) interruptions by laws, orders, rules, regulations, acts or restraints of any government or governmental body having proper jurisdiction; (v) acts of the public enemy, wars, riots, blockades, insurrections, mobilization; (vi) acts of vandalism or sabotage; *two loose*
to loose (vii) shortages, scarcity or inability to secure labor, fuel, power, equipment or materials (including inability to secure materials by reason of allocation promulgated by authorized governmental agencies),
(viii) inability or failure of contractors or subcontractors to perform, (ix) inability to obtain requisite federal, state or other governmental permits, authorizations, or licenses provided the party claiming force majeure has exercised due diligence in attempting to obtain such permits, authorizations or licenses; (x) inability to ship materials because of unavailability of shipping, docking or wharfage not within the reasonable control of the party claiming the existence of a force majeure; (xi) epidemics, landslides, lightning, earthquakes, fire, explosion, floods, washouts, storms, other unusual adverse weather conditions; (xii) breakdowns of machinery, equipment or lines of pipe; (xiii) freezing of wells, pipe lines or other equipment; (xiv) shutdowns necessary for making repairs or alterations to pipe lines or plants, mechanical failure, or the necessity of testing wells, machinery or lines of pipe as may be required by governmental authority or as may be deemed necessary by the testing party for the safe operation thereof whether or not

of the kind herein enumerated; or (xv) any other event or condition otherwise not reasonably within the control of the party claiming force majeure, whether or not similar to the enumerations of (i) through (xiv).

✓ 15.3 Effect of Force Majeure. Upon the occurrence and discovery of an event constituting force majeure, the party claiming that the event is a force majeure shall notify the other party hereto of its claim of force majeure. The party claiming the existence of a force majeure shall, so far as reasonably possible, attempt to remedy such event with due diligence, and the obligations of the disabled party to perform under this Agreement, insofar as they are affected by such force majeure, shall be suspended from the time such force majeure occurs and for so long as the disability so caused should have continued had the party claiming the existence of the force majeure met its remedial obligations under this Article 15.3, and for no longer. The settlement of strikes or lockouts or industrial disputes or disturbances shall be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with due diligence shall not require the settlement of strikes, lockouts or industrial disputes or disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole discretion of the disabled party.

To this standard language "discretion of the party having difficulty"

ARTICLE XVI

NOTICES

✓ 16.1 Notices. Any notice, request, demand or statement provided for in this Agreement must be in writing, and may be given by depositing same in the mail, addressed to the party to be notified, postage prepaid, and registered or certified, with a return receipt requested, or by delivery of same in person to such other party. Notice deposited in the mail in the manner hereinabove described shall be effective upon the expiration of seven (7) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For purposes of notice the addresses of the parties hereto shall be as follows:

If to Seller:

State of Alaska
Commissioner of Natural Resources
Pouch "M"
Juneau, Alaska 99811

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

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

If to Buyer:

Alaska Petrochemical Company
601 W. 5th Avenue, #320
Anchorage, Alaska 99501

and
Alaska Petrochemical Company
P. O. Box 6554
Houston, Texas 77005

*How about The
DEC (See Exhibit "D")*

✓ 16.2 Change of Address. Each party may change its address for notice by giving of notice thereof in the manner hereinabove provided.

✓ ARTICLE XVII

WAIVER

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

ARTICLE XVIII

RECORDS

✓ 18.1 Preservation of Records. Buyer and Seller will preserve and maintain all books, accounts and records relating to or arising out of the performance of this Agreement, including but not limited to, the planning, construction and operation of the Petrochemical Facility and the purchase or resale of the royalty oil and its refined products for a period of four (4) years. Buyer will also maintain and preserve all similar books, accounts and records of which it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Buyer nor Seller shall be required to retain

any records for more than six (6) years unless retention of such records is specifically required by applicable law or regulation. Buyer shall either maintain its records within the State of Alaska or make such records available to Seller at Buyer's principal office in the State of Alaska within thirty (30) days after written request therefor by Seller.

✓ 18.2 Inspection of Records of Parties. Buyer and Seller will accord to each other and to their authorized agents, attorneys and auditors during reasonable business hours access to any and all property, records, books, documents and indexes thereto directly relating to the Buyer's or Seller's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make copies of such property, records, books, documents and indexes thereto. Notwithstanding the foregoing, (i) Seller shall not be required to disclose any information, data or records which are required to be held confidential by applicable state law or regulation, and (ii) Buyer shall not be required to disclose any information, data or records containing trade secrets which Buyer or its Affiliates, contractors or subcontractors by contract with unaffiliated third parties have agreed to hold confidential. Seller shall notify Buyer of all information obtained, recorded or copied from Buyer's records in order that Buyer may evaluate the advisability of seeking that such information be held confidential by Seller under applicable law or regulation or under the provisions of this Article.

✓ 18.3 Financial Statements. So that Seller may be fully informed with regard to Buyer's financial capabilities on an on-going basis, Buyer will provide Seller with a financial statement at quarterly intervals during any periods which Buyer is receiving delivery of oil under this Agreement from Seller. In addition, Buyer will provide Seller with year-end financial statements audited by an independent certified public accounting firm. Preparation of the financial statements shall be at Buyer's cost. Said statements shall be communicated to Seller in the manner provided in Article 16.1.

ARTICLE XIX

RULES AND REGULATIONS; SOVEREIGN POWERS; ENVIRONMENTAL REGULATION AND STANDARDS

✓ 19.1 Applicable Laws, Rules and Regulations. This Agreement and the covenants contained herein shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether inherent or as may be set forth by constitution, statute or regulation, to protect the environment, fish and wildlife, or the health, safety, general welfare, lives or property of the people of the State of Alaska. This Agreement is subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, or any duly constituted agency thereof; provided, however, that this paragraph shall not be deemed a consent to any attempted alteration, amendment, termination or revocation of the contractual rights, obligations or duties of the parties hereto by the State of Alaska.

✓ 19.2 Compliance with State Rules and Regulation. Buyer

shall comply with all valid and applicable laws and regulations with regard to maintaining the quality of the environment of the State of Alaska, the well-being of fish and wildlife of the State, and the health, safety and welfare of the citizens of the State of Alaska, in the construction of the Petrochemical Facility, the operation and maintenance of the Petrochemical Facility during the term hereof, and with respect to Buyer's purchase, refining and resale of the oil sold hereunder.

✓ 19.3 Compliance with Supplemental Environmental Standards.

Buyer agrees to comply with the environmental protection standards set forth in Exhibit "D", whether or not such standards are required presently or in the future by applicable governmental law or regulation; provided, however, that the Commissioner of the Department of Environmental Conservation shall possess the power and authority to waive or eliminate any such standards upon a showing of reasonable cause, and provided further that the standards set forth in Exhibit "D" are supplemental to, and not substitutive of, any present or future laws or regulations applicable to regulation of the environment of the State of Alaska.

✓ ARTICLE XX

GOVERNING LAW

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

✓ ARTICLE XXI

SEVERABILITY

If any of the terms and conditions of this Agreement are held by any court or governmental authority of competent jurisdiction to contravene or to be invalid under the laws of any political body having jurisdiction over the subject matter hereof, such contravention or invalidity shall not invalidate the entire Agreement. Instead, this Agreement shall be construed as if it did not contain the particular provision or provisions held to be invalid, the rights and obligations of the parties hereto shall be construed and enforced accordingly if feasible, and this Agreement shall thereupon remain in full force and effect.

✓ ARTICLE XXII

AMENDMENT

This Agreement may be supplemented, amended or modified only by a written instrument duly executed by both the parties hereto after proper prior authorization, including approval by the Alaska Royalty Oil & Gas Development Advisory Board and the Alaska State Legislature. Buyer agrees that in the event Article VIII of this Agreement is subsequently amended so as to materially reduce the consideration paid to the Seller, directly or indirectly, for the royalty oil, said amendment will only be effective after it has been approved by a direct vote of the people of the State of Alaska. ?

ARTICLE XXIII

SUCCESSORS AND ASSIGNS

✓ 23.1 General Prohibition of Assignment. Except as otherwise permitted under Article 23.2 no assignment of this Agreement shall be made by either party without first obtaining the written consent of the other party. The Commissioner may grant such consent on behalf of Seller.

✓ 23.2 Limited Right of Assignment. This Agreement shall bind and benefit the parties hereto and their respective successors and valid assigns, but no permitted conveyance or transfer of any interest of either party shall be valid until such other party has been furnished with written notice and a true copy of such conveyance or transfer and an assumption, if any, of this Agreement by such assignee. Either Buyer or Seller, or both, may assign its right, title and interest in, to and by virtue of this Agreement, including any and all extensions, renewals, amendments and supplements thereto to a trustee or trustees, individual or corporate, or to any lender or lenders, as security for bonds or other indebtedness, obligations or securities, without such trustee or trustees or lender or lenders assuming or becoming in any respect obligated to perform any of the obligations of the assignor, and if any such trustee or lender be a corporation, without its being required by the parties hereto to qualify to do business in the State of Alaska (but such trustee or lender shall be required to submit to the jurisdiction of the courts of the State of Alaska for matters relating to this Agreement), and no such assignment shall serve to relieve the assigning party of its obligations hereunder. Any assignment by Buyer pursuant to the next preceding sentence shall be subject to the prior written approval of the Commissioner of any such trustee or trustees or lender or lenders; provided, however, that on or after the date that all the conditions stated in Article 10.2(3) have been fulfilled, no such prior written approval shall be

required and such assignment to such trustee or trustees or lender or lenders may be freely made. In the event any such trustee or trustees, lender or lenders, or their assignee shall foreclose upon or otherwise assume ownership rights in and to this Agreement, thereupon such trustee or trustees or lender or lenders and their valid successor and assigns (i) shall assume such rights and benefits as well as obligations and liabilities only upon written notice given by it or them to Seller, (ii) shall have the right to receive from Seller, without assuming any obligations or liabilities under this Agreement, except as expressed below in the last sentence of this paragraph, any money or property owed by Seller to Buyer under this Agreement as of the date of such foreclosure, (iii) shall have the right to sell or assign their ownership rights to this Agreement to any person, without the consent of the Seller if such person assumes the obligations of Buyer under this Agreement, and (iv) following such further sale or assignment, shall be relieved of any obligations or liabilities provided for under this Agreement. Nothing contained within this Article 23.2 shall operate so as (1) to terminate or subordinate Seller's security interest in oil, products, proceeds of the sale, (2) to cancel any obligation to provide security as set forth in Article 12.2, until money owed to Seller under this Agreement is paid.

ARTICLE XXIV

EQUAL EMPLOYMENT OPPORTUNITY

✓ 24.1 Discrimination. Buyer will not discriminate against

any employee or applicant for employment because of race, color, religion, national origin, ancestry, age or sex. The Buyer will take affirmative action to insure that applicants are considered for employment, and that employees are treated during employment, without regard to their race, color, religion, national origin, ancestry, age or sex. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination, rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Buyer agrees to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause.

✓ 24.2 Advertisement of Equal Employment Opportunity.

The Buyer shall state, in all solicitations or advertisements for employees to work that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin, ancestry, age or sex.

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

✓ 24.4 Inclusion of Equal Employment Opportunity Provisions

in Contracts and Subcontracts. The Buyer will include the provisions of Article 24.1 through 24.3 in its contracts pertaining to the construction and operation of the Petrochemical Facility and will require the inclusion of these provisions in every subcontract entered into by any of its contractors, so that such provisions will be binding upon each subcontractor of Buyer.

✓ 24.5 Cooperation with Agencies of Seller. The Buyer agrees that it will fully cooperate with the office or agency of the State of Alaska which seeks to deal with the problem of unlawful or invidious discrimination, and with all other State efforts to guarantee fair employment practices under this Agreement, and Buyer will comply promptly with all reasonable requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practice. Full cooperation as expressed above shall include, but not be limited to, being a witness in any proceeding involving questions of unlawful or invidious discrimination if such is deemed necessary by any official or agency of the State of Alaska; permitting employees of Buyer to be witnesses or complainants in any proceeding involving questions of unlawful or invidious discrimination, if such is deemed necessary by any official or agency of the State of Alaska; participating in meetings; submitting periodic reports on the equal employment aspects of present and future employment; assisting in inspection of the Petrochemical Facility site during and after the construction; and promptly complying with all

directives deemed essential by any office or agency of the State of Alaska to insure compliance with all federal and state laws, regulations and policies pertaining to the prevention of discriminatory employment practices.

ARTICLE XXI

LOCAL HIRE AND TRAINING

✓ 25.1 Local Hire.

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

(2) In addition, and subject to compliance with other requirements of state or federal law or regulation, Buyer will give preference to hiring qualified and available residents over nonresidents for all work to be performed in the construction, operation and maintenance of the Petrochemical Facility. Buyer shall not discriminate against Alaska residents by differentiating between residents and nonresidents in payment of wages, salaries, fringe benefits and working conditions. Nothing shall prohibit the Buyer from hiring Alaska residents through private sources. However, if private sources are unable to supply qualified Alaska residents, Buyer shall then attempt to seek qualified Alaska residents through the Alaska Department of Labor prior to the employment of nonresidents. The Buyer shall allow said Department of Labor two days, excluding Saturday, Sunday and state holidays, to produce

qualified resident workers prior to the employment of nonresidents. If suitable resident workers are not provided within the specified time period, the Buyer may employ nonresidents possessing the qualifications necessary to perform the work. Notwithstanding the foregoing, the Buyer may hire nonresidents (i) on an emergency basis for the duration of any emergency, (ii) as casual or intermittent employees if their employment will not exceed thirty (30) working days, or (iii) as specially skilled employees when the Department of Labor agrees in advance that such specially skilled persons are unavailable within the State of Alaska.

(3) Buyer will use its best efforts to incorporate in any and all collective bargaining agreements which it enters with labor unions covering work to be performed in the construction, operation and maintenance of the Petrochemical Facility and associated facilities and operations, a provision or provisions requiring the unions' dispatch procedures be established and operated in a manner which will assure that qualified Alaska residents will be employed to perform said work.

(4) Buyer will incorporate in any and all agreements it enters with contractors and subcontractors provisions requiring the employment of qualified Alaska residents, as set forth in Article 25.1(2), and utilization of the contractors' or subcontractors' best efforts to obtain agreements with labor unions, as specified in Article 25.1(3).

(5) Noncompliance with the preceding covenants of

this Article 25.1 or of Article XXIV shall be grounds for a complaint which an aggrieved resident or the State of Alaska, on its own motion, may file with the Department of Labor against the Buyer, but shall not be considered a default under Article XIV. Buyer hereby agrees to submit to the jurisdiction of the Department of Labor for purposes of determining whether noncompliance in fact occurred. Said Department shall hold a hearing at which the parties may present relevant evidence and cross-examine witnesses prior to such a determination. Adequate notice thereof shall be given to all parties concerned. Upon a determination that noncompliance occurred, the Buyer shall pay the aggrieved party a sum equal to the amount the resident would have received had he been employed by the Buyer, up to a maximum of one (1) year's salary. If such compliance is determined to have been willful, the Department may award an additional sum up to the amount of the original sum awarded.

(6) For purposes of this Article

(a) "resident" means a person who

(i) except for brief intervals, military service, attendance at an educational or training institution, or for absences for good cause, is physically present in the state for a period of one year immediately before the time his status is determined;

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

(iii) has established residency in the state;

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

(v) shows by all attending circumstances that his intent is to make Alaska his permanent residence;

provided, however, that in the event a final judgment is rendered by a court of competent jurisdiction in the State of Alaska that the one year period stated in Alaska Statutes Section 38.40.090 is unconditional because of the length of time, the one year period stated in this subparagraph shall be reduced to such period as is constitutionally acceptable;

(b) "qualified" means capable, through education, training or experience, of performing the duties and satisfying the usual terms and conditions of the employment, if those duties, terms and conditions meet the reasonable standards of the industry as required of other employees performing the same type of work in the industry;

(c) "willful noncompliance" means intentionally, knowingly, or purposely, without justifiable excuse, not giving preference to qualified Alaska residents in employment covered by this section; and

(d) "noncompliance" means not giving preference to qualified Alaska residents in employment covered by this Article 25.1.

(7) The performance of this Article 25.1 shall not be interpreted to require any action which constitutes the violation of any federal or state law or regulation, particularly those relating to discrimination in hiring.

✓ 25.2 Local Training. Buyer, in order to effectuate the purposes of Article XXIV and Article 25.1, and in order to insure the maximum practicable employment of Alaska residents in the operation and maintenance of the Petrochemical Facility, shall initiate training programs to provide skilled local personnel and adequately trained residents to apply for permanent employment in the operation and maintenance of the Petrochemical Facility. Buyer shall establish and furnish to Seller its employment requirements for the operation and maintenance of the Petrochemical Facility, including the approximate numbers of employees and identification of the types of skills needed, in sufficient time (but not more than one year) for Seller and Buyer to design and conduct its training programs in the skills required. In pursuing such programs, Buyer intends to and shall seek the support and financial aid of other groups and agencies, to wit: the federal government, Seller, municipal and local authorities, unions, and certain native Alaskan corporations. Seller will provide Buyer with reasonable assistance in the design and administration of the training program. Due to the difficulty of establishing objective criteria to insure that adequate effort has been expended by Buyer and because Buyer expects Seller to join with it in establishing such training programs and obtaining funds therefor from a variety of governmental sources, including Seller itself, Buyer's obligations under this program shall be deemed fulfilled in the event that Buyer has expended \$500,000 on such training programs or, in the alternative, that an aggregate of \$1,000,000 has

been expended from all sources (including all federal, private and state funds) on such training programs on or prior to ten (10) years from the Effective Date.

✓ 25.3 Infrastructure Development. Buyer agrees to use its best efforts to coordinate construction of the Petrochemical Facility with local municipal and borough authorities in order that development of supporting residential, service and other aspects of infrastructure may be coordinated. To that end, Buyer shall seek to arrive at mutually satisfactory solutions with municipal and borough governments to the perceived heavy demand on the physical plant and services of neighboring communities as a result of the construction and operation of the Petrochemical Facility.

ARTICLE XXVI

MISCELLANEOUS

✓ 26.1 Exhibits. Exhibits "A" through "D", which are attached to this Agreement, are by this reference incorporated into and made a part of this Agreement.

✓ 26.2 Headings. The headings of this Agreement are inserted for convenience and identification only and are not intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

✓ 26.3 Gender. Whenever the context requires, the gender of all words used in this Agreement shall include the masculine, feminine and neuter, and the number of all words shall include the singular and the plural.

✓ 26.4 Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if Seller and Buyer had signed one document. All counterparts shall be construed together and shall constitute one and the same instrument.

✓ 26.5 Additional Documents. In connection with this Agreement, as well as all transactions contemplated by this Agreement, Seller and Buyer agree to execute and deliver such additional documents and instruments and to perform such additional acts as may be necessary or appropriate to effectuate, carry out and perform all the terms, provisions and conditions of this Agreement and all such transactions.

✓ 26.6 Supplier-Purchaser Relationship. Buyer and Seller each agree to take all action reasonably necessary or appropriate to effect the transactions contemplated by this Agreement and each party's performance of its obligations hereunder. In the event that this Agreement is canceled or terminated by any party pursuant to the terms hereof, Seller and Buyer hereby agree to waive any rights which either party may have to a continuation of any supplier-purchaser relationship that may have been established with respect to the State of Alaska royalty crude oil for purposes of any federal mandatory crude oil allocation program. Specifically, the Buyer expressly states and the Seller agrees that the consent given in the immediately preceding sentence is such a consent to the termination of any supplier-purchaser relationship between the Seller and the Buyer which may be deemed to exist

under the Federal Mandatory Petroleum Allocation Regulations (10 C.F.R., Part 211) as is provided in 10 C.F.R. 211.63(d)(1)(i) of such Regulations. Seller and Buyer also agree that any subsequent contracts for the sale, exchange or other disposition of the State of Alaska royalty crude oil that may be entered into by the Buyer or Seller herein will include the advance written consent of the purchaser, exchange partner or other recipient of the crude oil to the termination of any supplier-purchaser relationship which may be deemed to exist with respect to the State of Alaska royalty crude oil for purposes of any mandatory crude oil allocation program upon the expiration, cancellation or termination of the underlying contractual agreement for the sale, exchange or other disposition of the crude oil or in the event that the agreement between the Seller and the Buyer for the sale and purchase of the crude oil is terminated for any reason, including termination for default as stated in Articles IX and XIV or because Buyer fails to meet its obligations under Article 10.2. Buyer also agrees to include in any contracts for the sale, exchange or other disposition of the State of Alaska royalty crude oil an agreement by the purchaser, exchange partner or other recipient of the crude oil to include identical waiver provisions in all subsequent sales, exchanges or other disposition of the crude oil by that purchaser, exchange partner or other recipient and by any subsequent purchasers, exchange partners or other recipients.

✓ 26.7 Reasonableness of Approvals. Buyer and Seller agree

that as to any approvals or consents required of either of them under this Agreement, except for extensions of time periods under Article 10.2, such approvals or consents shall not be unreasonably withheld.

IN WITNESS WHEREOF, the Seller has caused this Agreement to be executed by its Commissioner of Natural Resources and the Buyer has caused this Agreement to be executed by its President, thereunto duly authorized by its Board of Directors in accordance with the certified seal, duly attested, to be affixed hereto, as of the day and year first above written.

THE STATE OF ALASKA

ATTEST:

By: _____

Commissioner, Department
of Natural Resources

"SELLER"

APPROVED AS TO FORM:

ALASKA PETROCHEMICAL COMPANY

ATTEST:

By: _____

President

"BUYER"

I, _____, certify that I am the Secretary of the corporation named as Buyer in the above contract, that

_____ was then President of said corporation;
that said Agreement was duly signed for and in behalf of said
corporation by authority of its governing body, and is within the
scope of its corporate powers.

Secretary

(CORPORATE SEAL)

THE STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

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

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

NOTARY PUBLIC in and for Alaska.
My commission expires: _____

THE STATE OF ALASKA)
) ss.
____ JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on the _____ day of _____, 1978, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn as such, personally appeared the President of ALASKA PETROCHEMICAL COMPANY, an Alaska corporation, and known to me to be the person who executed the within instrument on behalf of the corporation herein named, and acknowledged to me that the same was signed as a free act and deed of said corporation for the uses and purposes therein stated and pursuant to its Bylaws or a resolution of its Board of Directors.

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

NOTARY PUBLIC in and for Alaska.
My commission expires: _____

✓
CERTIFICATE

I, _____, President and a member of the Board of Directors of ALASKA PETROCHEMICAL COMPANY, an Alaska corporation, do hereby certify that the following is a true and correct copy of a resolution adopted by the Board of Directors of said ALASKA PETROCHEMICAL COMPANY at a special meeting duly called and held at _____, Alaska, on _____, 1978:

BE IT RESOLVED by the Board of Directors of Alaska Petrochemical Company that the Agreement for the Sale and Purchase of State Royalty Oil between Alaska Petrochemical Company and the Commissioner of Natural Resources of the State of Alaska presented to the Board at a special meeting duly called and held in _____, Alaska, on _____, 1978, be and is hereby approved;

BE IT FURTHER RESOLVED that the officers of the corporation be and hereby are authorized and directed to execute said Agreement for the Sale and Purchase of State Royalty Oil in the name of Alaska Petrochemical Company, and all further agreements and instruments that may be necessary or desirable to implement the purposes of that agreement.

President

SUBSCRIBED and SWORN to before me this _____ day of _____, 1978.

NOTARY PUBLIC in and for Alaska.
My commission expires: _____

Attached to and Made a Part of the Agreement for the Sale and Purchase of State Royalty Oil dated February 22, 1978, 1978, between ALASKA PETROCHEMICAL COMPANY, an Alaska corporation "Buyer", and the COMMISSIONER OF NATURAL RESOURCES OF THE STATE OF ALASKA, acting pursuant to Alaska Statute 38.05.183, "Seller", With Respect to Certain Royalty Oil Owned and Taken In-Kind by Seller Under the Leases Described Herein Covering Lands in the State of Alaska.

Tract No.	Description	No. of Acres	ADL Serial No.	Basic Royalty	Lessee of Record	O.R.R. Interest	Working Interest Ownership
(Umiat Meridian, Alaska)							
1	T12N-R11E, Secs. 9, 10	1,280	47445	1/8	Mobil and Chevron		Mobil—50% Chevron—50%
2	T12N-R11E, Secs. 11, 12	1,280	28235	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
3	T12N-R12E, Sec. 7	580	28254	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
4	T12N-R15E, Sec. 23, 24	1,280	34625	1/8	Sohio Petroleum Co.		Sohio—100%
5	T12N-R15E, Secs. 21, 22	1,280	34626	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
6	T12N-R15E, Secs. 19, 20	1,225	34627	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
7	T12N-R14E, Secs. 23, 24	1,280	34624	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
8	T12N-R14E, Sec. 22	640	28297	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
9	T12N-R13E, Sec. 19	585	47469	1/8	Mobil and Phillips		Mobil—50% Phillips—50%
10	T12N-R12E, Secs. 23, 24	1,280	47448	1/8	Mobil and Phillips		Mobil—66 2/3% Phillips—33 1/3%
11	T12N-R12E, Secs. 21, 22	1,280	28256	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
12	T12N-R12E, Secs. 17, 18, 19, 20	2,448	28255	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
13	T12N-R11E, Secs. 13, 14, 23, 24	2,560	28237	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
14	T12N-R11E, Secs. 15, 16, 21, 22	2,560	47447	1/8	Mobil and Chevron		Mobil—50% Chevron—50%
15	T12N-R11E, Secs. 17, 18, 19, 20	2,448	47446	1/8	Mobil and Chevron		Mobil—50% Chevron—50%
16	T12N-R10E, Secs. 13, 24	1,280	23637	1/8	A.R.Co., BP Alaska, Sohio Petroleum Co.		A.R.Co.—50% BP Alaska—37 1/2% Sohio—12 1/2%
17	T12N-R11E, Secs. 29, 30, 32	1,868	47449	1/8	Mobil and Chevron		Mobil—50% Chevron—50%
18	T12N-R11E, Secs. 27, 28, 33, 34	2,560	28239	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
19	T12N-R11E, Secs. 25, 26, 35, 36	2,560	28238	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
20	T12N-R12E, Secs. 29, 30, 31, 32	2,459	28259	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
21	T12N-R12E, Secs. 27, 28, 33, 34	2,560	28258	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
22	T12N-R12E, Secs. 25, 35, 36, N/2 and SE/4 Sec. 26	2,400	28257	1/8	Mobil and Phillips		Mobil—50% Phillips—50%

*See comment on page A-5.

Tract No.	Description	No. of Acres	ADL Serial No.	Basic Royalty	Lessee of Record	O.R.R. Interest	Working Interest Ownership
(Umiat Meridian, Alaska)							
52	T11N-R11E, Sec. 15	640	28244	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
53	T11N-R11E, Secs. 13, 14, 24	1,920	28245	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
54	T11N-R12E, Secs. 17, 18, 19	1,840	28262	1/8	Chevron		Chevron—100%
54A	T11N-R12E, Sec. 20	640	28262	1/8	Chevron, Mobil, Phillips		Chevron—33 1/3 % Mobil—33 1/3 % Phillips—33 1/3 %
55	T11N-R12E, Secs. 15, 16	1,260	28263	1/8	Mobil and Phillips		Mobil—50% Phillips—50%
55A	T11N-R12E, Secs. 21, 22	1,280	28263	1/8	Mobil, Phillips, Chevron		Mobil—33 1/3 % Phillips—33 1/3 % Chevron—33 1/3 %
56	T11N-R12E, Secs. 13, 14, 23, 24	2,560	47451	1/8	Mobil, Phillips, Chevron		Mobil—33 1/3 % Phillips—33 1/3 % Chevron—33 1/3 %
57	T11N-R13E, Secs. 17, 18, 19, 20	2,480	28283	1/8	Sohio Petroleum Co.	*	Sohio—100%
58	T11N-R13E, Secs. 15, 16, 21, 22	2,560	28284	1/8	Sohio Petroleum Co.	*	Sohio—100%
59	T11N-R13E, Secs. 13, 14, 23, 24	2,560	28285	1/8	Sohio Petroleum Co.	*	Sohio—100%
60	T11N-R14E, Secs. 17, 18, 19, 20	2,480	28305	1/8	Sohio Petroleum Co.	*	Sohio—100%
61	T11N-R14E, Secs. 15, 16, 21, 22	2,560	28306	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
62	T11N-R14E, Secs. 13, 14, 23, 24	2,560	28307	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
63	T11N-R15E, Secs. 17, 18, 19, 20	2,450	28321	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
64	T11N-R15E, Secs. 15, 16, 21, 22	2,560	28322	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
65	T11N-R15E, Secs. 13, 14, 23, 24	2,560	28323	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
66	T11N-R16E, Secs. 17, 18, 19	1,840	28339	1/8	Sohio Petroleum Co.	*	Sohio—100%
67	T11N-R16E, Secs. 15, 16	1,280	28340	1/8	Sohio Petroleum Co.	*	Sohio—100%
68	T11N-R16E, Secs. 13, 14	1,280	28341	1/8	Sohio Petroleum Co.	*	Sohio—100%
69	T11N-R16E, Secs. 30, 31, 32	1,851	28343	1/8	Sohio Petroleum Co.	*	Sohio—100%
70	T11N-R15E, Secs. 25, 26, 35, 36	2,560	28324	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
71	T11N-R15E, Secs. 27, 28, 33, 34	2,560	28325	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
72	T11N-R15E, Secs. 29, 30, 31, 32	2,491	28326	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
73	T11N-R14E, Secs. 25, 26, 35, 36	2,560	28308	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
74	T11N-R14E, Secs. 27, 28, 33, 34	2,560	28309	1/8	Sohio Petroleum Co.	*	Sohio—100%
75	T11N-R14E, Secs. 29, 30, 31, 32	2,491	28310	1/8	Sohio Petroleum Co.	*	Sohio—100%
76	T11N-R13E, Secs. 25, 26, 35, 36	2,560	28286	1/8	Sohio Petroleum Co.	*	Sohio—100%
77	T11N-R13E, Secs. 27, 28, 33, 34	2,560	28287	1/8	Sohio Petroleum Co.	*	Sohio—100%
78	T11N-R13E, Secs. 29, 30, 31, 32	2,491	28288	1/8	Mobil and Phillips		Mobil—50% Phillips—50%
79	T11N-R12E, Secs. 25, 26, 35, 36	2,560	28264	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%

*See comment on page A-5.

Tract No.	Description	No. of Acres	ADL Serial No.	Basic Royalty	Lessee of Record	O.R.R. Interest	Working Interest Ownership
(Umiat Meridian, Alaska)							
80	T11N-R12E, Secs. 27, 28, 33, 34	2,560	47452	1/8	Mobil, Phillips, Chevron		Mobil—33 1/3 % Phillips—33 1/3 % Chevron—33 1/3 %
81	T11N-R12E, Secs. 29, 30, 31, 32	2,491	47453	1/8	Mobil, Phillips, Chevron		Mobil—33 1/3 % Phillips—33 1/3 % Chevron—33 1/3 %
82	T11N-R11E, Sec. 25	640	28246	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
83	T10N-R12E, Secs. 3, 4, 10	1,920	47454	1/8	Mobil, Phillips, Chevron		Mobil—33 1/3 % Phillips—33 1/3 % Chevron—33 1/3 %
84	T10N-R12E, Secs. 1, 2, 11, 12	2,560	28265	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
85	T10N-R13E, Secs. 6, 7, 8, S/2 and NE/4 Sec. 5	2,341	28289	1/8	Mobil and Phillips		Mobil—50% Phillips—50%
85A	T10N-R13E, NW/4 Sec. 5	160	28289	1/8	Mobil, Phillips, Chevron		Mobil—33 1/3 % Phillips—33 1/3 % Chevron—33 1/3 %
86	T10N-R13E, Secs. 3, 4, 9, 10	2,560	47471	1/8	Amerada Hess, et. al.		Amerada Hess—27% Getty—30.5% LL&E—13.25% Placid—9.125% N. B. Hunt— 0.3625% Hunt Ind.— 3.8625% Caroline Hunt Tr.—3.3% Wm. Herbert Hunt Tr.—3.3% Lamar Hunt Tr. Est.—3.3%
87	T10N-R13E, Secs. 1, 2, 11, 12	2,560	47472	1/8	Amerada Hess and Getty		Amerada Hess—50% Getty—50%
88	T10N-R14E, Secs. 5, 6, 7, 8	2,501	28313	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
89	T10N-R14E, Secs. 3, 4, 9, 10	2,560	28312	1/8	Sohio Petroleum Co.	*	Sohio—100%
90	T10N-R14E, Secs. 1, 2, 11, 12	2,560	28311	1/8	Sohio Petroleum Co.	*	Sohio—100%
91	T10N-R15E, Secs. 5, 6, 7, 8	2,501	28329	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
92	T10N-R15E, Secs. 3, 4, 9, 10	2,560	28328	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
93	T10N-R15E, Secs. 1, 2, 11, 12	2,560	28327	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
94	T10N-R16E, Secs. 5, 6, 7, 8	2,501	28345	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
95	T10N-R16E, Secs. 4, 9	1,250	28344	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
96	T10N-R16E, Sec. 16	640	28347	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%

*See comment on page A-5.

Tract No.	Description	No. of Acres	ADL Serial No.	Basic Royalty	Lessee of Record	O.R.R. Interest	Working Interest Ownership
(Umiat Meridian, Alaska)							
97	T10N-R16E, Secs. 17, 18, 19, 20	2,512	28346	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
98	T10N-R15E, Secs. 13, 14, 23, 24	2,560	28332	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
99	T10N-R15E, Secs. 15, 16, 21, 22	2,560	28331	1/8	Sohio Petroleum Co.	*	Sohio—100%
100	T10N-R15E, Secs. 17, 18, 19, 20	2,512	28330	1/8	Sohio Petroleum Co.	*	Sohio—100%
101	T10N-R14E, Secs. 13, 14, 23, 24	2,560	28315	1/8	Sohio Petroleum Co.	*	Sohio—100%
102	T10N-R14E, Secs. 15, 16, 21, 22	2,560	28314	1/8	Mobil and Phillips		Mobil—50% Phillips—50%
103	T10N-R14E, Secs. 17, 18, 19, 20	2,512	47475	1/8	Amerada Hess, et. al.		Amerada Hess—25% Getty—25% Marathon—25% Placid—7.5% N. B. Hunt—5% Hunt Ind.— 3.125% Caroline Hunt Tr.—3.125% Wm. Herbert Hunt Tr.— 3.125% Lamar Hunt Tr. Est.—3.125%
104	T10N-R13E, Secs. 13, 14, 24	1,920	47476	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
105	T10N-R13E, Secs. 15, 16	1,280	28290	1/8	Mobil and Phillips		Mobil—50% Phillips—50%
106	T10N-R14E, Secs. 27, 28	1,280	47482**	1/8	A.R.Co. and Exxon		A.R.Co.—50% Exxon—50%
107	T10N-R14E, Secs. 26, 36	1,280	28316	1/8	Chevron		Chevron—100%
107A	T10N-R14E, Sec. 25	640	28316	1/8	Chevron, Mobil, Phillips		Chevron—33 1/3 % Mobil—33 1/3 % Phillips—33 1/3 %
108	T10N-R15E, Secs. 29, 30, 31, 32	2,523	28335	1/8	Sohio Petroleum Co.	*	Sohio—100%
109	T10N-R15E, Secs. 33, 34	1,280	28334	1/8	Mobil and Phillips		Mobil—50% Phillips—50%
109A	T10N-R15E, Secs. 27, 28	1,280	28334	1/8	Mobil, Phillips, Chevron		Mobil—33 1/3 % Phillips—33 1/3 % Chevron—33 1/3 %
110	T10N-R15E, Secs. 25, 26, 35, 36	2,560	28333	1/8	Sohio Petroleum Co.	*	Sohio—100%
111	T10N-R16E, Secs. 29, 30, 31	1,583	28349	1/8	Sohio Petroleum Co.	*	Sohio—100%
		245,767					

*BP Alaska, Inc. owns an overriding royalty interest equal to 75% of all net profits from production between certain levels of oil production.

**This Tract Number 106 was assigned to A.R.Co. and Exxon. Upon approval of the assignment by the Director a new ADL Serial No. will be given to this Tract.

EXHIBIT "B"

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

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

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

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

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

-continued-

Example, all producers:

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

Notes:

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

✓ EXHIBIT "C"

FORM OF BOND

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

✓ EXHIBIT "D"

SUPPLEMENTAL ENVIRONMENTAL STANDARDS

VESSEL SAFETY AND MANEUVERABILITY FEATURES

1. Buyer agrees that all tank vessels of 1,600 gross tons or more which it owns and operates directly or through an Affiliate in marine transportation of petroleum, while navigating the coastal waters of the state, shall be equipped with the following:

(a) LORAN-C navigational equipment, or better;

(b) two marine radar systems, meeting either U. S. Marine Administration Standards for Merchant Ship Construction (COM-72-11469, Dec. 1972), or Radio Technical Commission for Marine Services performance specifications for a general purpose navigational set for ocean going ships of 1,600 tons gross tonnage and upwards (RTCM-Paper 106-75/EC-167/SC65-191 BRWG-45, or, RTCM-Paper 104-74/ED-140 BRWG 42), one of which must always be in operation, or better;

(c) those tank vessels of 20,000 DWT and over shall have at least one of the radars fitted with a collision avoidance system meeting either U. S. Maritime Administration Standards for Merchant Ship Construction (COM-72-11469, Dec. 1972), or the Radio Technical Commission for Marine Services performance specifications for a computer aided collision avoidance system for merchant ships (RTCM-Paper 171-76/EC-205/SC65-226), or better.

2. Except for vessels equipped with lateral thrust equipment and astern horsepower equal to forty percent (40%) of rated horsepower, tank vessels of 20,000 DWT or more owned and operated by Buyer directly or through an Affiliate shall be escorted by tugs having an aggregate shaft horsepower equivalent to five percent of the deadweight tonnage of the escorted vessel when navigating between the Alyeska Terminal at Port Valdez and Bligh Reef, when docking at the Alyeska Terminal, and, after the Petrochemical Facility is operational, at the port facility serving the Petrochemical Facility.

BALLAST WATER TREATMENT

3. With respect to tank vessels owned and operated by Buyer directly or through an Affiliate which carry petroleum, Buyer agrees that no ballast which has been placed in cargo tanks or tank cleaning waste-water will be discharged into the waters of the state. All oily water (including, but not limited to, discharges from fuel tanks, cargo tanks, ballast tanks, slop tanks and bilges, which contain oil, grease, refined petroleum products or their by-products, including petrochemicals) discharged from any tank vessel owned and operated by Buyer directly or through an Affiliate in the State of Alaska shall be received and treated by a waste-water treatment facility meeting the effluent limitations specified in the next paragraph.

4. Buyer will maintain and operate a waste-water treatment facility for the reception and treatment of ballast carried in cargo tanks and tank cleaning waste-water at or near the place where the petroleum will be transferred from the Petrochemical Facility to vessels for marine transport. Water discharged from said treatment facility shall not contain more than 10 parts of oil, grease, refined petroleum products or their by-products, including petrochemicals, per million parts of water, on a weekly (7 day) average. Buyer will consult with the Department of Fish and Game and Environmental Conservation in connection with designing and constructing said waste-water treatment facility in order that the effect of the effluent discharged from the facility on the receiving environment and the fisheries in that environment will be minimized.

PROOF OF FINANCIAL RESPONSIBILITY

5. Buyer will obtain and maintain or cause to be obtained and maintained insurance in the face amount of \$20,000,000 or a corporate indemnity or guarantee of performance in an equivalent amount by a corporation or entity acceptable to the Commissioner, for each and every tank vessel owned and operated by it directly or through an Affiliate that calls at Alaskan ports and carries petroleum to compensate third parties for damages resulting from the unlawful discharge of petroleum within or affecting land or

water within the territorial jurisdiction of the State of Alaska. Buyer will also obtain and maintain insurance for each and every oil terminal facility it owns, operates or controls in Alaska, in the face amount of \$100,000 for each facility with a tank capacity of less than 200,000 barrels of petroleum, and in the face amount of \$1,000,000 for each facility with a tank capacity of 200,000 barrels or more of petroleum, to compensate third parties for damages resulting from the unlawful discharge of petroleum within or affecting land or water within the jurisdiction of the State of Alaska while said petroleum is being transferred. In the event any other insurance is required by applicable federal or state law to cover the same risks described in this paragraph, the face amount of any such other insurance shall be considered as a part and in reduction of the face amount of insurance required by this paragraph. The insurance shall be issued by an insurer which is either authorized to sell in the State of Alaska by the Department of Commerce and Economic Development, Division of Insurance, or is an authorized insurer listed by the Division as not disapproved for use in the State of Alaska. The deductible provision in any policy of insurance, binder or certificate shall be unacceptable if it exceeds five percent (5%) of the face amount unless the Buyer demonstrates acceptable supplemental coverage or credit worthiness. The terms of the insurance shall provide that termination or cancellation of the insurance, including expiration by its terms, insofar as it relates to the insured's liability arising from a discharge of

In this enough?

oil within or affecting the land and water within the territorial jurisdiction of the State of Alaska, will not be effective until thirty days after notice in writing has been posted (prepaid and certified) by the insurer to the insured and to the Alaska Department of Environmental Conservation at its office in Juneau, Alaska. Buyer will annually provide the Department of Environmental Conservation (or its successor in responsibility) evidence of said insurance for the respective vessels and facilities and its coverage of said damages during the month of January.

PETROLEUM SPILL CLEANUP AND CONTINGENCY PLANS

6. Buyer shall be responsible for the detection, location, confinement and cleanup of petroleum discharges at the Petrochemical Facility. At least 180 days prior to scheduled start-up of the Petrochemical Facility, Buyer shall submit its contingency plans to the Department of Environmental Conservation for review as being in compliance with applicable law and regulation. The plans shall provide for immediate corrective action in the event of petroleum discharges, including confinement and cleanup. The plans shall include separate and specific techniques and schedules for cleanup of petroleum discharges on land and sea and in lakes, rivers, streams and estuaries, to the extent such water resources are in proximity to the Petrochemical Facility.

DEFINITIONS

7. In this exhibit,

(a) "discharge" means any spilling, leaking, pumping, pouring, emitting, emptying or dumping;

(b) "DWT" or "deadweight tons" means the difference in metric tons between the lightweight displacement and the total displacement of a vessel measured in water of specific gravity 1.025 at the load waterline corresponding to the assigned summer freeboard;

(c) "oil terminal facility" means an onshore or off-shore facility of any kind and related appurtenances, including but not limited to a deepwater port, located in, on, or under the surface of any land or water of the state, including title and submerged land, which is used or capable of being used for the purpose of transferring, processing or refining, or storing petroleum as it is defined in this section;

(d) "petroleum" means all crude oil purchased under this Agreement, and all refined petroleum products and petroleum by-products, including petrochemicals, produced at the Petrochemical Facility from such petroleum;

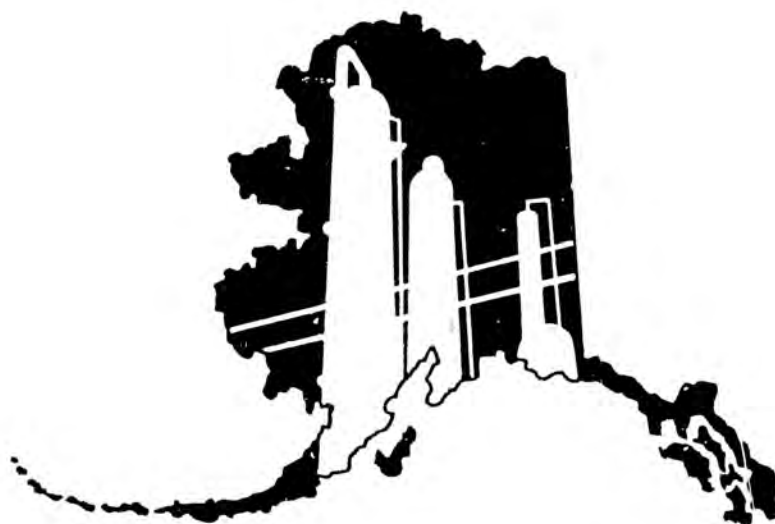
(e) "tank vessel" means a self-propelled vessel that is specially constructed or converted to carry bulk cargo in tanks and includes tankers, tankships and combination carriers;

(f) "transferred" includes both onloading and off-loading between terminal and vessel; and

(g) "waters of the state" means the navigable waters within the territorial limits of the State of Alaska, and the marginal sea adjacent to the State of Alaska, as defined in AS 44.03 and AS 46.03.900(22) or any successor provisions.

PETROCHEMICALS IN ALASKA

THE ALPETCO STORY



ALASKA PETROCHEMICAL COMPANY

March 15, 1978

FOREWORD

In August 1977 Alaska Petrochemical Company (Alpetco) was one of several companies to submit proposals to the State of Alaska Royalty Oil and Gas Development Advisory Board to purchase the State's Prudhoe Bay royalty crude oil and to use it as feedstock for a refinery in Alaska. Alpetco's proposal involves more permanent jobs and a larger tax base than any of the other proposals. On February 19, 1978 the Governor of Alaska recommended that Alpetco be selected from among four finalists in the competition. On February 22 the Alaska State Royalty Oil and Gas Development Board unanimously approved and Alpetco executed a 27 year contract with the State of Alaska for the purchase of up to 150,000 barrels per day of royalty crude oil. Prior to becoming effective, the contract must be ratified by both houses of the Alaska legislature.

March 15, 1978

Alaska Petrochemical Company

601 West 5th Avenue
Anchorage, Alaska 99501
(907) 272-1517

2200 Post Oak Tower
5051 Westheimer Road
Houston, Texas 77056
(713) 621-8710

THE ALPETCO CONCEPT

The Alpetco Concept was developed as the foundation of Alaska Petrochemical Company's proposal to the State of Alaska. Alpetco's concept for what is in the best interest of all Alaskans has remained unchanged:

THE ALPETCO CONCEPT

"The State of Alaska has determined to take its one-eighth royalty on the North Slope crude oil 'in kind' rather than 'in dollars.'

There is little justification for the State of Alaska to take its royalty oil 'in kind' unless value is added to the crude product before it leaves Alaska. If the State's crude is to be sold to someone 'as is,' the State may as well take the crude 'in value,' letting the producing oil companies handle shipping and marketing and the State collect its royalty 'in dollars.' On the other hand, if value is added in Alaska then substantial benefits can be created for the State of Alaska and its citizens. The more value added in Alaska, the better.

Assuming the crude oil to be worth \$13 a barrel at Valdez, it will be processed further — somewhere — until it has an added value of \$30, \$50, \$100, \$150 or \$200 per barrel. Adding such values requires plants and payrolls. These can be in Alaska or on the California or Gulf Coasts. Why not in Alaska?

A plant investment of \$1 billion or more is necessary to add such values. The property and revenue taxes on this real property will go to the State in which the plant is located. Why not to Alaska?

The jobs and payrolls created by adding these values are permanent jobs and payrolls, not temporary. Why not for Alaskans?

Additional industry will spring up around the petrochemical complex — wherever it is located — to add further value to its wide range of products, thus creating additional permanent jobs and payrolls. Why not in Alaska?

ALPETCO's proposed program will add maximum value to the product, and this value will be added in Alaska and by Alaskans."

August 1, 1977

CHRONOLOGY OF ALPETCO EVENTS

August 1, 1977	Preliminary proposals submitted to the State
October 15, 1977	Detailed proposals submitted
February 17, 1978	Final contract offer submitted
February 19, 1978	Governor Hammond chose Alpetco
February 22, 1978	Royalty Oil and Gas Development Advisory Board voted to accept Alpetco's contract
February 22, 1978	Alpetco contract executed

WHO IS ALPETCO?

Alpetco is a new company, incorporated in Alaska. It is owned by three shareholders, each of whom is a corporation. Alaska Interstate Company owns 60% of Alpetco; Alaska Consolidated Shipping, Inc. owns 20%; and Barbour Oil Company owns 20%.

Alaska Interstate is a publicly owned Alaska corporation engaged in energy and manufacturing businesses. The company is the only Alaska company listed on the New York Stock Exchange. In 1977, revenues were nearly \$190 million. Alaska Interstate businesses include transmission and distribution of natural gas in Alaska (Alaska Pipeline Company and Anchorage Natural Gas, both headquartered in Anchorage); exploration, production and liquefaction of natural gas in Indonesia; exploration and production of oil and natural gas in the U.S.; engineering and construction of gas processing facilities; pollution control and sulfur recovery processes; and manufacturing.

Alaska Consolidated Shipping is owned 51% by six Alaska Native Regional Corporations whose shares are owned by 34,000 Alaskans. The Native corporations owning control of ACS are:

- The Aleut Corporation
- Bristol Bay Corporation
- Calista Corporation
- Chugach Natives, Inc.
- Cook Inlet Regional Corporation
- Koniag Regional Native Corporation

Seatrains Lines, Inc., a major U.S. shipping and shipbuilding company owns 49% of ACS. The stock of Seatrain is publicly owned and listed on the New York Stock Exchange. Seatrain's revenues last year exceeded \$400 million. The company is engaged in tanker and containerized cargo transportation throughout the world. Seatrain operates a major shipyard located at the former Brooklyn Navy Yard in New York and has completed four petroleum tankers of 225,000 deadweight tons each. The company also owns a 36,000 barrel per day petroleum refinery in Texas.

Barbour Oil Company, a family owned company in Houston, owns 20% of Alpetco. The late John D. Barbour, Sr., was founder of Alpetco and was the principal of Barbour Oil.

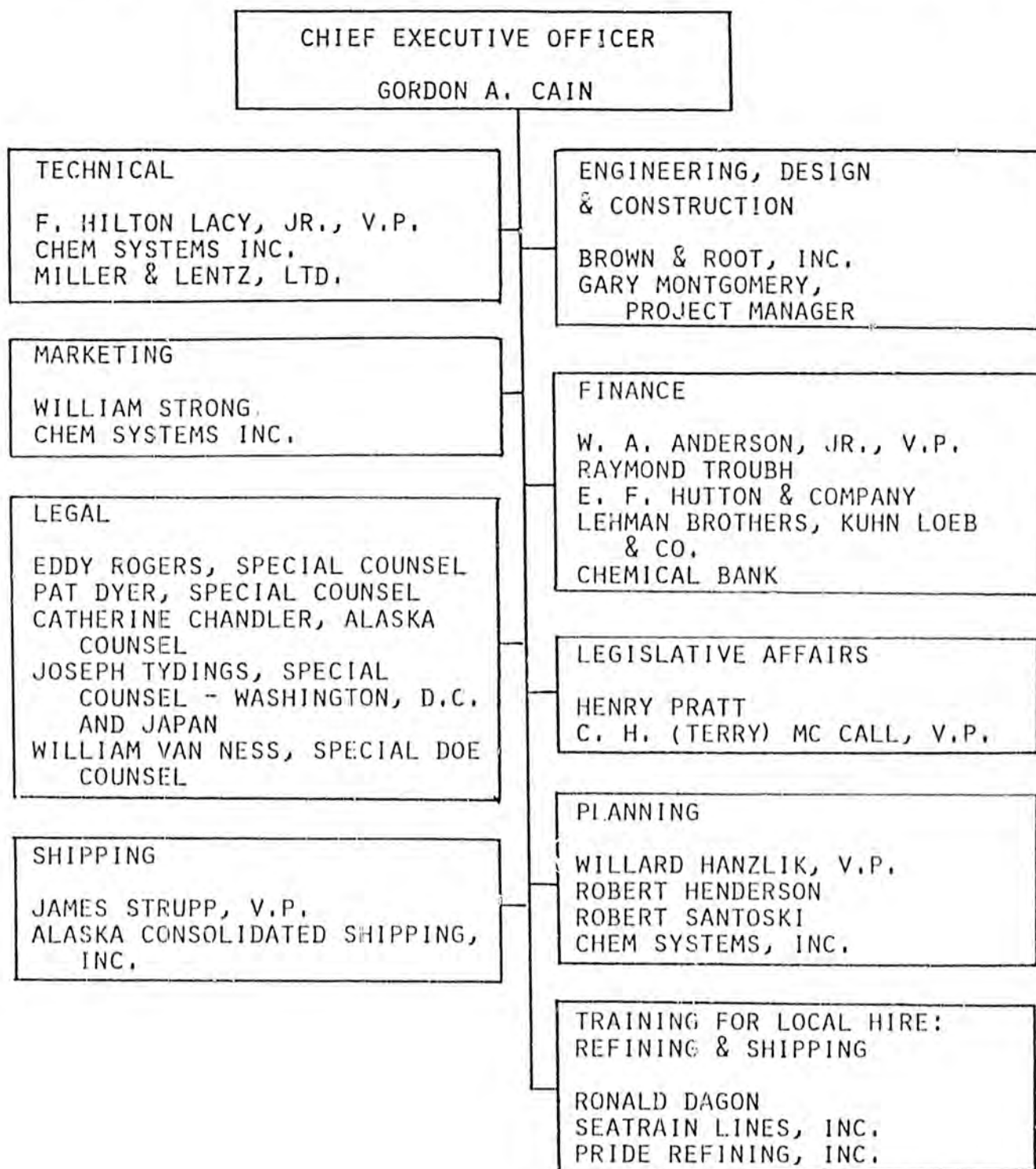
WHO IS THE MANAGEMENT OF ALPETCO?

Alpetco is governed by a board of directors and managed by officers elected by the board.

<u>Members of the Board of Directors</u>	<u>Principal Occupation and Residence</u>
O. Charles Honig	Chairman and Chief Executive Officer, Alaska Interstate Company (Houston)
Gordon A. Cain	Chief Executive Officer, Alpetco (Houston)
W. A. Anderson, Jr.	Vice President — Finance, Alaska Interstate Company (Houston)
John Gundersen	Representative, The Aleut Corporation (Seattle)
Willard M. Hanzlik	Vice President, Alaska Interstate Company (Houston)
F. Hilton Lacy, Jr.	Vice President — Special Projects, Alaska Interstate Company (Houston)
Sam C. Oliphant	Retired, formerly Senior Vice President Tenneco, Inc. (Granite Shoals, Texas)
C. W. McCall	Senior Vice President, Alaska Interstate Company (Houston)
James J. Strupp	Vice President, Seatrain Lines, Inc. (New York)

The following chart indicates the organization and management of Alpeteo during the development phase of the project:

ORGANIZATION AND MANAGEMENT — DEVELOPMENT PHASE



WHO ARE THE EXPERTS ADVISING ALPETCO?

The company has retained experts in four categories: marketing and technical, financial, project management and legal affairs.

Marketing and technical consultants: Alpetco has retained Chem Systems Inc., a leading international firm specializing in the petrochemical industry to work closely in all aspects of planning and implementation of the project. Chem Systems is well known in the industry and includes as its clients most of the world's leading oil and chemical companies. They are experienced in petrochemical project development worldwide, including: U.S., Western Europe, Japan, and the Middle East.

Financial advisors: Two major investment banking firms and a large New York commercial bank have advised Alpetco since its inception. Alpetco's co-investment bankers are E. F. Hutton & Co. and Lehman Brothers, Kuhn Loeb & Co., two of the oldest and most experienced firms on Wall Street. Chemical Bank (New York), the nation's sixth largest bank, is Alpetco's lead commercial bank.

Project Managers: Brown & Root, Inc., the largest contractor in the United States, is Alpetco's project manager. Brown & Root is experienced in all phases of developing a petrochemical project including conceptual planning, design, optimization, engineering and construction. Brown & Root has been closely involved with the Alpetco project since August, 1977.

Japanese and Washington affairs: The Washington, D.C. law firm of Danzansky, Dickey, Tydings, Quint & Gordon is advising Alpetco on matters in Washington and in Japan. The firm represents several Japanese government and industry groups in Washington and is knowledgeable in government and industry relations in both capitals.

Department of Energy matters: The Washington, D.C. law firm of Van Ness, Feldman & Sutcliffe is advising Alpetco on matters relating to the U.S. Department of Energy. The firm has obtained a very important favorable opinion from the Department of Energy for Alpetco which will protect the state of Alaska's interests under present federal energy regulations.

WHAT DOES ALPETCO PROPOSE TO DO?

The company will build and operate a 150,000 barrel per day refinery and petrochemical facility in Alaska. The project is expected to require approximately six years to engineer and build; after completion Alpetco will use royalty oil for feedstock during the 27 year term of the contract.

The proposed facility has not been finally configured because optimum design will be based on a number of factors, such as product requirements of purchasers, location of the facility and availability of other feedstocks. However, in general, Alpetco expects that the facility will make a broad range of petrochemicals including aromatics (benzene, toluene and xylene) and olefins (ethylene, propylene, butadiene). Ultimately Alpetco expects that both high and low density polyethylene, polypropylene and other petrochemicals (e.g. aromatics derivatives) may be manufactured in Alaska at downstream components of the facility.

Alpetco will also make certain fuel products for use in Alaska.

Most of the products from the Alpetco facility will be surplus to the needs of industry in Alaska; therefore, Alpetco is seeking markets outside, primarily the U.S. West Coast and the Pacific Basin including Japan.

WHAT IS THE SCHEDULE FOR THE ALPETCO PROJECT?

After the Alaska legislature approves the contract, Alpetco will have six months to select a site for the facility. During this time engineers and site selection experts from Alaska will thoroughly analyze possible locations from Southeast to Cook Inlet. During the following 90 days, the State will conduct public meetings to discuss Alpetco's site preference prior to approving the site.

Detailed planning will begin immediately upon ratification of the contract. While construction in some site work, including utilities and storage facilities, can be started earlier, construction of the refinery and petrochemical units probably won't begin for at least 30 months after contract ratification. Construction of the facilities will require approximately 3½ years.

DO PETROCHEMICALS MAKE ECONOMIC SENSE FOR ALASKA?

Very simply, yes. Until recently, most petrochemicals have been made on the Gulf Coast with gas feedstocks. Now those feedstocks are becoming more expensive, compared to crude oil, and refining and processing facilities are being built nearer to the source of the feedstocks.

A very large and rapidly growing market for petrochemicals exists today on the West Coast. There is no indication that large world-scale plants are being planned for this market. To supply the West Coast with petrochemical products in the future, more foreign (Middle East) crude oil will need to be shipped to the Gulf Coast for processing into petrochemicals, and then transported again by ship or rail to the West Coast.

This amount of long distance shipping and multiple handling is very costly. An Alaskan facility will have the advantage of being able to ship petrochemicals directly down the coast to markets in British Columbia, Washington, Oregon and California.

While construction and operating costs will be higher in Alaska than they are on the Gulf Coast, they are expected to be lower than in the Middle East.

Finally, the key to the economics of Alpetco's project is the value placed on a long-term supply of crude oil from a politically secure source, such as Alaska. In the future, particularly in the mid-1980's and beyond, Alpetco believes that Alaska oil will be extremely valuable as a feedstock for petrochemicals.

IS THERE A NEED FOR PETROCHEMICALS FROM ALASKA?

Today, in early 1978, there is a general oversupply of most petrochemicals in world markets. However the outlook for future needs indicates a strong growth in demand, and a need for additional petrochemical capacity in the U.S., particularly to serve West Coast and other Pacific Basin markets.

Future growth rates of basic petrochemicals are expected to remain quite high (5% to 6% annually through 1990) compared to much lower rates of growth for petroleum (fuels) products (.6% by 1990). Chart A shows the expected growth rates for selected products through 1990.

The forecast for basic petrochemicals (ethylene, propylene, benzene) shown in Table I and based on the conservative growth rates referred to above, indicates that Alpetco's production will represent a relatively small share of the industry.

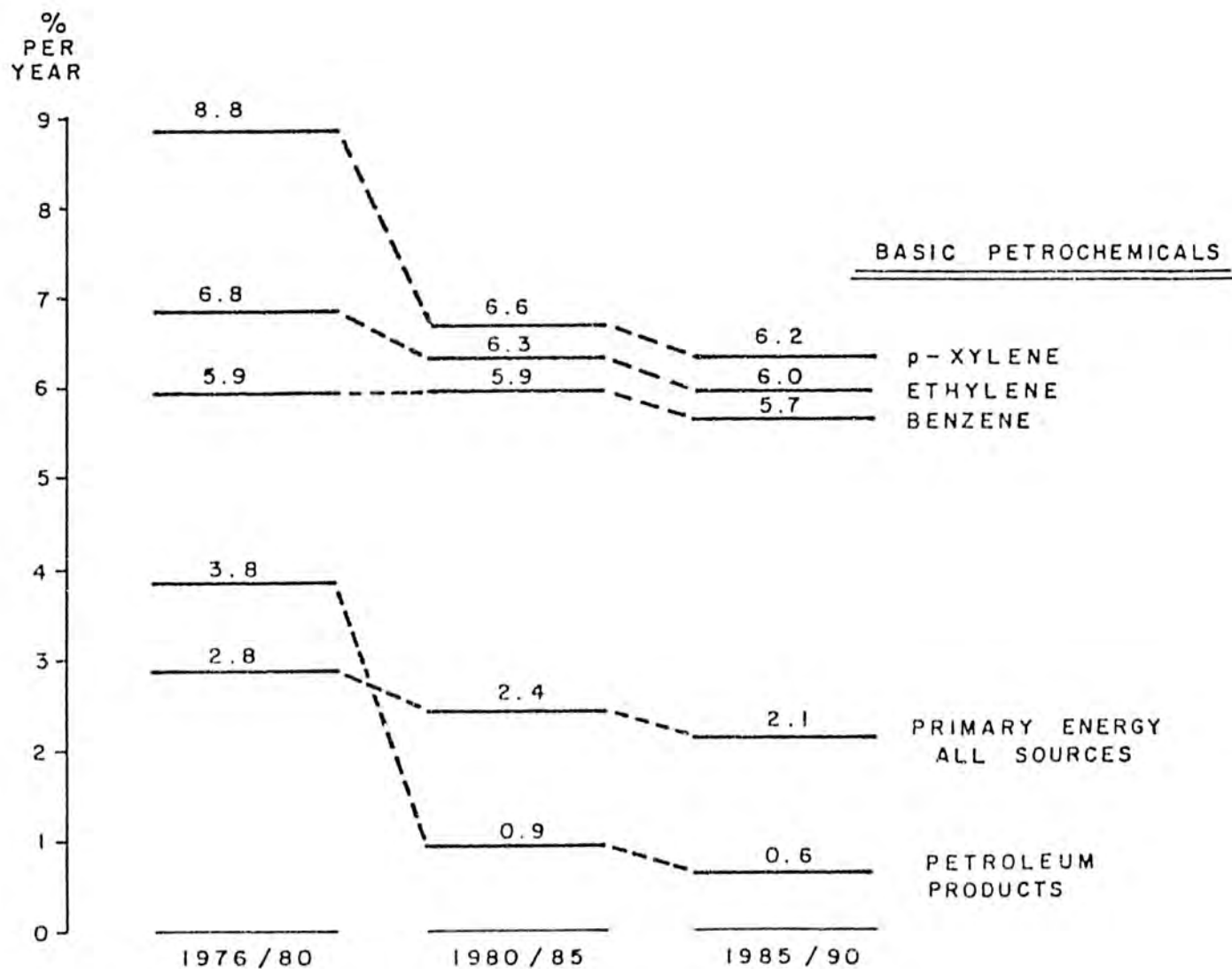
Table I
Forecast of U.S. Demand for Basic Petrochemicals
(billions of pounds per year)

<u>Year</u>	<u>Ethylene</u>	<u>Propylene</u>	<u>Benzene</u>
1980	31	15	13
1990	53	28	21
2000	85	47	33
Alpetco Case LE-1	1.2	0.7	1.0

Source: Chem Systems Inc.

Chart A

FORECAST GROWTH RATES
PETROCHEMICALS VS. FUEL PRODUCTS



Source: Chem Systems Inc.

The relevant market in the U.S. for Alaska petrochemicals is on the West Coast because this market has lower transportation costs from Alaska, strong growth, and no planned new capacity. In fact, despite the substantial and growing West Coast market for petrochemicals, there are no major existing facilities on the West Coast which manufacture petrochemicals. Chart B indicates that demand for petrochemicals substantially exceeds present supply and this imbalance worsens in the future.

A very conclusive illustration of the need for petrochemicals in Alpetco's relevant market area is shown in Table II below. Alpetco intends to build one "world-scale" ethylene plant while the market will grow to a level requiring ten such new plants.

Table II
New World Scale Ethylene Plants Needed

	U.S. West Coast	Other Pacific Basin
1976-1985	3	2
1985-1990	$\frac{1}{4}$	$\frac{4}{6}$

Source: Chem Systems Inc.

Alpetco initially plans one world-scale plant

Chart B
U.S. WEST COAST
SUPPLY-DEMAND
SELECTED PETROCHEMICALS

	MILLION POUNDS			
	<u>1976</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>
Ethylene for Major Derivatives				
Supply (1)	250	250	250	250
Demand	1725	2435	3455	4500
Low Density Polyethylene				
Supply (1)	120	120	120	120
Demand	710	1000	1400	1900
Styrene				
Supply (1)	0	0	0	0
Demand	500	742	1085	1590

NOTE:

(1) Currently installed capacity only

WHAT WILL BE THE IMPACT OF THE ALPETCO PROJECT ON THE U.S. AND PACIFIC BASIN MARKETS?

Alpetco's petrochemical output will not represent a significant share of the U.S. and Pacific Basin markets by the time the project is operational. Based on one possible configuration of Alpetco's facility the company would have no more than 3 to 4% of the 1985 estimated market for aromatics (benzene, toluene, xylene) or olefins (ethylene, propylene, butadiene). Further, Alpetco's market share of downstream products would also be quite low.

Table III
Expected Market Share of Alpetco's Facility in 1985

<u>Product</u>	<u>Normal Plant Size</u>	<u>% of U.S. and Pacific Basin Markets</u>
Low Density Polyethylene	600 MM lbs/year	4%
High Density Polyethylene	300 MM lbs/year	3%
Polypropylene	400 MM lbs/year	4%
Styrene	800 MM lbs/year	6%

Source: Chem Systems Inc.

DOESN'T ALPETCO JUST WANT ALASKA'S ROYALTY OIL BECAUSE THERE WILL BE A SHORTAGE OF OIL SOMEDAY?

The contract provides that Alpetco may not purchase any royalty oil unless and until it has obtained financing commitments for \$1.5 billion. This is a crucial "benchmark" and is designed to be the "go/no-go" measure in the contract.

The Alpetco contract requires that the company develop a petrochemical facility in Alaska according to a rigorous timetable. Failure to meet each and every requirement gives the State a right to terminate the contract. Alpetco's only reason for purchasing royalty oil is for use in a petrochemical facility to be built in Alaska.

HOW DOES ALPETCO EXPECT TO FINANCE THE PROJECT?

The project will be financed by a combination of bank revolving credit, medium and long-term debt, both taxable and tax-exempt, supplier credits and foreign export bank financing. The long-term taxable debt will be supplied by private placement issues with major life insurance companies, pension and profit-sharing and retirement