

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

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

(b) The Administrative Procedure Act applies to regulations adopted by the commission. (§ 6 ch 113 SLA 1970)

Sec. 42.05.171. Formal hearings. A formal hearing which the commission has power to hold may be held by or before two or more commissioners designated for the purpose by the commission. The testimony and evidence in a formal hearing may be taken by the commissioners to whom the hearing has been assigned. A commissioner who has not heard the testimony, including the argument, may not participate in making a decision of the commission. In determining the place of a hearing the commission shall give preference to holding the hearing at a place most convenient for those interested in the subject of the hearing. (§ 6 ch 113 SLA 1970)

Sec. 42.05.181. Final orders of the commission. No final order of the commission compelling affirmative action, denying a right or privilege, or granting a right or privilege over protest of the public utility or any party of record may be entered without giving the interested party reasonable notice and an opportunity to be heard. (§ 6 ch 113 SLA 1970)

Sec. 42.05.191. Format of orders. Every formal order of the commission shall be based upon the facts of record. Every order entered pursuant to a hearing shall state the commission's findings, the basis of its findings and conclusions, together with its decision. These orders shall be entered of record and a copy of them shall be served on all parties of record in the proceeding. (§ 6 ch 113 SLA 1970)

Sec. 42.05.201. Publication of reports, orders, decisions and regulations. All reports, orders, decisions and regulations of the commission shall be in writing. The commission shall apprise all affected utilities and interested parties of these reports, orders, decisions, and regulations as they are issued and adopted, and, when appropriate to do so, shall publish them in a manner that will reasonably inform the public or the affected consumers of any public utility service. The commission may set charges for costs of printing or reproducing and furnishing copies of its reports, orders, decisions and regulations. The publication requirement, as it pertains to regulations, does not supersede the requirements of the Administrative Procedure Act (AS 44.62). (§ 6 ch 113 SLA 1970)

Sec. 42.05.211. Annual report. The commission shall publish an annual report reviewing its work and submit it to the legislature by February 15 of each year. The report shall contain information and data which bear a significant relationship to the development and regulation of public utility services in the state and include an outline of the commission's program for the development and regulation of public utility services in the forthcoming year. (§ 6 ch 113 SLA 1970)

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Article 3. Certificate of Public Convenience and Necessity.

Section

- 221. Certificates required
- 231. Application
- 241. Conditions of issuance
- 251. Use of streets in cities and boroughs
- 261. Discontinuance, suspension or abandonment of certificated service

Section

- 271. Modification, suspension or revocation of certificates
- 281. Transfer of certificate

Repeal of former article. — Section 5, ch. 113, SLA 1970, repealed former Article 3, entitled "Valuation of Public Utility

Properties." The former article consisted of §§ 42.05.250 — 42.05.280 and derived from ch. 199, SLA 1959.

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Sec. 42.05.221. Certificates required. (a) No public utility may operate and receive compensation for providing a commodity or service after January 1, 1971 without first having obtained from the commission under this chapter a certificate declaring that public convenience and necessity require or will require the service. Where a public utility provides more than one type of utility service, a separate certificate of convenience and necessity is required for each type. A certificate shall describe the nature and extent of the authority granted in it, including, as appropriate for the services involved, a description of the authorized area and scope of operations of the public utility.

(b) All certificates of convenience and necessity issued to a public utility before July 1, 1970 remain in effect but they are subject to modification where there are areas of conflict with public utilities that have not previously been required to have a certificate or where there is a substantial change in circumstances.

(c) A certificate shall be issued to a public utility which was not required to have one before July 1, 1970, and which is required to have one after that date, if it appears to the commission that the utility was actually operating in good faith on that date. Such a certificate is subject to modification where there are areas of conflict with other public utilities or where there has been a substantial change in circumstances.

(d) In an area where the commission determines that two or more public utilities are competing to furnish identical utility service and that this competition is not in the public interest, the commission shall take appropriate action to eliminate the competition and any undesirable duplication of facilities. This appropriate action may include, but is not limited to, ordering the competing utilities to enter into a contract which, among other things would:

(1) delineate the service area boundaries of each in those areas of competition;

- ✓ (2) eliminate existing duplication and paralleling to the fullest reasonable extent;
- ✓ (3) preclude future duplication and paralleling;
- ✓ (4) provide for the exchange of customers and facilities for the purposes of providing better public service and of eliminating duplication and paralleling; and
- ✓ (5) provide such other mutually equitable arrangements as would be in the public interest.

(e) The commission may employ professional consultants to assist it in administering the provisions of this section and may apportion the expenses relating to this administration among the competing utilities involved.

(f) A certificate shall be issued by the Public Utilities Commission to a public utility engaged in garbage, refuse, trash or other waste material collection and disposal which was not required to have one before January 1, 1973, and which is required to have one after that date, if the public utility was previously operating under the authority of a permanent permit granted by the Alaska Transportation Commission. The certificate, however, shall exclude all areas within the limits of an incorporated city except a unified city/borough municipality as they existed on January 1, 1973 even though the area was included in the permit issued by the Alaska Transportation Commission. In unified city/borough municipalities, the certificate shall exclude only such areas as were actually served by the municipalities on January 1, 1973. Any area annexed after January 1, 1973, shall not be excluded from a carrier's certificate effective at the time of annexation, and shall be governed by the general provisions of this section. A political subdivision of the state may not provide for a garbage, refuse, trash or other waste material collection and disposal service in any area to the extent it lies within an area granted to a garbage or refuse carrier by a certificate issued by the commission to the carrier until it has purchased the certificate, equipment and facilities of the carrier or that portion of the certificate, facilities and equipment which would be affected, at fair market value. Section 711(b) of this chapter notwithstanding, this subsection shall not be construed to have the effect of bringing public utilities owned and operated by a political subdivision of the state within the jurisdiction of the Alaska Public Utilities Commission. (§ 6 ch 113 SLA 1970; am § 1 ch 76 SLA 1973)

Effect of amendment. — The 1973 amendment added subsection (f).

A certificate of public convenience and necessity is a property right and as such entitled to protection. *Homer Elec. Ass'n v. City of Kenai*, Sup. Ct. Op. No. 390 (File No. 675), 423 P.2d 285 (1967).

Certificate does not grant monopoly. — A certificate of public convenience and necessity to a public utility by the Alaska

Public Service Commission is not an exclusive, or monopoly, grant to furnish electrical energy within the corporate limits of a city. *Chugach Elec. Ass'n v. City of Anchorage*, Sup. Ct. Op. No. 407 (File Nos. 705, 706), 426 P.2d 1001 (1967).

A public utility's certificate did not grant to it the exclusive right to furnish electrical energy within the corporate limits of a city. *Homer Elec. Ass'n v. City of Kenai*, Sup. Ct.

would have incurred if it furnished the service or property with its own personnel and capital. (§ 6 ch 113 SLA 1970)

Am. Jur. and C.J.S. references. — 43
Am. Jur., Public Utilities and Services,
§§ 196, 216 to 223.

73 C.J.S. Public Utilities § 46 et seq.

Sec. 42.05.521. Impaired capital. When the commission finds that the capital of a public utility corporation is impaired, or might become impaired, it may, after investigation and hearing, issue an order directing the public utility to cease paying dividends on its common stock until the impairment has been removed. (§ 6 ch 113 SLA 1970)

Sec. 42.05.531. Distribution of surplus and profits. The surplus and profits of public utilities shall be distributed in accordance with the bylaws or ordinances controlling the utility. (§ 6 ch 113 SLA 1970)

Article 8. Judicial Review, Penalties and Enforcement.

Section

- 541. Effect of regulations
- 551. Review and enforcement
- 561. Injunctive and monetary sanctions
- 571. Civil penalties
- 581. Each violation a separate offense

Section

- 601. Actions to recover penalties;
disposition
- 611. Penalties cumulative
- 621. Joinder of actions

Repeal of former article. — Section 5,
ch. 113, SLA 1970, repealed former Article
8, entitled "Municipal and Other Publici-

Owned Utilities." The former article
consisted of §§ 42.05.620 — 42.05.630 and
derived from ch. 199, SLA 1959.

Sec. 42.05.541. Effect of regulations. Regulations adopted and issued by the commission in accordance with this chapter have the effect of law. (§ 6 ch 113 SLA 1970)

Sec. 42.05.551. Review and enforcement. (a) All final orders of the commission are subject to judicial review in accordance with AS 44.62.560 — 44.62.570 of the Administrative Procedure Act.

(b) If an appeal is not taken from a final order of the commission, the commission may apply to the superior court for enforcement of this chapter, the regulations adopted under it and the orders of the commission. The court shall enforce the order by injunction or other process. (§ 6 ch 113 SLA 1970)

Orders of commission expressly made
subject to Administrative Procedure Act.
— Subsection (a) of this section expressly
makes orders of the Public Utilities
Commission subject to the provisions of the
Alaska Administrative Procedure Act (AS

44.62). Greater Anchorage Area Borough v.
City of Anchorage, Sup. Ct. Op. No. 856
(File No. 1569), 504 P.2d 1027 (1972).

AS 44.62.570 is made applicable to review
of final orders of the Public Utilities
Commission by this section. Jager v. State,

Article 10. General Provisions.

Section

701. Definitions

711. Exemptions

Section

721. Short title

Sec. 42.05.701. Definitions. In this chapter

- (1) "commission" means the Alaska Public Utilities Commission;
- (2) "public utility" or "utility" includes every corporation (whether public, cooperative, or otherwise), company, individual, or association of individuals, their lessees, trustees, or receivers appointed by a court, that owns, operates, manages or controls any plant, pipeline or system for
 - (A) furnishing, by generation, transmission or distribution, electrical service to the public for compensation;
 - (B) furnishing telecommunications service to the public for compensation;
 - (C) furnishing water, steam or sewer service to the public for compensation;
 - (D) furnishing by transmission or distribution of natural or manufactured gas to the Alaska public for compensation;
 - (E) furnishing for distribution or by distribution petroleum or petroleum products to the Alaska public for compensation when the consumer has no alternative in his choice of supplier of a comparable product and service at an equal or lesser price;
 - (F) furnishing collection and disposal service of garbage, refuse, trash or other waste material.
- (3) "service" means (unless the context indicates otherwise) every commodity, product, use, facility, convenience or other form of service which is offered for and provided by a public utility for the convenience and necessity of the public;
- (4) "rate" includes each rate, toll, fare, rental, charge, or other form of compensation demanded, observed, charged or collected by a public utility for its services;
- (5) "public" or "general public" means
 - (A) any group of 10 or more customers that purchase the service or commodity furnished by a public utility as defined in (2) of this section; and
 - (B) any utility purchasing the product or service or paying for the transmission of electric energy, natural or manufactured gas, or petroleum products which are re-sold to a group included in (A) of this paragraph or which are used to produce the service or commodity sold to the public by the utility.
- (6) "affiliated interest" includes:
 - (A) a person owning or holding directly or indirectly five per cent or more of the voting securities of a public utility engaged in intrastate business in this state;

(B) a person, other than those specified in (A) of this paragraph, in a chain of successive ownership of five per cent or more of voting securities, the chain beginning with the holder of the voting securities of such public utility;

(C) a corporation five per cent or more of whose voting securities are owned by a person owning five per cent or more of the voting securities of the public utility or by a person in such a chain of successive ownership of five per cent or more of voting securities;

(D) a corporation five per cent or more of whose voting securities are owned or held by a public utility;

(E) a person with whom the public utility has a management or service contract;

(F) a person who is an officer or director of such a public utility or of a corporation in a chain of successive ownership of five per cent or more of voting securities;

(G) a corporation which has one or more officers or directors in common with a public utility;

(H) a person or corporation who or which the commission determines as a matter of fact, after investigation and hearing, actually is exercising such substantial influence over the policies and actions of a utility in conjunction with one or more other corporations or persons with whom they are related by ownership or blood, or by action in concert, that together they are affiliated with the utility within the meaning of this section even though none of them alone is so affiliated; or

(I) a person or corporation who or which the commission determines as a matter of fact after investigation and hearing actually is exercising substantial influence over the policies and actions of a utility even though such influence is not based upon stockholdings, stockholders, officers or directors to the extent specified in this section;

(7) "tariff" means a rate, charge, toll, rule or regulation of a utility relating to services furnished by the utility to the general public for compensation and every map, page, adoption notice, instrument or other document filed with the commission setting out the terms and conditions under which utility services are offered to the public and instruments of concurrence and all other documents and data setting out the terms of a utility's business relations with another utility insofar as they affect the general public either directly or indirectly;

(8) "telecommunications" means the transmission and reception of messages, impressions, pictures and signals by means of electricity, electromagnetic waves and any other kind of energy, force variations or impulses whether conveyed by cable, wire, radiated through space, or transmitted through other media within a specified area or between designated points. (§ 6 ch 113 SLA 1970; am § 2 ch 36 SLA 1971; am § 2 ch 76 SLA 1973)

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Effect of amendment. — The 1973 amendment added subdivision (2)(F).

Editor's note. — Section 1, ch. 36, SLA 1971, provides: "Purpose. It is the finding of the legislature that it is necessary to avoid unnecessary regulatory procedures over petroleum fuel dealers delivering to trailer courts and apartment buildings having local pipe distribution systems for heating fuel, and whose owners or residents have a choice of suppliers."

Legislative committee report. — For report on ch. 113, SLA 1970 (SCSCSHB 202 am S), see 1969 House Journal, p. 549, and Supplement No. 4 (4/9/69).

Rural Electrification Act does not curtail state regulatory powers. — Since the Rural Electrification Act is primarily a financing measure rather than a regulatory measure, it was in no way intended to curtail otherwise legitimate exercises of state regulatory powers. 1964 Op. Att'y Gen., No. 1.

REA cooperatives are subject to regulation by the Public Service Commission. 1964 Op. Att'y Gen., No. 1.

As subdivision (2) specifically states that intention. — Whether a state may regulate electrical cooperatives as public

utilities depends primarily on the language of the relevant state statutes. Where, as in the case of subdivision (2) of this section, the legislature has specifically stated its intention that cooperatives, as well as the more usual types of public utilities are to be covered, this is controlling. 1964 Op. Att'y Gen., No. 1.

And it is unnecessary to look to other criteria. — It is not necessary to look to criteria which courts normally use to determine whether a particular REA cooperative is a public utility (e.g., limitation of service to members) where the statute specifically covers cooperatives. 1964 Op. Att'y Gen., No. 1.

Am. Jur., ALR and C.J.S. references. — 43 Am. Jur., Public Utilities and Services, § 1 et seq.

What are "public utilities within provisions relating to municipal purchase, construction or repair of public utility, 9 ALR 1033; 35 ALR 592.

Conclusiveness of charter as regards character of corporation as a public utility corporation, 119 ALR 1019.

73 C.J.S. Public Utilities §§ 1 to 3.

Sec. 42.05.711. Exemptions. (a) The provisions of this chapter do not apply to a person who furnishes water, gas or petroleum or petroleum products by tank, wagon, or similar conveyance, unless the person is thereby supplying water, gas, petroleum or petroleum products to a public utility in which he has an "affiliated interest."

(b) Public utilities owned and operated by a political subdivision of the state and none of whose utilities, excepting the furnishing of collection and disposal service of garbage, refuse, trash or other waste material, is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of §§ 221 — 281 of this chapter, unless the owner and operator elects to be subject to all provisions of this chapter. Notwithstanding any other provisions of this chapter, municipalities providing collection and disposal service of garbage, refuse, trash or other waste material within their corporate boundaries are not subject to regulation by the Alaska Public Utilities Commission unless the municipality elects to be subject to the provisions of this chapter.

(c) The ownership in whole or part, of the corporate stock of a public utility does not make the owner a public utility.

(d) The commission, on a finding that no legitimate public interest will be served, may exempt a utility from all or any portion of this chapter.

(e) Notwithstanding any other provisions of this chapter, any electric or telephone utility that does not gross \$25,000 annually is exempt from

regulation hereunder unless 25 per cent of the subscribers petition the commission for regulation. (§ 6 ch 113 SLA 1970; am § 3 ch 76 SLA 1973)

Effect of amendment. — The 1973 section (b), substituted "the" for "such an" in that sentence, and added the second sentence of that subsection.

Sec. 42.05.721. Short title. This chapter may be cited as the Alaska Public Utilities Commission Act. (§ 6 ch 113 SLA 1970)

Editor's note.—Section 7, ch. 113, SLA 1970, provides: "All litigations, hearings, investigations, and other proceedings whatsoever, pending under any law repealed by this Act, shall continue and remain in full force and effect, and may be continued and completed under the provisions of this act. All certificates, orders, rules, regulations, or tariffs, made, issued, or filed under any law repealed by this Act, and in full force and effect on July 1, 1970, shall remain in full force and effect for the term issued, or until revoked, vacated, or modified under the provisions of this Act. All existing contracts and obligations of the commission, entered into

or created under any law repealed by this Act, and in force and effect on July 1, 1970, shall remain in full force and effect and shall continue to be performed by the commission. The existing rates, charges, tariffs, rules, regulations, service and service area of the municipally owned utility shall continue and remain in full force and effect unless otherwise ordered by the commission under the provisions of this Act."

Legislative committee report. — For report on ch. 113, SLA 1970 (SCSCSHB 202 am S), see 1969 House Journal, p. 549, and Supplement No. 4 (4/9/69).

Chapter 06. Alaska Pipeline Commission Act.

Article

1. Declaration of Policy (§ 42.06.010)
2. Establishment of Alaska Pipeline Commission (§§ 42.06.020 — 42.06.130)
3. Powers and Duties of Commission (§ 42.06.140 — 42.06.640)

Legislative committee report. — For CSSB 314), see 1972 Senate Journal, p. 1072; 1972 House Journal, p. 1420.

Article 1. Declaration of Policy.

Section

10. Legislative declaration of policy

Sec. 42.06.010. Legislative declaration of policy. The transportation of oil or gas by pipeline in the state is a business involved with the public interest. It is the purpose of this chapter to

(1) promote and oversee the development of an oil and gas pipeline transportation system in the state properly adapted to the present and future needs of the domestic commerce of the state and of the interstate and foreign commerce of the United States;

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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Gordon J. Zerbetz, Chairman
 Marvin R. Weatherly
 Carolyn S. Guess
 Susan M. Knowles
 Stuart C. Hall

In the Matter of the Filing of a
Tariff Revision, Designated as
TA12-4, by ALASKA GAS AND SERVICE
COMPANY to Adopt Purchased Gas and
Tax Adjustment Clauses

U-75-68

ERRATA NOTICE

ORDER NO. 3

ORDER MODIFYING PURCHASED GAS COST AND TAX FLOW
THROUGH CLAUSES AND ACCEPTING MODIFIED CLAUSES

(Issued December 17, 1975)

Page 14, line 1 of Ordering Paragraph No. 3: Change

"Royalty Tax" to "Royalty Gas"

DATED AND EFFECTIVE at Anchorage, Alaska, this 1st day of
November 1976.

BY DIRECTION OF THE COMMISSION

(S E A L)



STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Gordon J. Zerbetz, Chairman
 B. Richard Edwards
 Marvin R. Weatherly
 Carolyn S. Guess (not participating)
 Susan M. Knowles

In the Matter of the Filing of a	)	
Tariff Revision, Designated as	)	U-75-68
TAL2-4, by ALASKA GAS AND SERVICE	)	
COMPANY to Adopt Purchased Gas and	)	ORDER NO. 3
Tax Adjustment Clauses	)	

ORDER MODIFYING PURCHASED GAS COST AND TAX FLOW
THROUGH CLAUSES AND ACCEPTING MODIFIED CLAUSES

On July 31, 1975, ALASKA GAS AND SERVICE COMPANY (AGAS), a division of Alaska Interstate Company, filed a tariff revision to reinstate in its natural gas utility tariff its tariff rules Nos. 708 and 709. These sections would allow AGAS to flow through to its customers, by means of a billing surcharge, any increase in its wellhead cost of gas above 41.5¢ per MCF occurring after July 1, 1975, and any new or increased tax or excise imposed by Federal, State, Borough, Municipal or other local taxing authority upon the production, transmission, or sale of gas, or levies of special taxes, license fees, or street or right-of-way levies or fees, above the amounts established on January 1, 1975.

Order No. 1 in this proceeding suspended the tariff revision until March 1, 1976. In Order No. 1 the Commission also established a hearing date of October 30, 1975. AGAS was to bear the burden of proof that the tariff revision requested was reasonable and proper in all respects.

On October 16, 1975, the MUNICIPALITY OF ANCHORAGE d/b/a MUNICIPAL LIGHT & POWER (ML&P) petitioned the Commission for leave to intervene in the above-captioned proceedings. Order No. 2 in this proceeding, issued on October 27, 1975, allowed ML&P to intervene in this docket.

The tariff revision was noticed to the public by notice dated August 6, 1975. The public hearing of this matter was also noticed to the public by notice placed in the Anchorage Daily Times on October 29, 1975. Several objections to the flow through provisions of AGAS were received by the Commission.

AGAS requested a purchased gas cost adjustment clause and tax adjustment clause to read as follows:

708 Purchased Gas Cost Adjustment - Company's rates as of July 1, 1975, are based on a wellhead cost of gas of 22.0¢ per MCF plus 19.5¢ per MCF as a deliverability charge, for a total of 41.5¢ per MCF. In the event this cost is increased or decreased from said amount after July 1, 1975, then the Company may, after appropriate notice to the Alaska Public Utilities Commission as required by AS 42.05.411, place into effect a like increase or decrease in the rates theretofore in effect. Such adjustment shall be pro-rated on bills rendered subsequent to the effective date of the increase or decrease, provided, however, that this Section 708 shall not be implemented by the Company to reflect any negotiated upward re-pricing of any gas reserves or deliverability previously committed to the Company. It is understood that certain escalations of wellhead gas cost are contemplated in the Company's gas purchase contract (amendment dated De-

ember 18, 1974) and that these escalations will be implemented by this Section 706. It is also understood that the Company may by negotiation acquire additional deliverability and that the cost of gas obtained pursuant to such negotiations will be subject to the implementation of this Section 708.

Implementation of this Section 708 shall not be construed as a justification for perpetuating any particular rate of return by the Company. It shall not be deemed to prevent or impede the Alaska Public Utilities Commission from requiring the Company to carry the burden of proof as to the appropriateness of any of the Company's rate schedules or its rate of return at any time upon reasonable notice by the Commission and for reasonable cause given by the Commission with such notice.

709 Tax Adjustment - Whenever any Federal, State, Borough, Municipal or other local taxing authority imposes any new or increased specific tax or excise upon the production, transmission or sale of gas or levies special taxes, license fees, or street or right of way rentals or fees, above the amount(s) payable on January 1, 1975, any of which are payable by or reimbursable by the Company, Company may, after appropriate notice to the Alaska Public Utilities Commission as required by AS 42.05.411, recover a proportionate share of such increase from the customers served within the tax unit or units levying such tax, excise or special charge based on the proportionate volume of gas used by

such customers, as a line item surcharge on company's billing for service rendered.

If the tax is thus applicable to all customers of the Company rather than to only a portion, then the Company's rates and contracts will be accordingly revised rather than to institute the line item surcharge. Federal or state income taxes or surtax on such income taxes shall not be deemed to be a "tax" for the purpose of implementing this Section 709.

For reasons stated below it is the Commission's opinion that these clauses should read as follows:

Purchased Gas Cost Adjustment - The gas supply contracts existing on December 1, 1975, contain escalation clauses which result in periodic increases or decreases in the cost of purchased gas. Any increase in the cost of purchased gas to the Company under the escalation clauses that the Company becomes responsible for after July 1, 1976, may be passed on to the customers of the Company. Such an increase may be reflected in the rates paid by the customers for gas used by the customer after the date the Company is responsible for paying the increase. The increase, however, may not be charged to the customers of the Company unless the Company meets the conditions specified in Order No. 3 in Docket U-75-68. The Company may not flow through to its customers any increases in the cost of gas resulting from alterations, changes, or amendments of any part of the escalation clauses existing on December 1, 1975. The Company also may not flow through to its customers any other increase in the cost of gas except as speci-

fied in this Section and the Royalty Gas Section of this tariff. The increases flowed through to the customers pursuant to this section may not exceed 5¢/MCF per calendar year.

In the event the price which the Company must pay to purchase gas to serve the Company's customers is decreased the Company shall decrease its rates to its customers to fully reflect the entire decrease in the purchased gas cost.

Royalty Gas - The cost of gas purchased from the State is greater than the cost of gas purchased from other suppliers. The gas purchased from the State must be taken by the Company as produced. The Company must therefore distribute this gas to its customers when taken and it must be sold at a higher rate than the gas it now purchases from other suppliers. In order to insure a proper price of gas as a result of the commingling of the higher priced State gas and the lower priced gas from other suppliers the Company shall, month to month, increase or decrease the bills of customers to reflect the average cost per MCF of gas on an MCF basis which shall be computed as the product of the volume of gas purchased from the State each month multiplied by the price of that gas, plus the product of the volume of gas purchased from other suppliers during the month multiplied by the cost of this gas, and the sum of the products thus computed divided by the total volume of gas purchased. The flow through increases or decreases pursuant to this section of the tariff are subject to

the conditions set forth in Order No. 3 of Docket
U-75-68.

Reserve Tax - The reserve tax payable by the gas company as a result of the enactment of 159 SLA 1975 may be charged to the customers of the Company as a surcharge to be separately specified and identified on the bills of the customers. Only the portion of the reserve tax that is not offset by the severance tax in the year the reserve tax is due and owing may be surcharged to the customers. Any further credits to the reserve tax for payments of severance taxes shall be treated as a decrease in the severance tax adjustment allowed by the Severance Tax Section of this tariff. The reserve tax adjustment is subject to the conditions set forth in Order No. 3 of Docket U-75-68.

Severance Tax - In the event the severance tax on the gas necessary for the Company to serve its customers is increased above the amount payable on July 1, 1976, the Company may, in accordance with Order No. 3 in APUC Docket U-75-68 increase correspondingly the rates charged to the Company's customers to reflect the increase in severance taxes. The rates to the customers may be increased in accordance with the amount of gas consumed by the customers. In the event the severance tax charged by the State on the gas necessary to serve the Company's customers decreases the Company shall decrease its rates to its customers to fully reflect the entire decrease in the severance taxes. The rates charged its customers shall also be decreased

to reflect any portion of the severance tax that is decreased by the State as an offset to the reserve taxes paid by the Company pursuant to 159 SLA 1975.

As can be noted, there are several differences between the flow through provisions proposed by the company and those acceptable to the Commission. In the first place, the Commission has made more specific the type of cost increases and taxes which will be allowed to be flowed through to the customers of AGAS. The Commission has specifically allowed flow through of severance taxes, periodic price escalations pursuant to clauses of contracts existing on December 1, 1975, royalty gas purchases from the State, and the reserve tax enacted by the 1975 Alaska legislature. The provisions proposed by the company were so broad that nearly all increases in any tax or cost of purchased gas could be flowed through. The Commission is reluctant to again find itself in the situation which occurred this past year when AGAS proposed to flow through to its customers pursuant to a similar provision as now proposed by AGAS the deliverability charge of 19.5¢ per MCF.

From the testimony at the hearing it is apparent that at least one escalation clause in a supplier's contract with AGAS is dependent upon changes in the wholesale price index of November of each year. Apparently the price increase per MCF would go into effect on January 1 of the following year. This appears to allow approximately 30 days in which to properly prepare the information that the Commission would like to review and notice before the increase becomes effective. The conditions set forth in this order

will be tailored as much as possible to enable the gas cost increases based on the wholesale price index to be flowed through in a timely manner.

Where a flow through will not result in AGAS maintaining or receiving more than a reasonable rate of return on its investment it is the opinion of this Commission that the flow through should be permitted. The basic reason for flow through provisions is to insure that a short term windfall does not accrue to the customers of AGAS in rates which do not properly reflect the revenue requirements of AGAS. Such a windfall would result from short term regulatory lag. When designing flow through clauses or allowing the flow throughs pursuant to the clauses the Commission must insure that windfall profits do not accrue to AGAS. Each of the flow through clauses acceptable to the Commission should be applied by AGAS with this in mind. Conservative applications of these clauses should be the norm for AGAS. If the Commission determines that the flow through clauses set forth above in this order including the royalty gas clause are being applied to maintain or receive more than a reasonable rate of return or are otherwise being abused the Commission will commence an investigation to repeal these clauses and order appropriate refunds where applicable.

Royalty Gas

The evidence in this proceeding clearly demonstrates that if AGAS is able to purchase royalty gas from the State of Alaska it will be necessary that AGAS take the gas as it is produced and that the price of this royalty gas will be somewhat higher than the price of gas from other gas

N/A
since it
falls
about
return
on
investment
No invest-
ment is
involved

supplies now committed to AGAS. The volume of gas from the State will not meet the entire demand on the system which results in commingling of high and low priced gas. This commingling raises several problems. The initial problem is a month to month change in rates to the consumers of AGAS. The month to month billings would vary directly in accordance with the royalty gas portion of the total gas volume consumed by the customers of AGAS. A higher proportion of royalty gas consumed would result in an increased average cost of gas. In order to prevent a windfall for either AGAS or the customers of AGAS that would result by setting a constant average price, it is the Commission's opinion that the royalty gas may be commingled with the cheaper gas and that the month to month rates of customers of AGAS may vary in accordance with the amount of royalty gas distributed to the customers. Another problem raised with the royalty gas variation involves the conditions under which the royalty gas flow through clause may be used. It is apparent to the Commission that monthly filings of comparative balance sheets, operating expense statements, rate of return calculations and rate base calculations is not practical for the implementation of this clause. It is the Commission's opinion, however, that a report should be filed by AGAS in a form acceptable to the staff of the Commission, that would allow the staff of the Commission to audit the fluctuation of the rates charged for gas to the customers of AGAS. These reports will be due on January 15, April 15, July 15 and October 15 of each year. The information in the report should at least show the total volume of gas consumed for each of the months involved in the report, the volume of

royalty gas purchased for each month, the price of the
royalty gas at the point of purchase by AGAS, and the price
and volume of the gas purchased by AGAS from other suppliers.

The method which should be used by AGAS to determine
its average cost of gas per MCF is to multiply the amount of
State royalty gas purchased in a month times the price of
the State royalty gas and add to that product the product
of the price and volume of gas purchased from other sup-
pliers in the same month. The sum of the two products should
then be divided by the total amount of gas purchased in the
month to arrive at the average cost of gas per MCF. It is
apparent to the Commission that by using this formula the
additional cost of gas per MCF that the customers of AGAS
will pay as a result of the commingling of royalty gas with
other gas will fall generally in the range of 2 to 5¢ per
MCF per month.

It is the Commission's opinion that it is impera-
tive for AGAS to obtain additional reserves and gas supply
to serve its customers. If the royalty clause is not used
to reflect an average cost of gas on or before August 1,
1976, this Commission will commence an investigation to
determine the reasons for the non-use and whether the clause
should be deleted from the tariff of AGAS.

RESERVE TAX

The evidence in this proceeding shows that the gas
company may become responsible for the payment to its
suppliers of gas of the reserve tax that its suppliers
are required to pay the State of Alaska pursuant to 159 SLA
1975. It is the opinion of the Commission that this tax
should be treated as an expense of the utility recoupable.

through its rates and charges. It appears to the Commission that 159 SLA 1975 provides for payments of the reserve tax to be made in 1976 and 1977. The amount of severance tax due the State in 1976 and 1977 will be deducted from the amount of reserve tax due the State. Furthermore, a certain portion of the severance tax due the State each year after 1977 will be credited against the paid-in reserve tax. Consequently, it is the Commission's opinion that only that portion of the reserve tax which is not offset by the severance tax in the years 1976 and 1977 should be flowed through to the customers of AGAS. Additionally the savings in severance tax payments subsequent to 1977 should result in a reduction of the severance tax which the customers of AGAS are required to pay through their monthly gas bills.

It is apparent to the Commission that the flow through of the reserve tax should be subject to such conditions as would permit the Commission to review the amount of flow through, the amount of severance tax set off against the reserve tax, the price increase per MCF, the projected amount to be collected, the refund procedure in the event more than the amount of tax due is collected and whether the tax will be collected on a one payment basis or as a monthly increase on customers' bills. The reporting of this information shall be in a form satisfactory to the staff of the Alaska Public Utilities Commission and contain at least the information set forth above. This report shall be filed with the Commission on January 15, April 15, July 15 and October 15 of 1976 and 1977 and a final report on January 15, 1978. Each report shall cover the immediate past three month period. Furthermore, it is the Commission's opinion

that subsequent to the filing of the information AGAS should be allowed to collect or continue to collect the reserve tax unless the Commission within thirty days after the filing of the information orders an investigation into the flow through of this tax.

PURCHASED GAS COST ADJUSTMENT CLAUSE AND SEVERANCE TAX CLAUSE

It is apparent to the Commission from the evidence in this record that approximately 50% of the operating expense of AGAS involves the purchase of gas to be distributed to its customers. It is also apparent to the Commission that where the escalation clause involves the wholesale price index the amount of price increase in the cost of purchased gas could vary from year to year. The other price escalation clauses require increases in 1981 and 1986 and yearly thereafter.

It is the opinion of the Commission that these increases, subject to the conditions set forth below, should be allowed to be flowed through to the customers of AGAS.

The conditions to which a purchased gas cost adjustment clause and severance tax adjustment clause should be subject were previously outlined by this Commission in Order No. 6 in Docket U-74-115 regarding flow-through provisions similar to those now proposed by AGAS. It is apparent to the Commission that prior to using a purchased gas cost adjustment clause or severance tax adjustment clause AGAS should be required to file all the materials set forth in 3 AAC 48.275(a). This information includes comparative balance sheet statements, operating expense statements, rate of return calculations, and rate base calculations. This information should be filed at least 45 days before the

proposed effective date of the flow through of the increase in the cost of purchased gas or severance taxes. The filing of this information will allow the Commission and staff to completely review the effect of the flow through and accommodate AGAS on its wholesale price index escalation clauses. If the Commission is of the opinion after reviewing the filed information that a rate case should be filed by AGAS, the Commission could then order AGAS to prepare and file a revenue requirement study. If such a revenue requirement study was ordered by the Commission, the study would be part of the burden of proof of AGAS to support its rates and charges to its customers. If the Commission required AGAS to support its rates based on its revenue requirements, the purchased gas cost or severance tax increase would be treated as a normal operating expense.

To assure that regulatory lag does not adversely effect AGAS if the Commission orders the rate investigation, the flow-through of the increased cost for purchased gas or severance taxes would be allowed to go into effect any time after the end of the 45-day notice period provided by AS 42.05.411(a). However, if a revenue requirement study and rate case filing are required by the Commission before the effective date of the flow-through, any portion of the flow-through paid by the customers of AGAS above the amount determined by the Commission to be reasonable in the rate investigation would be required to be refunded by AGAS to its customers.

As mentioned in Order No. 6 in Docket U-74-115, this procedure is similar to the procedures relating to fuel cost rate adjustment clauses which this Commission has

allowed for several electric utilities. It is the Commission's opinion that the above restrictions and conditions on any type of flow-through clause are clearly reasonable and necessary to insure that the public is not charged a rate above the rate necessary for the company to receive a reasonable rate of return on its investment. These conditions and restrictions have proved the electric utility fuel cost rate adjustment clauses to be a workable and practical solution to increased costs of fuel.

As noted in the purchased gas cost adjustment and severance tax clauses these flow through provisions may only be used for price escalations after July 1, 1976. AGAS has recently filed a rate case with this Commission that should incorporate in AGAS's revenue requirements each of the price escalations up to July 1, 1976, for which AGAS is responsible.

ORDER

THE COMMISSION FURTHER ORDERS:

1. The flow through clauses, Sections 708 and 709, filed by Alaska Gas and Service Company are unacceptable to the Commission and therefore are disapproved.
2. The flow through clauses acceptable to the Commission are set forth in this Order on Pages 4, 5, 6 and 7 under the headings of Purchased Gas Cost Adjustment, Royalty Gas, Reserve Tax and Severance Tax.
3. The Royalty ^{Gas} Tax flow through provision is subject to the condition that a report be filed by Alaska Gas and Service Company on January 15, April 15, July 15, and October 15 of each year setting forth as a minimum the

information requested by the Alaska Public Utilities Commission Staff and the information provided on pages 9 and 10 of this order.

4. The Reserve Tax flow through provision is subject to the conditions that a report be filed with the Commission on January 15, April 15, July 15, and October 15 of 1976 and 1977 and a final report on January 15, 1978, setting forth the information requested by the Alaska Public Utilities Commission Staff and the information required on Page 11 of this order.

5. In addition to conditions specified elsewhere in this order the Purchased Gas Cost Adjustment clause and Severance Tax clause shall be subject to the following conditions and any increases in rates to the customers of Alaska Gas and Service Company pursuant to these clauses may not become effective until: (a) the information required by 3 AAC 48.275(a) is filed at least 45 days before the proposed effective date of the flow through of the increase in the cost of purchased gas or severance taxes; (b) at the time of filing the requirements in paragraph (5)(a) of this order Alaska Gas and Service Company shall file with the Commission a statement of the exact amount of the purchased gas cost adjustment increase and severance tax increase and the effective date that it wishes to increase rates to its customers based on these increases; (c) revised tariff sheets showing the rate increase to its customers shall be filed at least 15 days prior to the effective date of the rate increase; (d) Alaska Gas and Service Company, if ordered to do so by the Commission prior to the end of the 45-day period mentioned in Paragraph (5)(a) of this order,

shall bear the burden of proof to justify its rates charged to its customers in accordance with generally accepted rate-making procedures and to prove that it is not receiving an unreasonable rate of return.

6. Regardless of whether the Commission orders a rate investigation pursuant to Paragraph 5 of this order and that Alaska Gas and Service Company bears the burden of proof as set forth in Paragraph 5, the increased rates proposed to offset the increased cost of purchased gas or increased severance taxes shall go into effect in accordance with these clauses.

7. If the Commission orders a rate investigation and orders that Alaska Gas and Service Company meet its burden of proof required in Paragraph 5 of this order, Alaska Gas and Service Company shall maintain accurate records of each customers' payments under the increased rates and shall refund to each customer any portion of the payments above the amount determined by the Commission in the rate investigation to be reasonable.

DATED AND EFFECTIVE at Anchorage, Alaska, this 17th day of December, 1975.

BY DIRECTION OF THE COMMISSION

(S E A L)



U-75-68(3)
Page 16

AGO 801517

SCR 106

CS HCR 142

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE CONCURRENT RESOLUTION NO. 106

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Relating to the taking of
6 state-owned royalty oil or gas
7 in-kind and its disposal by sale.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS the legislature by enactment of the Alaska Royalty Oil and Gas
10 Development Board statute, AS 38.06. et seq., has established a clear policy
11 of favoring the taking of state-owned royalty oil or gas in-kind and making
12 that royalty available for in-state uses; and

13 WHEREAS the State of Alaska presently receives a one-eighth royalty on
14 gas produced from the North Cook Inlet Gas Field in value, but has the
15 right to receive this royalty in-kind; and

16 WHEREAS the commissioner of natural resources has entered into a
17 contract for the sale and purchase of state-owned royalty gas from the
18 North Cook Inlet Gas Field with Alaska Pipeline Company, an Alaskan corpora-
19 tion which sells natural gas in the Anchorage and North Kenai Road areas; and

20 WHEREAS the contract between the State of Alaska and Alaska Pipeline
21 Company requires as a condition precedent to its becoming effective appro-
22 val by a majority of each house of the Legislature;

23 BE IT RESOLVED by the Alaska State Legislature that approval of
24 Alaska Royalty Gas Sale No. 76-1, the contract for the sale of state
25 royalty gas from the North Cook Inlet Gas Field to Alaska Pipeline Company,
26 is hereby approved.

SCB104 REQUESTING THAT BIKE TRAILS AND PATHS BE OPENED FOR USE BY SNOWMOBILES WHEN SNOW CONDITIONS PERMIT
PRIME SPONSORS: COMMERCE BY REQUEST

DATE	SEQ. NO.	JOURNAL PAGE	SENATE ACTION	DATE	SEQ. NO.	JOURNAL PAGE	HOUSE ACTION
** 05/03/76	01	1012	FIRST READING -- COMMITTEE REPORTS RESOURCES RULES				

SCB105 RELATING TO COMPETITIVE BIDDING FOR STATE CONTRACTS
PRIME SPONSORS: COMMERCE

DATE	SEQ. NO.	JOURNAL PAGE	SENATE ACTION	DATE	SEQ. NO.	JOURNAL PAGE	HOUSE ACTION
** 05/04/76	01	1028	FIRST READING -- COMMITTEE REPORTS COMMERCE RULES				

SCB106 RELATING TO THE TAKING OF STATE-OWNED ROYALTY OIL OR GAS IN-KIND AND ITS DISPOSAL BY SALE
PRIME SPONSORS: RULES BY REQUEST OF: GOVERNOR

DATE	SEQ. NO.	JOURNAL PAGE	SENATE ACTION	DATE	SEQ. NO.	JOURNAL PAGE	HOUSE ACTION
05/05/76	01	1047	FIRST READING -- COMMITTEE REPORTS	05/16/76	05	1408	FIRST READING -- COMMITTEE REPORTS
05/13/76	02	1156	RES -- DPO4, NR03	05/17/76	06	1429	FIN -- DPO5
05/15/76	03	1209	SECOND READING	05/20/76	07	1486	SECOND READING
05/15/76	04	1209	PASSED BY DIV 17-02-01	05/20/76	08	1486	PASSED BY VOICE VOTE
05/24/76	09	1346	TRANSMITTED TO GOVERNOR				
** 05/28/76	10	1450	READ BY GOVERNOR -- SENT TO LT GOVERNOR				

SCB107 PAYING TRIBUTE TO JIM MCKEOWN
PRIME SPONSORS: RULES

DATE	SEQ. NO.	JOURNAL PAGE	SENATE ACTION	DATE	SEQ. NO.	JOURNAL PAGE	HOUSE ACTION
05/05/76	01	1047	FIRST READING -- COMMITTEE REPORTS	05/06/76	04	1244	FIRST READING -- COMMITTEE REPORTS
05/05/76	02	1047	SECOND READING	05/07/76	05	1271	SECOND READING
05/05/76	03	1047	PASSED BY VOICE VOTE	05/07/76	06	1271	PASSED BY VOICE VOTE
05/12/76	07	1151	TRANSMITTED TO GOVERNOR				
** 05/15/76	08	1199	READ BY GOVERNOR -- SENT TO LT GOVERNOR				

MESSAGES FROM THE GOVERNOR

Message of May 28 was read, stating the Governor has read the following resolutions and transmitted the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

HOUSE RESOLUTION NO. 7

HOUSE CONCURRENT RESOLUTION NO. 86

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE
SUBSTITUTE FOR HOUSE CONCURRENT RESOLUTION
NO. 123

SENATE RESOLUTION NO. 7

HOUSE COMMITTEE SUBSTITUTE FOR COMMITTEE
SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION
NO. 62

SENATE CONCURRENT RESOLUTION NO. 91

SENATE CONCURRENT RESOLUTION NO. 106

Message of May 28 was read, stating the Governor has signed the following resolutions and transmitted the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

SENATE JOINT RESOLUTION NO. 54

HOUSE JOINT RESOLUTION NO. 67

HOUSE JOINT RESOLUTION NO. 77

Messages of May 26, 27 and 28 were read, stating the Governor has signed the following bills and transmitted the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL
NO. 285 amended by the Free Conference
Committee (Chapter 98, SLA 1976)

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE
SUBSTITUTE FOR HOUSE BILL NO. 795
(Chapter 99, SLA 1976)

HCS The question being: "Shall the effective date clause on
SSSB the above bill be adopted?" The roll was taken with the
647 following result:

Yeas: 37 Anderson, H. Beirne, Bradley, Bradner,
Brown, Buchholdt, Cotten, Cowper, Davis,
Duncan, Eliason, Freeman, Gardiner, Gruening,
Guy, Hackney, Haugen, Hershberger, Huntington,
Itta, McKinnon, Malone, Miller,
Naughton, Ose, Osterback, Ostrosky,
Parker, Parr, Rhode, Rudd, Smith,
Specking, Sullivan, Swanson, Urion,
Wallis.

Nays: 2 M. Beirne, Fischer.

Excused: 1 Kelley.

And so, the effective date clause was adopted.

Mr. Specking gave notice of reconsideration of his vote on
HOUSE COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR
SENATE BILL NO. 647 on the next legislative day.

SECOND READING OF SENATE RESOLUTIONS

SCR SENATE CONCURRENT RESOLUTION NO. 106 (taking of state-owned
106 royalty oil or gas in-kind and its disposal by sale) was
read the second time with the Finance Committee report
(page 1429 of the journal).

House The question being: "Shall SENATE CONCURRENT RESOLUTION NO.
106 pass the House?" On voice vote, it passed the House,
was signed by the Speaker and the Chief Clerk and returned
to the Senate.

CSHB Mr. Parr asked that the reconsideration of the vote on
665 COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 665 amended
am (relating to statewide coordination of health planning) be
taken up at this time.

THIRD READING OF HOUSE BILLS

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 665 amended was
automatically before the House in third reading at this
time and was read the third time.

Mr. M. Beirne moved and asked unanimous consent that the
above bill be returned to second reading for the purpose
of rescinding action in failing to adopt amendment No. 2.

and transmitting same for consideration.

CSHB

The above message will be considered at a later time.

661
am

A message dated May 16, 1976 was read, stating the Senate has passed HOUSE BILL NO. 730 (providing for a tourism economic impact study and authorizing a data collection system) with the following amendment:

HB
730

SENATE COMMITTEE SUBSTITUTE FOR HOUSE
BILL NO. 730

and transmitting same for consideration.

The above message will be considered at a later time.

A message dated May 16, 1976 was read, stating the Senate has passed HOUSE BILL NO. 917 (relating to disaster relief for Western Alaska; effective date) with the following amendment:

HB
917

Page 1, line 14: Delete "natural" insert "major"

Page 1, line 18: Delete "natural" insert "major"

and so, HOUSE BILL NO. 917 amended Senate is transmitted herewith for consideration.

The above message will be considered at a later time.

A message dated May 16, 1976 was read, stating the Senate has passed the following bill and it is transmitted herewith for consideration:

FIRST REFERENCE AND READING OF SENATE BILLS

SENATE BILL NO. 437 amended, by Croft, entitled:

SB
437
am

"An Act making a special appropriation to the Department of Commerce and Economic Development, division of tourism, for group travel matching grants; and providing for an effective date."

was read the first time and referred to the Finance Committee.

REPORTS OF STANDING COMMITTEES

The Finance Committee has had SENATE CONCURRENT RESOLUTION NO. 106 (relating to the taking of state-owned royalty oil or gas in-kind and its disposal by sale) under consideration and a majority of the members of the Committee recommends it do pass. The report was signed by Mr. Malone, Chairman, and concurred in by Buchholdt, Haugen, Gruening, Cowper and Malone.

SCR
106

SENATE CONCURRENT RESOLUTION NO. 106 was referred to the Rules Committee for placement on the calendar.

11 Division absent
Guy
Latta
Naughton

And so, COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 549 (Finance) passed the Senate.

CS
SSHB
549
(Fin)

Senator Kerttula moved and asked unanimous consent that the roll call on the passage of COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 549 (Finance) be considered the roll call on the effective date clause. Without objection, it was so ordered.

COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 549 (Finance) was signed by the President and Secretary and returned to the House.

SECOND READING OF SENATE RESOLUTIONS

SENATE CONCURRENT RESOLUTION NO. 106 (taking of state-owned royalty oil or gas in-kind and its disposal by sale) was read the second time.

SCR
106

SENATE CONCURRENT RESOLUTION NO. 106 was considered on final passage. A roll call was requested and appears as follows:

Yeas: 17 Bradley, Butrovich, Chance,
Colletta, Croft, Ferguson,
Huber, Kerttula, Meland, Miller,
Orsini, Poland, Rader, Sackett,
Tillion, Willis, Ziegler

Senate

Nays: 2 Hohman, Ray

Absent: 1 Rodey (Vote DP in Resources)

And so, SENATE CONCURRENT RESOLUTION NO. 106 passed the Senate.

SENATE CONCURRENT RESOLUTION NO. 106 was referred to the Secretary for engrossment.

SPECIAL ORDERS

Senator Rodey moved and asked unanimous consent that he be excused from a call of the Senate for May 16 and 17. Without objection, Senator Rodey was excused.

Senator Tillion moved and asked unanimous consent that he be excused from a call of the Senate for May 16, 17 and 18. Without objection, Senator Tillion was excused.

CS COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 893 (Finance) by
HB the Finance Committee, entitled:
893
(Fin)

"An Act relating to general obligation bonds,
bills and capital improvements of the state;
and providing for an effective date."

was read the first time and referred to the Finance Committee.

CS COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 909 by the Finance
HB Committee, entitled:
909

"An Act making a special appropriation to the
Department of Public Works for construction
of a school at Anderson; and providing for an
effective date."

was read the first time and referred to the Health, Education and Social Services Committee and the Finance Committee.

STANDING COMMITTEE REPORTS

SCR The Resources Committee has had SENATE CONCURRENT RESOLUTION NO. 106 (taking of state-owned royalty oil or gas in-kind and its disposal by sale) under consideration and a majority of the committee recommends it do pass. The report was signed by Senator Poland, Chairman, and concurred in by Senators Rader, Croft and Rodey. Senators Butrovich, Orsini and Meland signed: "no recommendation."

SENATE CONCURRENT RESOLUTION NO. 106 was referred to the Rules Committee.

SB The Commerce Committee has had SENATE BILL NO. 14 (land
14 classification) under consideration and a majority of the committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 14 (Commerce), entitled:

"An Act relating to agricultural land."

and that the committee substitute do pass. The report was signed by Senator Kerttula, Chairman, and concurred in by Senators Colletta and Bradley. Senator Ziegler signed: "no recommendation."

SENATE BILL NO. 14 was referred to the Rules Committee.

Died in Finance

See SCR 106

Original Sponsor: Rules Committee by
request of the Governor

Offered: 5/10/76
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE CONCURRENT RESOLUTION NO. 142

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Relating to the taking of state-owned
6 royalty oil or gas in-kind and its disposal
7 by sale.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS the legislature by enactment of the Alaska Royalty Oil and Gas
10 Development Board statute, AS 38.06, et seq., has established a clear policy
11 of favoring the taking of state-owned royalty oil or gas in-kind and making
12 that royalty available for in-state uses; and

13 WHEREAS the State of Alaska presently receives a one-eighth royalty on
14 gas produced from the North Cook Inlet Gas Field in value, but has the
15 right to receive this royalty in-kind; and

16 WHEREAS the commissioner of natural resources has entered into a con-
17 tract for the sale and purchase of state-owned royalty gas from the North
18 Cook Inlet Gas Field with Alaska Pipeline Company, an Alaskan corporation
19 which sells natural gas in the Anchorage and North Kenai Road areas; and

20 WHEREAS the contract between the State of Alaska and Alaska Pipeline
21 Company requires as a condition precedent to its becoming effective approval
22 by a majority of each house of the Legislature;

23 BE IT RESOLVED by the Alaska State Legislature that Alaska royalty gas
24 sale No. 76-1 and the contract providing for the sale of royalty gas from
25 the North Cook Inlet gas field pertaining to it, between the state and the
26 Alaska Pipeline Company, is hereby approved.

Introduced: 5/4/76
Referred: Resources and
Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE CONCURRENT RESOLUTION NO. 142

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Relating to the taking of
6 state-owned royalty oil or gas
7 in-kind and its disposal by sale.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS the legislature by enactment of the Alaska Royalty Oil and Gas
10 Development Board statute, AS 38.06. et seq., has established a clear policy
11 of favoring the taking of state-owned royalty oil or gas in-kind and making
12 that royalty available for in-state uses; and

13 WHEREAS the State of Alaska presently receives a one-eighth royalty on
14 gas produced from the North Cook Inlet Gas Field in value, but has the
15 right to receive this royalty in-kind; and

16 WHEREAS the commissioner of natural resources has entered into a
17 contract for the sale and purchase of state-owned royalty gas from the
18 North Cook Inlet Gas Field with Alaska Pipeline Company, an Alaskan corpora-
19 tion which sells natural gas in the Anchorage and North Kenai Road areas; and

20 WHEREAS the contract between the State of Alaska and Alaska Pipeline
21 Company requires as a condition precedent to its becoming effective appro-
22 val by a majority of each house of the Legislature;

23 BE IT RESOLVED by the Alaska State Legislature that approval of
24 Alaska Royalty Gas Sale No. 76-1, the contract for the sale of state
25 royalty gas from the North Cook Inlet Gas Field to Alaska Pipeline Company,
26 is hereby approved.

MEMORANDUM

May 8, 1976

SUBJECT: Contract for Sale of State Royalty Gas from the North Cook
Inlet Field to Alaska Pipeline Company

TO: The Honorable Fred Brown

FROM: Gregg Erickson
Director of Research Services

Summary

As you requested on Friday, May 7, we have reviewed the unexecuted gas purchase contract identified as #76-1, between the State of Alaska (seller) and Alaska Pipeline Company (buyer) with particular reference to several specific questions you raised. Our analysis raises questions concerning the contract's pricing provisions and suggests that more extensive review by the Department of Natural Resources of Cook Inlet gas prices is called for. We also suggest that a requirement for in-state use of this gas be considered or, alternatively, that the contract be made unilaterally terminable by the state. In general, however, we find no obvious conditions or terms in the contract that appear contrary to the state's interests. Finally, we suggest revised wording for the resolution approving the contract.

Analysis

In general, the contract calls for the state to deliver to the buyer--currently the sole supplier of natural gas to Anchorage--an unspecified quantity of royalty gas received from its lessee in the North Cook Inlet field. It provides that the state shall direct its lessee (which in this case is Phillips Petroleum Company) to make these deliveries directly to the buyer who will then be responsible for its transportation to wherever it is to be consumed. Overall, a review of this contract reveals no glaring inequities or conditions which are

obviously not in the state's best interest. We do note, however, a number of minor policy issues and technical considerations which the legislature may wish to call to the attention of Commissioner Martin and the Alaska Royalty Oil and Gas Development Advisory Board.

true

The first question you raised concerned the point at which the royalty gas will be delivered to the buyer. The gas purchase contract itself does not specify this point. Under the terms of the lease between the State of Alaska and Phillips, the state has the right to take its royalty gas in kind but must do so on or adjacent to the lease from which it is produced. In the case of an offshore platform such as that from which the North Cook Inlet field is produced, this means that, absent other mutually acceptable arrangements, the state must take delivery of its in-kind royalty gas at the platform and arrange for its own transportation ashore. Thus, unless the state wishes to assume this responsibility, the contract provision as currently framed regarding point of delivery would seem to be the only appropriate alternative, i.e., that the state make its delivery to the buyer at the point where it receives delivery from the lessee.

As a practical matter, pipeline capacity sufficient to transport both the royalty and producer's gas to shore already exists, and Alaska Pipeline Company should be willing to pay Phillips a reasonable fee for the use of that capacity. Normally, both Phillips and Alaska Pipeline would be expected to have plenty of incentive to reach an agreement on these transportation charges. They represent additional income to Phillips without any additional expense (since the pipeline capacity is already in being) and, in the case of the Alaska Pipeline Company,

Not so, since Phillips will have to produce more gas to meet its obligations

May 8, 1976

should be substantially lower than the cost of building and operating its own platform-to-shore pipeline.

*Don't
get it!*

The only situation where we could envision difficulties arising would be in the case where the lessee was willing to make significant immediate financial sacrifices in order to sabotage the royalty gas sale and thus regain for itself control over the entire production stream. If the cost of constructing a separate pipeline for the royalty share were economically prohibitive, denial of access of the existing facility might be sufficient to torpedo the entire deal. We do not see this as a likely eventuality, and if it were it is probable that the state could bring countervailing pressure to bear on the lessee. In any event, the possibility of such a confrontation would not seem to require any change in the contract here presented to the legislature.

You also asked us to review the provisions concerning the pricing of royalty gas delivered to the buyer. In general, this provision calls for the buyer to pay the state the higher of either the price the state would have received from Phillips Petroleum Company had it not taken its gas in kind, the highest price paid for gas elsewhere within 100 kilometers (62 miles) of the North Cook Inlet field, or a minimum price (which is 60.36¢ per Hcf as of July, 1977, escalating thereafter at the rate of 2¢ per Hcf annually).

We find these provisions unexceptionable, but we would call your attention to what appears to be unnecessary vagueness with respect to the provisions (on page 4 and repeated on page 5 of the contract) concerning how prices received for gas elsewhere in the Upper Cook Inlet Basin are to be related to the price of gas sold under this contract. The problem

arises from the fact that natural gas may be sold elsewhere within the 100 kilometer radius at a price higher than that which would be due under either of the other two pricing provisions, but that the conditions of delivery of that higher priced gas or its quality may be different enough to raise the question of whether the price is properly comparable to that received for gas purchased by the buyer. The contract states that these comparisons shall be made "with due regard to appropriate factors including, but not limited to, difference of BTU content, delivery pressure, term of contract and connection charges." We would suggest that the semicolons preceding this phrase on pages 4 and 5 be deleted so that it will be clear the phrase applies only to the part of the sentence following the "(iii)", applying only to the comparison of prices within the basin and not to the minimum price or the price that the state would have received from Phillips.

In addition, you might consider it appropriate to work with the commissioner to develop substitute wording defining exactly how the BTU content and delivery pressure differences will influence the comparison prices, eliminating the reference to contract term and connection charges, and adding words indicating how the quantity of gas delivered is to affect the comparison. As it stands now, almost any difference in terms of delivery or quality could be used to justify an effective exemption from the "highest price received elsewhere" requirement.

It should be noted that the price currently received by the state for royalty gas produced from the North Cook Inlet field is an "imputed price". This means that it is not determined on the basis of actual

sales but rather on the basis of a "netback calculation" whereby one takes the price received for this gas in Japan and subtracts therefrom the costs of transportation and liquefaction incurred between the production platform and the delivery point in Tokyo. In the past the state has devoted little or no attention to actual verification of the validity of this imputed price, since it happens to be the highest price received for any gas in the basin. We have no reason to believe there is anything phony about the current price but would suggest that it would be appropriate in the future for the department to pay closer attention to this and other similarly determined prices in the basin since changes in one may influence others as well.

We would also call your attention to the fact that as the contract is currently written the state has no right of termination other than by mutual agreement. The buyer, on the other hand, may unilaterally terminate the contract prior to January 31, 1978. We would also point out in this context that although the "Whereas" paragraphs prior to the body of the contract indicate that the "buyer ...[delivers] natural gas for ultimate consumption within the State of Alaska", nowhere in the contract does the buyer agree to use or sell the gas purchased here only for consumption within the state. Conceivably the buyer could either export the gas from the state himself or sell it to some other party who would do the same thing. If the point of sale is greater than 100 kilometers from the North Cook Inlet field, the price of the sale would not result in any readjustment of the price paid by the buyer to the state. Since the purpose of this contract is to insure adequate supplies of natural gas for domestic consumption within the state, it would seem

logical that the contract include guarantees with respect to this matter or, alternatively, provisions allowing the state to unilaterally terminate the arrangement.

Finally, we would note that the "Resolved" clause of the resolution offered by the governor when he requested approval of this contract (HCR 142) would appear to be incorrectly worded. We would suggest that the following language be substituted:

"BE IT RESOLVED by the Alaska State Legislature that Alaska royalty gas sale No. 76-1 and the contract providing for the sale of royalty gas from the North Cook Inlet gas field pertaining to it, between the State and the Alaska Pipeline Company, is hereby approved."*

We would also suggest that the contract itself be made a part of the legislature's official record by its inclusion in the House Committee Report, and thus the Supplement.

* If the legislature or a committee thereof believes that the above comments or other considerations require some revision of the contract, the most expeditious way of bringing them about might be to instruct the Department of Natural Resources or Mr. Fackler (executive director of the Royalty Board) to work with the proposed buyer to develop the necessary language. The resolved clause could then read:

"BE IT RESOLVED by the Alaska State Legislature that Alaska Royalty Gas Sale No. 76-1 and the amended contract (submitted to the legislature on ____ May 1976 and appearing in the House Journal Supplement for ____ May 1976) providing for ..."

LEASES AND PERMITS

March 4, 1968

Phillips Petroleum Company
P. O. Box 1967
Houston, Texas

Re: Right-of-Way Permit Application
ABL 37819

Gentlemen:

This letter is to advise you that the Division of Lands has no objection to the installation of your proposed pipeline facility located in the Cook Inlet area and running from Latitude 60° 56' 10", Longitude 150° 42' 55" to Latitude 61° 04' 36", Longitude 150° 56' 54" as shown on the sketch plat attached hereto and made a part hereof. Providing, however, that your company will:

1. Take such reasonable precautions as necessary to prevent pollution or wastage of oil or other materials into Cook Inlet during both construction and maintenance of the pipeline;
2. Assume full responsibility for any adverse claims, liabilities, etc. as a result of construction or maintenance of the pipeline facility;
3. Take such precautions as necessary to cause the least interference with any commercial fishing activities in the vicinity of the pipeline;
4. Assure that the existing beach regimen and stability is maintained for that portion of the pipeline situated on tidelands; and
5. Assure that that portion of the pipeline located on tidelands is buried to sufficient depth so as to prevent damage to the pipeline or obstruction to any other users of the tidelands.

Phillips Petroleum Company

2

March 4, 1968

When construction is completed, and as-built plan and profiles are available, three copies of these should be forwarded to the Division of Lands for review. Upon review and approval, the plan and profile will be used to prepare the final right-of-way permit covering the subject lands. In addition, we propose that the right-of-way width for these pipelines be 50 feet either side of an established center line or a total of 100 feet overall.

Thank you for your cooperation.

Sincerely,

F. J. KEENAN, Acting Director

By: Howard J. Grey
Acting Tidelands Supervisor

HJG:elm

Enclosure

AGO 801536

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF LANDS

ADL 37819

APPLICATION FOR RIGHT-OF-WAY PERMIT

Date: February 15, 1968

The undersigned Phillips Petroleum Company residing at
a Delaware Corporation with offices in Bartlesville, Oklahoma hereby applies
to the Director of the Division of Lands, Department of Natural Resources, for
Right-of-Way 100 feet in width and as shown on plat feet in length located in
Section Various, Township 10N, Range 9E, Seward Meridian,
containing an area of _____ acres as shown on the plat attached hereto in triplicate
copies, for the purpose of constructing and maintaining thereon a Two 10" gas pipelines
and appurtenances for private, public, intermittent, yearlong use (strike inappli-
cable words)..

State briefly the standards of construction of proposed improvements:

1 steel wall pipe to be laid on the bottom of Cook Inlet

Constructed _____ Construction to begin approximately June, 1968

To be completed approximately 1 year later

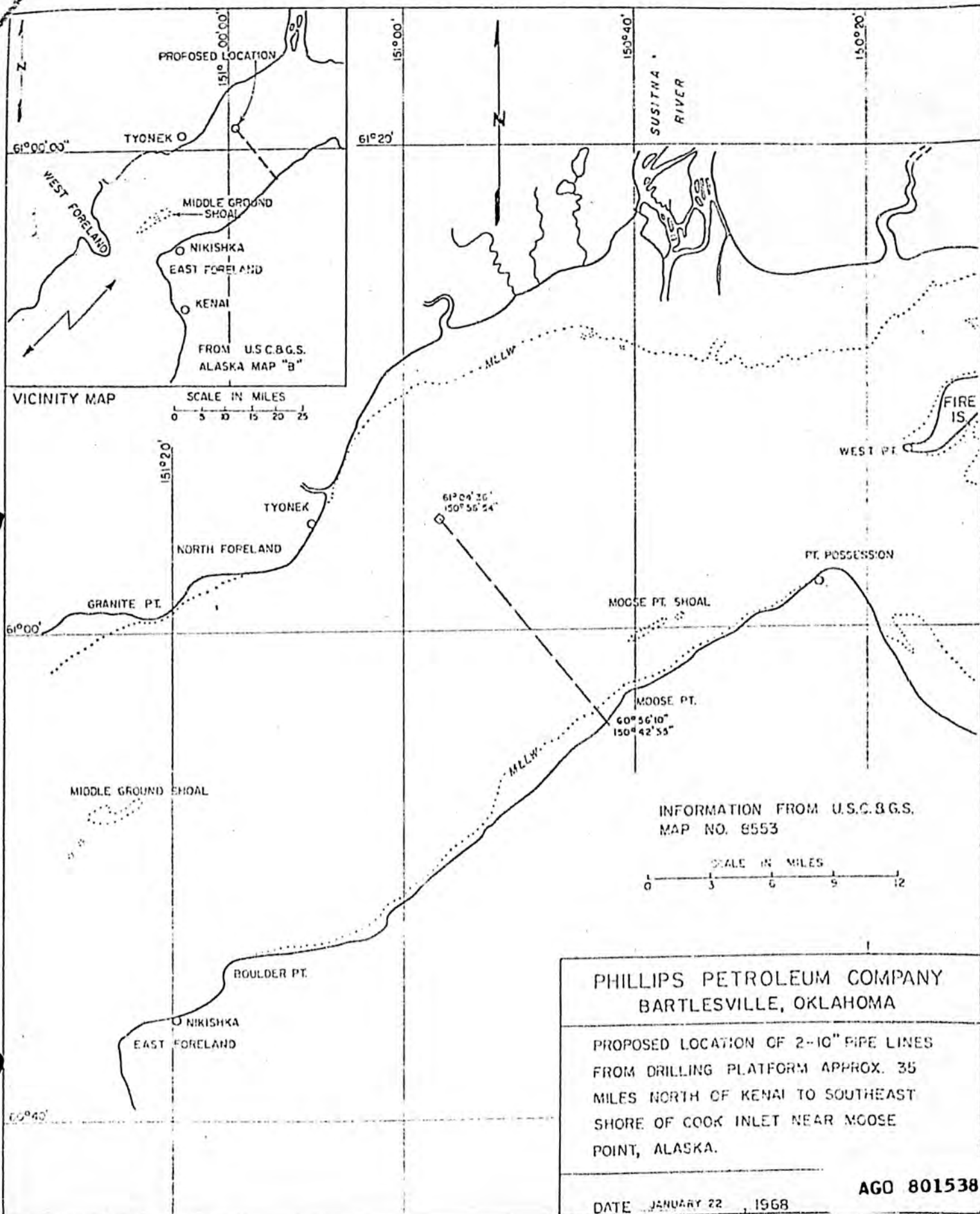
If this application is approved, I agree to construct and maintain the improvements authorized in a workmanlike manner, to keep the area in a neat and sanitary condition; if said right-of-way is to be constructed across leased lands, I agree to reimburse the lessee for all damages to crops and improvements, to the extent of the fair market value thereof, which may be damaged or destroyed as the result of the construction of said right-of-way, and to comply with all the laws, rules and regulations pertaining thereto; and provided further that upon termination or relocation of the right-of-way for which application is herein made, I agree to remove or relocate the improvements and restore the area without cost to the State and to the satisfaction of the Director.

James H. Welch

James H. Welch, Right of Way Representative

Instructions for preparation of plat: Attach triplicate copies of letter-size plat, showing centerline and boundaries of right-of-way, show ties from centerline to establish monuments and section corners, show conflicts with other rights-of-way, if any, scale to 8" per mile, type of survey.)

37810



From The Desk Of:

Pedro Denton

To: GREG Erickson

Attached is 2 copy of the right of way permit you requested. There was no significant correspondence in the file since the permit was issued.

3/22/77 PD

Chief, Minerals Section, Alaska Division Of Lands

AGO 801539

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF LANDS

ADL No. 37817

RIGHT-OF-WAY PERMIT

THIS AGREEMENT made and entered into this 19th day of March, 1970, by and between the STATE OF ALASKA, acting by and through the Department of Natural Resources, Division of Lands, hereinafter referred to as the grantor and Phillips Gas Supply Corporation hereinafter referred to as the permittee.

WITNESSETH, that in accordance with the provisions of Sec. 38.05.330, A.S. and the rules and regulations promulgated thereunder, the permittee having filed an application for a right-of-way for: Pipeline on bottom of Cook Inlet

with the Division of Lands together with a map showing the definite location thereon of the line of right-of-way which the permittee has adopted and agrees to be the specific and definite location of the aforesaid right-of-way, and

WHEREAS, it is understood and agreed by the permittee herein that, as a condition to the granting of the right-of-way applied for, the land covered by said right-of-way shall be used for no purpose other than the location, construction, operation and maintenance of the said right-of-way over and across the following described State lands, to wit:

As shown and described on Alaska Tidelands Survey No. 335, T.R.W.P. #14

running as above feet in length and/or containing as above acres, more or less and shall extend a width of feet.

TO HAVE AND TO HOLD the same until the above described land shall no longer be used for the above-mentioned purpose and subject to conditions and reservations elsewhere set forth herein.

The sketch map revealing the right-of-way granted herein shall be attached hereto and made a part hereof.

In the event that the right-of-way herein granted shall in any manner conflict with or overlap a previously granted right-of-way the permittee herein shall use this right-of-way in such a manner as not to interfere with the peaceful use and enjoyment of the previously issued right-of-way and no improvements shall be constructed by the permittee herein upon the overlapping area unless the consent therefor has first been obtained from the permittee under the pre-existing right-of-way.

The permittee in the exercise of the rights and privileges granted by this

indenture shall comply with all regulations now in effect or as hereafter established by the Division of Lands and all other Federal, State or municipal laws, regulations or ordinances applicable to the area herein granted.



Upon abandonment, termination, revocation or cancellation of this indenture, the permittee shall within 90 days remove all structures and improvements from the area herein granted, except those owned by the grantor, and shall restore the area to the same or similar condition as the same was upon the issuance of this permit. Should the permittee fail or refuse to remove said structures or improvements, within the time allotted, they shall revert to and become the property of the grantor. However, the permittee shall not be relieved of the cost of the removal of the structures, improvements and/or the cost of restoring the area. Provided further, however, that the grantor, in his discretion, may alter or modify the requirements contained in this provision if it is to the best interest of Alaska to do so.

The permittee shall utilize the lands herein granted consistent with the purposes of the proposed use, as revealed by the application therefor, and shall maintain the premises in a neat and orderly manner and shall adopt and apply such safety measures as shall be necessary, proper and prudent with respect to the use to which the land is subjected.

The permittee shall take all reasonable precaution to prevent and suppress brush and forest fires. No material shall be disposed of by burning in open fire during the closed season unless a permit therefor has first been obtained from the agency empowered by law to issue such permits.

Prior to any construction or development that will use, divert, obstruct, pollute or utilize any of the waters of the State, the permittee shall first obtain approval therefor from the Commissioner of the Department of Fish and Game and file an image copy thereof with the grantor.

Any lands included in this permit which are sold under a contract to purchase shall be subject to this permit. Upon issuance of title to the purchaser, this permit shall remain in effect until its date of expiration.

In case the necessity for the right-of-way shall no longer exist, or the permittee should abandon or fail to use the same, then this permit shall terminate.

The State of Alaska shall be forever wholly absolved from any liability for damages which might result to the permittee herein on account of this permit having been cancelled, forfeited, or terminated prior to the expiration of the full time for which it was issued.

NOW THEREFOR, in accordance with the provisions of Sec. 38.05.330, A.S. and the rules and regulations promulgated thereunder and in accordance with the conditions heretofore set forth or attached hereto and made a part hereof, the permittee herein is hereby authorized to locate, construct, operate and maintain said right-of-way over and across the lands herein described.

IN WITNESS WHEREOF, the said grantor has caused these presents to be signed in duplicate and the permittee herein has hereunto affixed his signature on the

day and year first above written.

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

By: [Signature]

Chief, Lands Section
Division of Lands

Water Resources

PHILLIPS GAS SUPPLY CORPORATION

[Signature]
Permittee Vice President

UNITED STATES OF AMERICA)
State of Alaska) ss.

This is to certify that on the 12 day of May 19 70,
before me, the undersigned Notary Public, personally appeared [Signature]
[Signature] known to me and known by me to be the Chief Water Resources
of the Division of Lands of the Department of Natural Resources, and acknowledged
to me that he executed the foregoing instrument for and on behalf of said State,
freely and voluntarily for the use and purposes therein set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official
seal, the day and year in this certificate first above written.

[Signature]
Notary Public in and for the State
of Alaska
My commission expires 2-19-71

UNITED STATES OF AMERICA)
State of ~~XXXXX~~ Oklahoma) ss.
County of Washington

This is to certify that on this X 3 day of April 19 70,
before me, the undersigned Notary Public, personally appeared Jack Turner
[Signature] to me personally known to be one of the persons described in and
who executed the within instrument and the said Jack Turner
acknowledged to me that he signed and executed the same freely and voluntarily
for the uses and purposes therein mentioned.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official
seal, the day and year in this certificate first above written.

[Signature]
Notary Public in and for the State
of ~~Alaska~~ Oklahoma
My commission expires 12-7-71

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

M E M O R A N D U M

March 31, 1977

SUBJECT: Phillips Gas Supply Corporation pipeline right-of-way permit.

TO: Gregg K. Erickson
Director, Division of Research Services

FROM: Randolph Berry *RSB*
Legislative Counsel

This is in response to your request for an opinion whether the right-of-way permit issued to the Phillips Gas Supply Corp. for its pipeline in Cook Inlet may be cancelled and a lease under the Right-of-Way Leasing Act (AS 38.35) may substituted.

Unfortunately, due to ambiguities in the language of the right-of-way permit as well as in the regulations under which it was issued, it is not possible to give a straightforward and definite answer to the question.

The form used by the Division of Lands in issuing this right-of-way permit contains conflicting language supporting both the view that the permit constituted a grant of an easement in perpetuity so long as the permittee used it for pipeline purposes and the contrasting view that the permit may be cancelled by the state. The language of the grant of the permit reads:

"To have and to hold the same until the above described land shall no longer be used for the above-mentioned purpose and subject to conditions and reservations elsewhere set forth herein."

Standing alone, this would seem to clearly indicate that the right-of-way was perpetual and not cancellable so long as the permittee continued to operate its pipeline.

However, two other provisions of the document appear to be in irreconcilable conflict with the above language. The first of these, dealing with removal of structures and improvements, states:

AGO 801543

"Upon abandonment, termination, revocation or cancellation of this indenture, the permittee shall within 90 days remove all structures and improvements from the area herein granted..."

Since failure to continue to use the right-of-way by the permittee is spoken of elsewhere in the document as leading to termination of the permit, the references here to "revocation" and "cancellation" imply that the state has retained the power to end the permit for other reasons as well (but not specified in the agreement).

The other clause of the agreement supporting the view that the grant was not intended to be irrevocable reads as follows:

The State of Alaska shall be forever wholly absolved from any liability for damages which might result to the permittee herein on account of this permit having been cancelled, forfeited, or terminated prior to the expiration of the full time for which it was issued."

This language, taken literally, would appear to allow the State to cancel the permit at will without liability.

There are two separate sections in the regulations issued by the Department of Natural Resources which provide for the issuance of right-of-way permits. 11 AAC 58.200 (Right of Way or Easement Permit) is located in Chapter 58 (Leasing of Lands). 11 AAC 62.810 (Tideland Right-of-Way and/or Easement Permits) is located in Chapter 62 (Tide and Submerged Lands). Both sections specify application on Form DL-75, which the applicant in this case used. No distinction is made either on the application form or the permit document indicating under which section the permit was issued, and consequently, which chapter of the regulations governs. Chapter 58 does not contain any reference to the duration of permits. In Chapter 62 various types of tideland permits are provided for and there is an ambiguous section on duration of permits (11 AAC 62.720) which states that "the permits shall not exceed five years in duration, but are renewable pursuant to sec. 790 of this chapter..." This section unfortunately does not clearly specify which classes of permits to which it was intended to imply. It is apparently the view of the Division of Lands that it applies to "tideland permits" (11 AAC 62.720) but not to "tideland right-of-way permits." (11 AAC 62.810). Further, there was apparently no practice on the part of the Division of Lands to distinguish between right-of-way permits issued for tide and submerged lands and for uplands, in spite of the separate sections of the regulations providing for right-of-way permits.

Gregg K. Erickson
March 31, 1977
Page 3

In view of all of the above, it seems almost a certainty that any attempt by the state to cancel the permit would be litigated by the permittee. Due in considerable part to the past practice by the Division of Lands of considering and treating right-of-way permits to be of continuing validity so long as used for the purpose granted, I feel that the odds of prevailing weigh slightly in favor of the permittee. However, I feel that there is sufficient argument that the permit is revocable by the state so that an attempt to do so by the state could not be considered to be unsupportable.

RB:hjd

STATE
of ALASKA
DEPARTMENT OF NATURAL RESOURCES
Division of Minerals And Energy Management

MEMORANDUM

TO: ☐ Elke Kallab
Research Analyst
Legislative Affairs Agency

DATE : April 13, 1977

FROM: Pete Nelson *Pete*
Land Management Officer III

SUBJECT: North Cook Inlet Gas Field

Attached are copies of the five (5) competitive oil and gas leases within the subject field. Philips Petroleum Company just acquired interests in these lease as follows:

ADL 17589	1/31/62
ADL 17590	6/1/67
ADL 18740	10/11/68
ADL 18741	10/11/68
ADL 37831	6/16/67

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL 18741

Competitive Oil and Gas Lease

THIS LEASE, dated the 1st day of September, 1962, is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources or his authorized agent, hereinafter called "lessor", and
Pan American Petroleum Corporation

hereinafter called "Lessee", whether one or more.

1. GRANT. For and in consideration of a cash bonus and the first year's rental, the receipt of which is hereby acknowledged, and of the rentals, royalties, covenants, and conditions herein contained on the part of the Lessee to be paid, kept and performed, and subject to the conditions and reservations herein contained, Lessor does hereby grant and lease unto Lessee, exclusively, without warranty, for the sole and only purposes of exploration, development, production, processing and marketing of oil, gas, and associated substances produced therewith, and of installing pipe lines and structures thereon to find, produce, save, store, treat, process, transport, take care of and market all such substances, and for drilling water wells and taking underground and surface water for use in its operations thereon, and for housing and boarding employees in its operation thereon, the following described tract of land in Alaska:

S-13-6-27

containing 5120 acres, more or less, hereinafter called "said land".

For the purposes of this lease, said land contains 8 legal subdivisions, as shown on the plat of said land attached hereto, marked Exhibit A and by this reference made a part of this lease.

If said land is described above by protracted legal subdivisions, or by officially designated tract numbers, and Lessor hereafter causes said land to be surveyed under the public land rectangular system, the boundaries of said land shall be those established by such survey, when approved, subject, however, to the provisions of the regulations relating to such surveys.

2. "OIL AND GAS". "Oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods. "Gas" means all natural gas and all hydrocarbons produced at the well not defined herein as oil. "Associated substances" means all substances produced in association with oil or gas and not defined herein as oil or gas.

3. TERM. This lease is issued for an initial primary term of five years from the date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either or any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 6, 7, and 8 hereof.

4. EXTENSION BY SUSPENSION OF OPERATIONS. If, prior to the expiration of the primary term, Lessor, in the interest of conservation, directs or assents to the suspension of all operations and production, if any, hereunder, the primary term will be extended by adding the period of suspension thereto.

5. EXTENSION BY UNIT PRODUCTION (a) This lease shall without application be extended beyond its primary term if upon or prior to the expiration date of such term the lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, production of oil or gas is had in paying quantities under the agreement, and a portion of such production is allocated to said land under the agreement. In such event this lease shall continue in effect so long as it remains subject to such agreement and action production under said agreement is allocated to said land; (b) The Commissioner may, in his discretion provide for the extension of the term of this lease, if such lease is on the expiration date thereof included in an approved unit plan or if it is included in a program of secondary recovery operation designed to bring about or restore production, provided, however, that if any lease or portion thereof is eliminated from such unit plan or recovery program, or if such unit plan or recovery program is terminated, then no such lease or portion thereof shall continue in full force and effect for ninety (90) days from the date of such elimination or termination and so long thereafter as drilling or redrilling operations are being conducted thereon and so long thereafter as oil or gas is produced in paying quantities.

6. EXTENSION BY DRILLING. (a) If production shall have been obtained in paying quantities during the primary term, and if, at the end of the primary term, or at any time prior to the end of the primary term, such production shall have ceased from any cause, or in the event production shall at any time or times after the expiration of the primary term cease from any cause, then this lease shall not terminate if the Lessee commences drilling or reworking operations (either in a well from which such production has ceased or in a new well) within sixty days after the cessation of production, and the lease shall remain in full force and effect so long as such operations are prosecuted with reasonable diligence or are suspended under Paragraph 27 hereof; and, if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities; (b) if actual drilling has commenced on the expiration date of the primary terms of the lease and is continued with reasonable diligence, such operations to include redrilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in full force and effect until ninety (90) days after such drilling had ceased and for so long thereafter as oil or gas is produced in paying quantities; (c) if all or part of the lands covered by the lease are lands that have been selected by Alaska under laws of the United States granting lands to Alaska and the conditional lease was issued thereon, the term of the lease shall be extended for a period equal to the period during which the lease was conditional.

7. EXTENSION BY SHUT-IN PRODUCTION. If, upon the expiration of the primary term or at any time or times thereafter, there is on said land a well capable of producing oil or gas in paying quantities, this lease shall not expire because Lessee fails to produce the same unless Lessor gives notice to Lessee allowing a reasonable time, which shall not be less than sixty days, after such notice to place the well on a producing status, and Lessee fails to do so; provided, that after such status is established such production shall continue on the said land unless and until suspension of production is allowed by Lessor.

8. EXTENSION BY SUSPENSION OF PRODUCTION. This lease shall not expire because of any suspension of operations in or upon or production from said land if such suspension is made under any order or with the consent of Lessor.

AGO 801547

420 4-2-63

to include the next day on which said office is open for business. Any rental paid for any one lease year shall be credited on any royalty for that year.

10. **MINIMUM ROYALTY.** Commencing with the lease year beginning on or after completion on said land of a well capable of producing oil or gas in paying quantities, Lessee shall pay Lessor, at the expiration of each lease year, in lieu of rental a minimum royalty equal to \$1.00 per acre, or fraction thereof, then included in this lease, or the difference between the actual royalty paid on production during the year if less than \$1.00 per acre and the prescribed minimum royalty.

11. **ROYALTY ON PRODUCTION.** Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil 12 1/2 per cent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas 12 1/2 per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances 12 1/2 per cent in amount or value of such substances produced and saved and removed or sold from said lands.

12. **REDUCTION OF ROYALTY RATES FOR DISCOVERY.** If Lessee shall drill on said land and make the first discovery of oil or gas in commercial quantities in any geological structure, the royalty rate under this lease shall, instead of the rates prescribed in Paragraph 11, be five per cent for a period of ten years following the date of such discovery, and thereafter the royalty rates shall be those prescribed in Paragraph 11. If this lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, the five per cent royalty rate shall apply to all, but only, the production allocated to this lease under such agreement.

13. **REDUCTION OF RENTAL AND ROYALTY.** Rental or minimum royalty may be waived, suspended, or reduced, or royalty may be reduced on all of said land or any tract or portion thereof segregated for royalty purposes if Lessor finds that such relief is necessary for the purpose of encouraging the greatest ultimate recovery of oil or gas and is in the interest of conservation of natural resources and either that such relief is necessary in order to promote development or that the lease cannot be successfully operated under the terms provided herein.

14. **ROYALTY IN KIND.** Whenever, at the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, Lessor elects to take its royalty in kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon) to Lessor or to such individual, firm, or corporation as Lessor may designate all royalty oil and/or gas produced and saved from said land. Such oil and/or gas shall be in good and merchantable condition. Lessee shall, if necessary, furnish storage for royalty oil free of charge for thirty days after the end of the calendar month in which the oil is produced from said land; provided, that Lessee shall not be held liable for loss or destruction of royalty oil and/or gas from causes beyond Lessee's reasonable control. Should Lessee dehydrate or clean the oil or gas produced from said land, Lessee shall be entitled to an allowance of the actual cost of dehydrating or cleaning said royalty oil or gas.

15. **ROYALTY IN VALUE.** At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. **PRICE.** The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

17. **PAYMENTS.** All payments to Lessor under this lease shall be made payable to the Department of Revenue of the State of Alaska and shall be tendered to Lessor at the place designated under Paragraph 43 for giving notices to Lessor.

18. **OFFSET WELLS.** Lessee shall drill such wells as a reasonably prudent operator would drill to protect Lessor adequately from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas should be produced in a well on other land not owned by Lessor or on which Lessor receives a lower rate of royalty than the royalty under this lease, which well is within 500 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this lease, and such well shall produce oil or gas in paying quantities for a period of thirty consecutive days, and if, after notice to Lessee and an opportunity to be heard, Lessor finds that production from such well is draining lands then subject to this lease, Lessee shall within 120 days after written demand by Lessor begin in good faith and prosecute diligently drilling operations for an offset well on said land. In lieu of drilling any well required by this paragraph, Lessee may with Lessor's consent compensate Lessor in full each month for the estimated loss of royalty through drainage in the amount determined by Lessor.

19. **OTHER WELLS.** This lease contemplates the reasonable development of said land for oil and gas as the facts may justify. Upon discovery of oil or gas in paying quantities on said land, Lessee shall drill such wells as a reasonably prudent operator would drill having due regard for the interests of Lessor as well as the interests of Lessee.

20. **DILIGENCE; PREVENTION OF WASTE.** Lessee shall exercise reasonable diligence in drilling, producing, and operating wells on said land unless consent to suspend operations temporarily is granted by Lessor; shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas and the entrance of water to the oil and gas bearing sands or strata to the destruction or injury of such deposits and the preservation and conservation of the property for future productive operations; shall use reasonable care and all proper safeguards to prevent the pollution of water; shall plug securely in an approved manner any well before abandoning it; shall allow Lessor to inspect all operations at any time; shall carry out at Lessee's expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land, and on failure of Lessee so to do, Lessor shall have the right together with any other recourse available to it to enter on said land to repair damage or prevent waste at Lessor's expense; and shall abide by and conform to valid applicable rules and regulations of the Alaska Oil and Gas Conservation Commission and the regulations of Lessor relating to the matters covered by this paragraph in effect on the effective date hereof or hereafter in effect if not inconsistent with any specific provisions of this lease.

21. **WELL LOCATIONS.** Lessee shall within five days after spudding in a well advise Lessor in writing of the location and date of spudding of said well.

22. **APPROVAL OF PLANS.** Lessee shall not place into actual operation any plan or method for the purpose of stimulating or increasing production on said land other than plans and methods in common use without first having obtained the written approval of Lessor.

23. **LOGS AND RECORDS.** An electric log or radioactive log, if taken, and a descriptive geologic sample log, if taken, and a record of all tests run for each well drilled on said land, together with a plat showing the exact location of each such well, shall be filed with Lessor within thirty (30) days after such well has been completed, suspended, or abandoned. Any and all information filed by Lessee with Lessor in connection with this lease shall be available at all times for the confidential use of Lessor for the purpose of enforcing compliance with the terms, covenants, and conditions of this lease and the regulations of the Lessor but shall not be open for inspection by any person other than officers, or employees of Lessor and persons performing any function or work assigned to them by Lessor for a period of twenty four (24) months after the thirty (30) day filing period, except upon written consent of Lessee. Notwithstanding any other provision hereof, said information may be disclosed to any person where such disclosure is reasonably necessary for the administration of the functions, responsibilities, and duties vested by law in the Commissioner of the Department of Natural Resources or in the Division of Lands or the Director thereof. Including but not limited to functions, responsibilities, and duties arising in connection with any litigation or administrative adjudication relating to this lease or to the rights, duties, and obligations arising hereunder.

24. **RECORDS.** Lessee shall keep and have in its possession books and records showing the production and disposition of all oil and gas produced from said land and shall permit Lessor or its agents at all reasonable hours to examine the same. Such records and reports of production shall be based upon such methods and techniques as shall insure the most accurate figures reasonably available without requiring the Lessee to provide separate tankage for each well.

25. **DAMAGES.** Sect. 2 of Article VII of the Alaska Land Act, Chapt. 169, S.L.A., 1959, as amended, provides in part that no rights under reservations contained in certain leases or grants of Alaska land shall be exercised by Lessor or its Lessee until provision has been made to pay to the owner of the land upon which the reserved rights are sought to be exercised full payment for all damages sustained by said owner by reason of entering upon said land; provided, that if said owner for any cause whatsoever refuses or neglects to settle said damages, Lessor or its Lessee shall have the right to institute such legal proceedings in a court of competent jurisdiction wherein the land is situated as may be necessary to determine the damages which the owner of such land may suffer. Lessee hereby agrees to pay any damage that may become payable under said statutory provisions and to indemnify Lessor and hold it harmless from and

against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this Lease will be regarded by Lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

26. BONDS.

(a) Lessee shall maintain the bond furnished prior to the issuance of this lease in an amount equal to at least \$2.00 per acre or fraction thereof contained in said land but not less than \$1,000.00.

(b) Before beginning drilling operations on said land Lessee must have furnished and shall maintain a bond in an amount of at least \$5,000.00.

(c) Lessee may, in lieu of the foregoing, furnish and maintain a statewide bond in the amount of \$100,000.00.

(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. ACTS OF GOD. Should Lessee be prevented from complying with any expressed or implied covenant of this lease, from conducting drilling operations thereon, or from producing or marketing oil or gas from said land after efforts made in good faith, by reason of war, riots, acts of God, severe weather in the area of said land, acts of governmental authorities, failure or lack of adequate transportation facilities, or any other cause beyond Lessee's reasonable control whether similar to those enumerated or not, then while so prevented and for a reasonable time thereafter within which to resume operations, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply therewith. If drilling or reworking operations are suspended by virtue of this paragraph and the prosecution of such operations would have had the effect of preventing the expiration or termination of this lease, then this lease shall not terminate during the period which the obligation to perform such operations is suspended under this paragraph; provided, however, that nothing in this paragraph shall be construed to suspend the payment of rentals or of minimum royalties.

28. SUSPENSION. Lessor may from time to time direct or assent to the suspension of production or other operations or both under this lease if such action is necessary or justified in the interest of conservation.

29. RESERVATIONS. Lessor reserves the right to dispose of the surface of said land to others subject to this lease, and the right to authorize others by grant, lease, or permit subject to this lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights of Lessee and operations under this lease, to enter upon and use said land:

(a) To explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet.

(b) To explore for, develop and remove natural resources other than oil, gas, and associated substances on or from said land.

(c) For nonexclusive easements and rights of way for any lawful purpose including shafts and tunnels necessary or appropriate for the working of said land or other lands for natural resources other than oil, gas or associated substances.

(d) For well sites and well bores of wells drilled from or through said land to explore for or produce oil, gas, and associated substances in and from other lands.

(e) For any other purpose now or hereafter authorized by law and not inconsistent with the rights of Lessee under this lease.

30. UNDERGROUND STORAGE. This lease does not authorize the subsurface storage of oil or gas except as a necessary incident to recycling pressure maintenance, repressuring, or other similar operations designed to increase the ultimate recovery of oil or gas or prevent the waste of oil or gas produced from said land or from any unit area of which the said land is a part. Lessor reserves the right to authorize the subsurface storage of oil or gas in said land by Lessee or by others in order to avoid waste or to promote conservation of natural resources and upon such conditions as will prevent unnecessary or unreasonable interference with the rights and operations of Lessee under this lease, including conditions prohibiting the storage of oil or gas without the consent of Lessee in any reservoir covered by this lease capable of producing oil or gas in paying quantities.

31. ASSIGNMENTS. This lease or any undivided interest herein may with the approval of Lessor be assigned or subleased as to said land or any one or more legal subdivisions included therein, or any separate and distinct zone or geological horizon underlying said land or such one or more legal subdivisions, to any person or persons qualified to hold a lease. No transfer of any interest in this lease including assignments of working or royalty interests and operating agreements and subleases shall be binding upon Lessor unless approved by Lessor. Lessee shall remain liable for all obligations under this lease accruing prior to the approval of such transfer. Approval of transfer of this lease or an interest therein will not be denied except (1) for failure to comply with the regulations, (2) in the discretion of Lessor, where the transfer covers any distinct zone or geological horizon, or (3) where Lessor determines that the best interests of Lessor justify such action. Applications for approval of a transfer under this paragraph must comply with the regulations and must be filed within ninety days after the date of final execution of the instrument of transfer. Where a transfer is made of all or a part of Lessee's interest in and to a portion of the acreage in said land the assigned acreage shall, at the option of Lessor, or may upon request of the transferee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

32. UNITIZATION. Whenever determined and certified by Lessor to be necessary or advisable in the public interest for the purpose of properly conserving the natural resources of any oil or gas pool, field or like area or any part thereof, which includes or underlies said land or any part thereof, Lessee may unite with other Lessees of Lessor or with others owning or operating lands not belonging to Lessor including lands belonging to the United States and with others, jointly or separately, in collectively adopting and operating under a cooperative or unit agreement for the development or operation of the pool or field or like area or part thereof. Lessee shall within thirty days after demand by Lessor subscribe to such a cooperative or unit agreement, which agreement shall be reasonable and shall adequately protect all parties in interest including Lessor. Lessor may with the consent of Lessee establish, alter, change, or revoke drilling, producing, rental, minimum royalty, and royalty requirements of this lease if committed to any such cooperative or unit agreement and may make such regulations with reference to this lease with the like consent of Lessee in connection with the institution and operation of any such cooperative or unit agreement as Lessor may determine to be necessary or proper to secure the proper protection of the public interest. If a portion of said land is committed to an approved or prescribed unit agreement, the committed acreage shall at the option of Lessor and may upon the request of Lessee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

33. SURRENDER. Lessee may at any time make and file with Lessor a written surrender of all rights under this lease or any portion thereof comprising one or more legal subdivisions or, with the consent of Lessor, of any separate and distinct Zone or geological horizon underlying said lands or such one or more legal subdivisions thereof. Such a surrender shall be effective as of the date of filing subject to the continued obligations of Lessee and his surety to make payment of all royalties theretofore accrued and to place all wells on the surrendered land or in the surrendered zones or horizons in condition satisfactory to Lessor for suspension or abandonment; thereupon, Lessee shall be released from all other obligations accrued or to accrue under this lease with respect to the surrendered lands, zones, or horizons.

and thereafter prosecute diligently operations to remedy such default, Lessor may cancel this lease if at that time there is no well on said land capable of producing oil or gas in paying quantities. If at such time there is on said land a well capable of producing oil or gas in paying quantities, this lease may be cancelled only by judicial proceedings. In the event of any cancellation under this paragraph, Lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well or wells and such rights of way through said land as may be reasonably necessary to enable Lessee to drill and operate such retained well or wells.

35. EXCESS AREA. If for any reason said land includes more acreage than the maximum permitted under applicable laws and/or regulations, this lease shall not be void but the acreage included in said land shall be reduced to the permitted maximum. Whenever Lessor determines that this lease so exceeds the permitted acreage and notifies Lessee stating the amount of acreage that must be eliminated, Lessee may within sixty days after such notice surrender one or more legal subdivisions included in said lands comprising at least the amount of acreage that must be eliminated. If such a surrender is not filed within such sixty days Lessor may terminate this lease as to the acreage that must be eliminated by mailing notice of such termination to Lessee describing the parcel or parcels eliminated. Such a notice shall have the effect of terminating this lease as to the parcel or parcels described in such notice.

36. RIGHTS ON TERMINATION. Upon the expiration or earlier termination of this lease as to all or any portion of said lands, Lessee shall have the privilege at any time within a period of six months thereafter, or such extension thereof as may be granted by Lessor, of removing from said land or portion thereof all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided which are allowed to remain on said land or portion thereof shall become the property of Lessor upon expiration of such period; provided, that Lessee shall remove any and all of such properties when so directed by Lessor. Subject to the foregoing, Lessee shall deliver up said lands or such portion or portions thereof in good order and condition.

37. INTEREST IN LAND. It is the intention of the parties that the rights vested in Lessee by this lease shall constitute an interest in real property in said land.

38. LESSOR INTEREST. If Lessor owns a lesser interest in the oil and gas deposits in said land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid Lessor only in the proportion which its interest bears to the whole and undivided fee.

39. CONDITIONAL LEASE. If all or a part of said land is land that has been selected by the Lessor under laws of the United States granting lands to Lessor, but such land has not been patented to Lessor by the United States, then this lease is a conditional lease as provided by law until such patent become effective. If for any reason such a selection is not finally approved or such a patent does not become effective, and rental, royalty or minimum royalty payments made to Lessor under this lease will not be refunded.

40. DRILLING OPERATIONS. As used in this lease "drilling operations" mean any work or actual operations undertaken or commenced in good faith for the purpose of carrying out any of the rights, privileges or duties of Lessee under this lease, followed diligently and in due course by the construction of a road or derrick and/or other necessary structures for the drilling of an oil or gas well, and by the actual operation of drilling in the ground. Any such work or operations preliminary to drilling in the ground may be undertaken either on said land or in the vicinity of said land in any order Lessee shall see fit.

40. (a) ACTUAL DRILLING. As used in this lease, "actual drilling" means any and all operations necessary or convenient to the drilling of a well in the ground after the first drilling or spudding with equipment of sufficient size and capacity to drill to the total depth proposed for the well.

41. RULES AND REGULATIONS. As used in this lease "regulations" mean the applicable and valid oil and gas leasing regulations of the Commissioner of the Department of Natural Resources in effect on the effective date of this lease unless otherwise specified.

42. INTERPRETATION. As used in this lease words which are defined in the regulations have the meaning assigned by such definition except where the context clearly requires a different meaning. The paragraph headings are not a part of this lease and are inserted only for convenience.

43. NOTICES. Any notice required or permitted under this lease shall be in writing and shall be given by registered or certified mail, return receipt requested, addressed as follows:

To Lessor:

Director, Division of Lands
State of Alaska
344 Sixth Avenue
Anchorage, Alaska

To Lessee:

Pan American Petroleum Corporation
P. O. Box 712
Anchorage, Alaska

Any such notice shall be deemed given when delivered to the foregoing address. Either party may change the address to which such notices are to be sent, by a notice given in accordance with this paragraph.

44. HEIRS AND ASSIGNS. Subject to the other provisions of this lease, the covenants, conditions, and agreements contained in this lease shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of Lessor and Lessee.

45. WILDLIFE STIPULATIONS. This lease is subject to such stipulations as are attached.

IN WITNESS WHEREOF the parties have executed this lease.

Pan American Petroleum Corporation

STATE OF ALASKA

BY:

Norris C. Bakke, Jr.
Its Attorney-in-Fact

LESSEE

By

Norris C. Bakke, Jr.

Minerals Officer LESSOR

THE UNITED STATES OF AMERICA

STATE OF ALASKA

This certifies that on the 28th day of August, 1962, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared NORRIS C. BAKKE, JR. to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Department of Natural Resources, or his authorized agent. The said NORRIS C. BAKKE, JR. executed said lease in my presence and, after being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska and for the Division of Lands, Department of Natural Resources.

WITNESSES my hand and official seal of the day and year in this certificate above written.

John R. Katar
Notary Public in and for Al. My Commission expires 9-27-65

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
Division of Lands

LEASE NO. ADL

3783
18255

Competitive Oil and Gas Lease

THIS LEASE, dated the 1st day of September, 1962, is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources or his authorized agent, hereinafter called "lessor", and SHELL OIL COMPANY, a Delaware Corp., 1008 W. Sixth Street, Los Angeles 54, Calif., ADL-QF #3; STANDARD OIL COMPANY OF CALIFORNIA, a Delaware Corp., 225 Bush Street, San Francisco 20, Calif., ADL-QF #2, and RICHFIELD OIL CORPORATION, a Delaware Corp., hereinafter called "Lessee", whether one or more. 555 S. Flower Street, Los Angeles 17, Calif., ADL-QF #4

1. GRANT. For and in consideration of a cash bonus and the first year's rental, the receipt of which is hereby acknowledged, and of the rentals, royalties, covenants, and conditions herein contained on the part of the Lessee to be paid, kept and performed, and subject to the conditions and reservations herein contained, Lessor does hereby grant and lease unto Lessee, exclusively, without warranty, for the sole and only purposes of exploration, development, production, processing and marketing of oil, gas, and associated substances produced therewith, and of installing pipe lines and structures thereon to find, produce, save, store, treat, process, transport, take care of and market all such substances, and for drilling water wells and taking underground and surface water for use in its operations thereon, and for housing and boarding employees in its operation thereon, the following described tract of land in Alaska:

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containing 5051.00 acres, more or less, hereinafter called "said land".

For the purposes of this lease, said land contains 8 legal subdivisions, as shown on the plat of said land attached hereto, marked Exhibit A and by this reference made a part of this lease.

If said land is described above by protracted legal subdivisions, or by officially designated tract numbers, and Lessor hereafter causes said land to be surveyed under the public land rectangular system, the boundaries of said land shall be those established by such survey, when approved, subject, however, to the provisions of the regulations relating to such surveys.

2. "OIL AND GAS". "Oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods. "Gas" means all natural gas and all hydrocarbons produced at the well not defined herein as oil. "Associated substances" means all substances produced in association with oil or gas and not defined herein as oil or gas.

3. TERM. This lease is issued for an initial primary term of five years from the date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either or any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 6, 7, and 8 hereof.

4. EXTENSION BY SUSPENSION OF OPERATIONS. If, prior to the expiration of the primary term, Lessor, in the interest of conservation, directs or assents to the suspension of all operations and production, if any, hereunder, the primary term will be extended by adding the period of suspension thereto.

5. EXTENSION BY UNIT PRODUCTION (a) This lease shall without application be extended beyond its primary term if upon or prior to the expiration date of such term the lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, production of oil or gas is had in paying quantities under the agreement, and a portion of such production is allocated to said land under the agreement. In such event this lease shall continue in effect so long as it remains subject to such agreement and action production under said agreement is allocated to said land; (b) The Commissioner may, in his discretion provide for the extension of the term of this lease, if such lease is on the expiration date thereof included in an approved unit plan or if it is included in a program of secondary recovery operation designed to bring about or restore production, provided, however, that if any lease or portion thereof is eliminated from such unit plan or recovery program, or if such unit plan or recovery program is terminated, then no such lease or portion thereof shall continue in full force and effect for ninety (90) days from the date of such elimination or termination and so long thereafter as drilling or redrilling operations are being conducted thereon and so long thereafter as oil or gas is produced in paying quantities.

6. EXTENSION BY DRILLING. (a) If production shall have been obtained in paying quantities during the primary term, and if, at the end of the primary term, or at any time prior to the end of the primary term, such production shall have ceased from any cause, or in the event production shall at any time or times after the expiration of the primary term cease from any cause, then this lease shall not terminate if the Lessee commences drilling or reworking operations (either in a well from which such production has ceased or in a new well) within sixty days after the cessation of production, and the lease shall remain in full force and effect so long as such operations are prosecuted with reasonable diligence or are suspended under Paragraph 27 hereof; and, if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities; (b) If actual drilling has commenced on the expiration date of the primary terms of the lease and is continued with reasonable diligence, such operations to include redrilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in full force and effect until ninety (90) days after such drilling had ceased and for so long thereafter as oil or gas is produced in paying quantities; (c) if all or part of the lands covered by the lease are lands that have been selected by Alaska under laws of the United States granting lands to Alaska and the conditional lease was issued thereon, the term of the lease shall be extended for a period equal to the period during which the lease was conditional.

7. EXTENSION BY SHUT-IN PRODUCTION. If, upon the expiration of the primary term or at any time or times thereafter, there is on said land a well capable of producing oil or gas in paying quantities, this lease shall not expire because Lessee fails to produce the same unless Lessor gives notice to Lessee allowing a reasonable time, which shall not be less than sixty days, after such notice to place the well on a producing status, and Lessee fails to do so; provided, that after such status is established such production shall continue on the said land unless and until suspension of production is allowed by Lessor.

8. EXTENSION BY SUSPENSION OF PRODUCTION. This lease shall not expire because of any suspension of operations in or upon or production from said land if such suspension is made under any order or with the consent of Lessor.

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9. **RENTAL.** This lease shall terminate on any anniversary date hereof prior to the completion on said land of a well capable of producing oil or gas in paying quantities, unless on or before said anniversary date Lessee shall pay or tender to Lessor as annual rental a sum equal to \$1.00 per acre, or fraction thereof, then included in this lease, or unless such annual rental has been waived or suspended as provided in Paragraph 13 of this lease. If Lessor's office is not open for business on the anniversary date, the time for payment is extended to include the next day on which said office is open for business. Any rental paid for any one lease year shall be credited on any royalty for that year.

10. **MINIMUM ROYALTY.** Commencing with the lease year beginning on or after completion on said land of a well capable of producing oil or gas in paying quantities, Lessee shall pay Lessor, at the expiration of each lease year, in lieu of rental a minimum royalty equal to \$1.00 per acre, or fraction thereof, then included in this lease, or the difference between the actual royalty paid on production during the year if less than \$1.00 per acre and the prescribed minimum royalty.

11. **ROYALTY ON PRODUCTION.** Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil 12 1/2 per cent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas 12 1/2 per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances 12 1/2 per cent in amount or value of such substances produced and saved and removed or sold from said lands.

12. **REDUCTION OF ROYALTY RATES FOR DISCOVERY.** If Lessee shall drill on said land and make the first discovery of oil or gas in commercial quantities in any geological structure, the royalty rate under this lease shall, instead of the rates prescribed in Paragraph 11, be five per cent for a period of ten years following the date of such discovery, and thereafter the royalty rates shall be those prescribed in Paragraph 11. If this lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, the five per cent royalty rate shall apply to all, but only, the production allocated to this lease under such agreement.

13. **REDUCTION OF RENTAL AND ROYALTY.** Rental or minimum royalty may be waived, suspended, or reduced, or royalty may be reduced on all of said land or any tract or portion thereof segregated for royalty purposes if Lessor finds that such relief is necessary for the purpose of encouraging the greatest ultimate recovery of oil or gas and is in the interest of conservation of natural resources and either that such relief is necessary in order to promote development or that the lease cannot be successfully operated under the terms provided herein.

14. **ROYALTY IN KIND.** Whenever, at the option of Lessor, which may be exercised from time to time upon not less than six months notice to Lessee, Lessor elects to take its royalty in kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon) to Lessor or to such individual, firm, or corporation as Lessor may designate all royalty oil and/or gas produced and saved from said land. Such oil and/or gas shall be in good and merchantable condition. Lessee shall, if necessary, furnish storage for royalty oil free of charge for thirty days after the end of the calendar month in which the oil is produced from said land; provided, that Lessee shall not be held liable for loss or destruction of royalty oil and/or gas from causes beyond Lessee's reasonable control. Should Lessee dehydrate or clean the oil or gas produced from said land, Lessee shall be entitled to an allowance of the actual cost of dehydrating or cleaning said royalty oil or gas.

15. **ROYALTY IN VALUE.** At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. **PRICE.** The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

17. **PAYMENTS.** All payments to Lessor under this lease shall be made payable to the Department of Revenue of the State of Alaska and shall be tendered to Lessor at the place designated under Paragraph 43 for giving notices to Lessor.

18. **OFFSET WELLS.** Lessee shall drill such wells as a reasonably prudent operator would drill to protect Lessor adequately from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas should be produced in a well on other land not owned by Lessor or on which Lessee receives a lower rate of royalty than the royalty under this lease, which well is within 500 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this lease, and such well shall produce oil or gas in paying quantities for a period of thirty consecutive days, and if, after notice to Lessee and an opportunity to be heard, Lessor finds that production from such well is draining lands then subject to this lease, Lessee shall within 120 days after written demand by Lessor begin in good faith and prosecute diligently drilling operations for an offset well on said land. In lieu of drilling any well required by this paragraph, Lessee may with Lessor's consent compensate Lessor in full each month for the estimated loss of royalty through drainage in the amount determined by Lessor.

19. **OTHER WELLS.** This lease contemplates the reasonable development of said land for oil and gas as the facts may justify. Upon discovery of oil or gas in paying quantities on said land, Lessee shall drill such wells as a reasonably prudent operator would drill having due regard for the interests of Lessor as well as the interests of Lessee.

20. **DILIGENCE; PREVENTION OF WASTE.** Lessee shall exercise reasonable diligence in drilling, producing, and operating wells on said land unless consent to suspend operations temporarily is granted by Lessor; shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas and the entrance of water to the oil and gas bearing sands or strata to the destruction or injury of such deposits and the preservation and conservation of the property for future productive operations; shall use reasonable care and all proper safeguards to prevent the pollution of water; shall plug securely in an approved manner any well before abandoning it; shall allow Lessor to inspect all operations at any time; shall carry out at Lessee's expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land, and on failure of Lessee so to do, Lessor shall have the right together with any other recourse available to it to enter on said land to repair damage or prevent waste at Lessor's expense; and shall abide by and conform to valid applicable rules and regulations of the Alaska Oil and Gas Conservation Commission and the regulations of Lessor relating to the matters covered by this paragraph in effect on the effective date hereof or hereafter in effect if not inconsistent with any specific provisions of this lease.

21. **WELL LOCATIONS.** Lessee shall within five days after spudding in a well advise Lessor in writing of the location and date of spudding of said well.

22. **APPROVAL OF PLANS.** Lessee shall not place into actual operation any plan or method for the purpose of stimulating or increasing production on said land other than plans and methods in common use without first having obtained the written approval of Lessor.

23. **LOGS AND RECORDS.** An electric log or radioactive log, if taken, and a descriptive geologic sample log, if taken, and a record of all tests run for each well drilled on said land, together with a plat showing the exact location of each such well, shall be filed with Lessor within thirty (30) days after such well has been completed, suspended, or abandoned. Any and all information filed by Lessee with Lessor in connection with this lease shall be available at all times for the confidential use of Lessor for the purpose of enforcing compliance with the terms, covenants, and conditions of this lease and the regulations of the Lessor but shall not be open for inspection by any person other than officers, or employees of Lessor and persons performing any function or work assigned to them by Lessor for a period of twenty four (24) months after the thirty (30) day filing period, except upon written consent of Lessee. Notwithstanding any other provision hereof, said information may be disclosed to any person where such disclosure is reasonably necessary for the administration of the functions, responsibilities, and duties vested by law in the Commissioner of the Department of Natural Resources or in the Division of Lands or the Director thereof. Including but not limited to functions, responsibilities, and duties arising in connection with any litigation or administrative adjudication relating to this lease or to the rights, duties, and obligations arising hereunder.

24. **RECORDS.** Lessee shall keep and have in its possession books and records showing the production and disposition of all oil and gas produced from said land and shall permit Lessor or its agents at all reasonable hours to examine the same. Such records and reports of production shall be based upon such methods and techniques as shall insure the most accurate figures reasonably available without requiring the Lessee to provide separate tankage for each well.

25. **DAMAGES.** Sect. 2 of Article VII of the Alaska Land Act, Chapt. 169, S.L.A., 1959, as amended, provides in part that no rights under reservations contained in certain leases or grants of Alaska land shall be exercised by Lessor or its Lessee until provision has been made to pay to the owner of the land upon which the reserved rights are sought to be exercised full payment for all damages sustained by said owner by reason of entering upon said land; provided, that if said owner for any cause whatsoever refuses or neglects to settle said damages, Lessor or its Lessee shall have the right to institute such legal proceedings in a court of competent jurisdiction wherein the land is situated as may be necessary to determine the damage which the owner of such land may suffer. Lessee hereby agrees to pay any damage that may become payable under said statutory provisions and to indemnify Lessor and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this lease will be regarded by Lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

26. BONDS.

(a) Lessee shall maintain the bond furnished prior to the issuance of this lease in an amount equal to at least \$2.00 per acre or fraction thereof contained in said land but not less than \$1,000.00.

(b) Before beginning drilling operations on said land Lessee must have furnished and shall maintain a bond in an amount of at least \$5,000.00.

(c) Lessee may, in lieu of the foregoing, furnish and maintain a statewide bond in the amount of \$100,000.00.

(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. **ACTS OF GOD.** Should Lessee be excused from complying with any expressed or implied covenant of this

each such well, shall be filed with Lessor within thirty (30) days after such well has been completed, suspended, or abandoned. Any and all information filed by Lessee with Lessor in connection with this lease shall be available at all times for the confidential use of Lessor for the purpose of enforcing compliance with the terms, covenants, and conditions of this lease and the regulations of the Lessor but shall not be open for inspection by any person other than officers, or employees of Lessor and persons performing any function or work assigned to them by Lessor for a period of twenty four (24) months after the thirty (30) day filing period, except upon written consent of Lessee. Notwithstanding any other provision hereof, said information may be disclosed to any person where such disclosure is reasonably necessary for the administration of the functions, responsibilities, and duties vested by law in the Commissioner of the Department of Natural Resources or in the Division of Lands or the Director thereof. Including but not limited to functions, responsibilities, and duties arising in connection with any litigation or administrative adjudication relating to this lease or to the rights, duties, and obligations arising hereunder.

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(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. ACTS OF GOD. Should Lessee be prevented from complying with any expressed or implied covenant of this lease, from conducting drilling operations thereon, or from producing or marketing oil or gas from said land after efforts made in good faith, by reason of war, riots, acts of God, severe weather in the area of said land, acts of governmental authorities, failure or lack of adequate transportation facilities, or any other cause beyond Lessee's reasonable control whether similar to those enumerated or not, then while so prevented and for a reasonable time thereafter within which to resume operations, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply therewith. If drilling or reworking operations are suspended by virtue of this paragraph and the prosecution of such operations would have had the effect of preventing the expiration or termination of this lease, then this lease shall not terminate during the period which the obligation to perform such operations is suspended under this paragraph; provided, however, that nothing in this paragraph shall be construed to suspend the payment of rentals or of minimum royalties.

28. SUSPENSION. Lessor may from time to time direct or assent to the suspension of production or other operations or both under this lease if such action is necessary or justified in the interest of conservation.

29. RESERVATIONS. Lessor reserves the right to dispose of the surface of said land to others subject to this lease, and the right to authorize others by grant, lease, or permit subject to this lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights of Lessee and operations under this lease, to enter upon and use said land:

(a) To explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet.

(b) To explore for, develop and remove natural resources other than oil, gas, and associated substances on or from said land.

(c) For nonexclusive easements and rights of way for any lawful purpose including shafts and tunnels necessary or appropriate for the working of said land or other lands for natural resources other than oil, gas or associated substances.

(d) For well sites and well bores of wells drilled from or through said land to explore for or produce oil, gas, and associated substances in and from other lands.

(e) For any other purpose now or hereafter authorized by law and not inconsistent with the rights of Lessee under this lease.

30. UNDERGROUND STORAGE. This lease does not authorize the subsurface storage of oil or gas except as a necessary incident to recycling pressure maintenance, repressuring, or other similar operations designed to increase the ultimate recovery of oil or gas or prevent the waste of oil or gas produced from said land or from any unit area of which the said land is a part. Lessor reserves the right to authorize the subsurface storage of oil or gas in said land by Lessee or by others in order to avoid waste or to promote conservation of natural resources and upon such conditions as will prevent unnecessary or unreasonable interference with the rights and operations of Lessee under this lease, including conditions prohibiting the storage of oil or gas without the consent of Lessee in any reservoir covered by this lease capable of producing oil or gas in paying quantities.

31. ASSIGNMENTS. This lease or any undivided interest herein may with the approval of Lessor be assigned or subleased as to said land or any one or more legal subdivisions included therein, or any separate and distinct zone or geological horizon underlying said land or such one or more legal subdivisions, to any person or persons qualified to hold a lease. No transfer of any interest in this lease including assignments of working or royalty interests and operating agreements and subleases shall be binding upon Lessor unless approved by Lessor. Lessee shall remain liable for all obligations under this lease accruing prior to the approval of such transfer. Approval of transfer of this lease or an interest therein will not be denied except (1) for failure to comply with the regulations, (2) in the discretion of Lessor, where the transfer covers any distinct zone or geological horizon, or (3) where Lessor determines that the best interests of Lessor justify such action. Applications for approval of a transfer under this paragraph must comply with the regulations and must be filed within ninety days after the date of final execution of the instrument of transfer. Where a transfer is made of all or a part of Lessee's interest in and to a portion of the acreage in said land the assigned acreage shall, at the option of Lessor, or may upon request of the transferee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

32. UNITIZATION. Whenever determined and certified by Lessor to be necessary or advisable in the public interest for the purpose of properly conserving the natural resources of any oil or gas pool, field or like area or any part thereof, which includes or underlies said land or any part thereof, Lessee may unite with other Lessees of Lessor or with others owning or operating lands not belonging to Lessor including lands belonging to the United States and with others, jointly or separately, in collectively adopting and operating under a cooperative or unit agreement for the development or operation of the pool or field or like area or part thereof. Lessee shall within thirty days after demand by Lessor subscribe to such a cooperative or unit agreement, which agreement shall be reasonable and shall adequately protect all parties in interest including Lessor. Lessor may with the consent of Lessee establish, alter, change, or revoke drilling, producing, rental, minimum royalty, and royalty requirements of this lease if committed to any such cooperative or unit agreement and may make such regulations with reference to this lease with the like consent of Lessee in connection with the institution and operation of any such cooperative or unit agreement as Lessor may determine to be necessary or proper to secure the proper protection of the public interest. If a portion of said land is committed to an approved or prescribed unit agreement, the committed acreage shall at the option of Lessor and may upon the request of Lessee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

33. SURRENDER. Lessee may at any time make and file with Lessor a written surrender of all rights under this lease or any portion thereof comprising one or more legal subdivisions or, with the consent of Lessor, of any separate and distinct Zone or geological horizon underlying said lands or such one or more legal subdivisions thereof. Such a surrender shall be effective as of the date of filing subject to the continued obligations of Lessee and his surety to make payment of all royalties theretofore accrued and to place all wells on the surrendered land or in the surrendered zones or horizons in condition satisfactory to Lessor for suspension or abandonment; thereupon, Lessee shall be released from all other obligations accrued or to accrue under this lease with respect to the surrendered lands, zones, or horizons.

34. **DEFAULT; TERMINATION.** Whenever Lessee fails to comply with any of the provisions of this lease other than the payment of rental and Lessee fails within sixty days after written notice of such default to commence to remedy and thereafter prosecute diligently operations to remedy such default, Lessor may cancel this lease if at that time there is no well on said land capable of producing oil or gas in paying quantities. If at such time there is on said land a well capable of producing oil or gas in paying quantities, this lease may be cancelled only by judicial proceedings. In the event of any cancellation under this paragraph, Lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well or wells and such rights of way through said land as may be reasonably necessary to enable Lessee to drill and operate such retained well or wells.

35. **EXCESS AREA.** If for any reason said land includes more acreage than the maximum permitted under applicable laws and/or regulations, this lease shall not be void but the acreage included in said land shall be reduced to the permitted maximum. Whenever Lessor determines that this lease so exceeds the permitted acreage and notifies Lessee stating the amount of acreage that must be eliminated, Lessee may within sixty days after such notice surrender one or more legal subdivisions included in said lands comprising at least the amount of acreage that must be eliminated. If such a surrender is not filed within such sixty days Lessor may terminate this lease as to the acreage that must be eliminated by mailing notice of such termination to Lessee describing the parcel or parcels eliminated. Such a notice shall have the effect of terminating this lease as to the parcel or parcels described in such notice.

36. **RIGHTS ON TERMINATION.** Upon the expiration or earlier termination of this lease as to all or any portion of said lands, Lessee shall have the privilege at any time within a period of six months thereafter, or such extension thereof as may be granted by Lessor, of removing from said land or portion thereof all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided which are allowed to remain on said land or portion thereof shall become the property of Lessor upon expiration of such period; provided, that Lessee shall remove any and all of such properties when so directed by Lessor. Subject to the foregoing, Lessee shall deliver up said lands or such portion or portions thereof in good order and condition.

37. **INTEREST IN LAND.** It is the intention of the parties that the rights vested in Lessee by this lease shall constitute an interest in real property in said land.

38. **LESSOR INTEREST.** If Lessor owns a lesser interest in the oil and gas deposits in said land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid Lessor only in the proportion which its interest bears to the whole and undivided fee.

39. **CONDITIONAL LEASE.** If all or a part of said land is land that has been selected by the Lessor under laws of the United States granting lands to Lessor, but such land has not been patented to Lessor by the United States, then this lease is a conditional lease as provided by law until such patent become effective. If for any reason such a selection is not finally approved or such a patent does not become effective, and rental, royalty or minimum royalty payments made to Lessor under this lease will not be refunded.

40. **DRILLING OPERATIONS.** As used in this lease "drilling operations" mean any work or actual operations undertaken or commenced in good faith for the purpose of carrying out any of the rights, privileges or duties of Lessee under this lease, followed diligently and in due course by the construction of a road or derrick and/or other necessary structures for the drilling of an oil or gas well, and by the actual operation of drilling in the ground. Any such work or operations preliminary to drilling in the ground may be undertaken either on said land or in the vicinity of said land in any order Lessee shall see fit.

40. (a) **ACTUAL DRILLING.** As used in this lease, "actual drilling" means any and all operations necessary or convenient to the drilling of a well in the ground after the first drilling or spudding with equipment of sufficient size and capacity to drill to the total depth proposed for the well.

41. **RULES AND REGULATIONS.** As used in this lease "regulations" mean the applicable and valid oil and gas leasing regulations of the Commissioner of the Department of Natural Resources in effect on the effective date of this lease unless otherwise specified.

42. **INTERPRETATION.** As used in this lease words which are defined in the regulations have the meaning assigned by such definition except where the context clearly requires a different meaning. The paragraph headings are not a part of this lease and are inserted only for convenience.

43. **NOTICES.** Any notice required or permitted under this lease shall be in writing and shall be given by registered or certified mail, return receipt requested, addressed as follows:

To Lessor:

Director, Division of Lands
State of Alaska
344 Sixth Avenue
Anchorage, Alaska

To Lessee:

SHELL OIL COMPANY
1008 WEST SIXTH STREET
LOS ANGELES 54, CALIFORNIA

Any such notice shall be deemed given when delivered to the foregoing address. Either party may change the address to which such notices are to be sent, by a notice given in accordance with this paragraph.

44. **HEIRS AND ASSIGNS.** Subject to the other provisions of this lease, the covenants, conditions, and agreements contained in this lease shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of Lessor and Lessee.

45. **WILDLIFE STIPULATIONS.** This lease is subject to such stipulations as are attached.

IN WITNESS WHEREOF the parties have executed this lease.

LESSEE

STATE OF ALASKA
By Norris C. Bakke, Jr.
Minerals Officer
Title _____ LESSOR

THE UNITED STATES OF AMERICA }

STATE OF ALASKA }

This certifies that on the 23rd day of August, 1962, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared NORRIS C. BAKKE, JR. to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Department of Natural Resources, or his authorized agent. The said NORRIS C. BAKKE, JR. executed said lease in my presence and, after being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska and for the Division of Lands, Department of Natural Resources.

WITNESS my hand and official seal of the day and year in this certificate above written.
John R. Kaden Notary Public in and for Alaska My Commission expires 9-27-65

IN WITNESS WHEREOF the parties have executed this lease.

STANDARD OIL COMPANY OF CALIFORNIA

By Geoffrey G. Smith
Contract Agent

By E. A. Hansen
Assistant Secretary

SHELL OIL COMPANY

By John Mohn
Attorney in Fact

LESSEE

RICHFIELD OIL CORPORATION

By Edith Phillips
Assistant General Manager of Production Dept.

By Richardson
Assistant Secretary

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL 17590

Competitive Oil and Gas Lease

THIS LEASE, dated the 1st day of March, 1962, is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources or his authorized agent, hereinafter called "lessor", and SHELL OIL COMPANY, a Delaware corp., 1008 W. Sixth Street, Los Angeles 54, Calif., ADL-QF #3; STANDARD OIL COMPANY OF CALIFORNIA, a Delaware corp., 225 Bush Street, San Francisco 20, Calif., ADL-QF #2; and RICHFIELD OIL CORPORATION, a Delaware corp., hereinafter called "Lessee", whether one or more. 555 S. Flower Street, Los Angeles 17, Calif., ADL-QF #4

1. GRANT. For and in consideration of a cash bonus and the first year's rental, the receipt of which is hereby acknowledged, and of the rentals, royalties, covenants, and conditions herein contained on the part of the Lessee to be paid, kept and performed, and subject to the conditions and reservations herein contained, Lessor does hereby grant and lease unto Lessee, exclusively, without warranty, for the sole and only purposes of exploration, development, production, processing and marketing of oil, gas, and associated substances produced therewith, and of installing pipe lines and structures thereon to find, produce, save, store, treat, process, transport, take care of and market all such substances, and for drilling water wells and taking underground and surface water for use in its operations thereon, and for housing and boarding employees in its operation thereon, the following described tract of land in Alaska:

S-13-6-7

containing 5120.00 acres, more or less, hereinafter called "said land".

For the purposes of this lease, said land contains 8 legal subdivisions, as shown on the plat of said land attached hereto, marked Exhibit A and by this reference made a part of this lease.

If said land is described above by protracted legal subdivisions, or by officially designated tract numbers, and Lessor hereafter causes said land to be surveyed under the public land rectangular system, the boundaries of said land shall be those established by such survey, when approved, subject, however, to the provisions of the regulations relating to such surveys.

2. "OIL AND GAS". "Oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods. "Gas" means all natural gas and all hydrocarbons produced at the well not defined herein as oil. "Associated substances" means all substances produced in association with oil or gas and not defined herein as oil or gas.

3. TERM. This lease is issued for an initial primary term of five years from the date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either or any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 6, 7, and 8 hereof.

4. EXTENSION BY SUSPENSION OF OPERATIONS. If, prior to the expiration of the primary term, Lessor, in the interest of conservation, directs or assents to the suspension of all operations and production, if any, hereunder, the primary term will be extended by adding the period of suspension thereto.

5. EXTENSION BY UNIT PRODUCTION (a) This lease shall without application be extended beyond its primary term if upon or prior to the expiration date of such term the lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, production of oil or gas is had in paying quantities under the agreement, and a portion of such production is allocated to said land under the agreement. In such event this lease shall continue in effect so long as it remains subject to such agreement and action production under said agreement is allocated to said land; (b) The Commissioner may, in his discretion provide for the extension of the term of this lease, if such lease is on the expiration date thereof included in an approved unit plan or if it is included in a program of secondary recovery operation designed to bring about or restore production, provided, however, that if any lease or portion thereof is eliminated from such unit plan or recovery program, or if such unit plan or recovery program is terminated, then no such lease or portion thereof shall continue in full force and effect for ninety (90) days from the date of such elimination or termination and so long thereafter as drilling or redrilling operations are being conducted thereon and so long thereafter as oil or gas is produced in paying quantities.

6. EXTENSION BY DRILLING. (a) If production shall have been obtained in paying quantities during the primary term, and if, at the end of the primary term, or at any time prior to the end of the primary term, such production shall have ceased from any cause, or in the event production shall at any time or times after the expiration of the primary term cease from any cause, then this lease shall not terminate if the Lessee commences drilling or reworking operations (either in a well from which such production has ceased or in a new well) within sixty days after the cessation of production, and the lease shall remain in full force and effect so long as such operations are prosecuted with reasonable diligence or are suspended under Paragraph 7 hereof; and, if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities; (b) if actual drilling has commenced on the expiration date of the primary terms of the lease and is continued with reasonable diligence, such operations to include redrilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in full force and effect until ninety (90) days after such drilling had ceased and for so long thereafter as oil or gas is produced in paying quantities; (c) if all or part of the lands covered by the lease are lands that have been selected by Alaska under laws of the United States granting lands to Alaska and the conditional lease was issued thereon, the term of the lease shall be extended for a period equal to the period during which the lease was conditional.

7. EXTENSION BY SHUT-IN PRODUCTION. If, upon the expiration of the primary term or at any time or times thereafter, there is on said land a well capable of producing oil or gas in paying quantities, this lease shall not expire because Lessee fails to produce the same unless Lessor gives notice to Lessee allowing a reasonable time, which shall not be less than sixty days, after such notice to place the well on a producing status, and Lessee fails to do so; provided, that after such status is established such production shall continue on the said land unless and until suspension of production is allowed by Lessor.

8. EXTENSION BY SUSPENSION OF PRODUCTION. This lease shall not expire because of any suspension of operations in or upon or production from said land if such suspension is made under any order or with the consent of Lessor.

204-2-63

9. RENTAL. This lease shall terminate on any anniversary date hereof prior to the completion on said land of a well capable of producing oil or gas in paying quantities, unless on or before said anniversary date Lessee shall pay or tender to Lessor as annual rental a sum equal to \$1.00 per acre, or fraction thereof, then included in this lease, or unless such annual rental has been waived or suspended as provided in Paragraph 13 of this lease. If Lessor's office is not open for business on the anniversary date, the time for payment is extended to include the next day on which said office is open for business. Any rental paid for any one lease year shall be credited on any royalty for that year.

10. MINIMUM ROYALTY. Commencing with the lease year beginning on or after completion on said land of a well capable of producing oil or gas in paying quantities, Lessee shall pay Lessor, at the expiration of each lease year, in lieu of rental a minimum royalty equal to \$1.00 per acre, or fraction thereof, then included in this lease, or the difference between the actual royalty paid on production during the year if less than \$1.00 per acre and the prescribed minimum royalty.

11. ROYALTY ON PRODUCTION. Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil 12 1/2 per cent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas 12 1/2 per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances 12 1/2 per cent in amount or value of such substances produced and saved and removed or sold from said lands.

12. REDUCTION OF ROYALTY RATES FOR DISCOVERY. If Lessee shall drill on said land and make the first discovery of oil or gas in commercial quantities in any geological structure, the royalty rate under this lease shall, instead of the rates prescribed in Paragraph 11, be five per cent for a period of ten years following the date of such discovery, and thereafter the royalty rates shall be those prescribed in Paragraph 11. If this lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, the five per cent royalty rate shall apply to all, but only, the production allocated to this lease under such agreement.

13. REDUCTION OF RENTAL AND ROYALTY. Rental or minimum royalty may be waived, suspended, or reduced, or royalty may be reduced on all of said land or any tract or portion thereof segregated for royalty purposes if Lessor finds that such relief is necessary for the purpose of encouraging the greatest ultimate recovery of oil or gas and is in the interest of conservation of natural resources and either that such relief is necessary in order to promote development or that the lease cannot be successfully operated under the terms provided herein.

14. ROYALTY IN KIND. Whenever, at the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, Lessor elects to take its royalty in kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon) to Lessor or to such individual, firm, or corporation as Lessor may designate all royalty oil and/or gas produced and saved from said land. Such oil and/or gas shall be in good and merchantable condition. Lessee shall, if necessary, furnish storage for royalty oil free of charge for thirty days after the end of the calendar month in which the oil is produced from said land; provided, that Lessee shall not be held liable for loss or destruction of royalty oil and/or gas from causes beyond Lessee's reasonable control. Should Lessee dehydrate or clean the oil or gas produced from said land, Lessee shall be entitled to an allowance of the actual cost of dehydrating or cleaning said royalty oil or gas.

15. ROYALTY IN VALUE. At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. PRICE. The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

17. PAYMENTS. All payments to Lessor under this lease shall be made payable to the Department of Revenue of the State of Alaska and shall be tendered to Lessor at the place designated under Paragraph 43 for giving notices to Lessor.

18. OFFSET WELLS. Lessee shall drill such wells as a reasonably prudent operator would drill to protect Lessor adequately from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas should be produced in a well on other land not owned by Lessor or on which Lessor receives a lower rate of royalty than the royalty under this lease, which well is within 500 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this lease, and such well shall produce oil or gas in paying quantities for a period of thirty consecutive days, and if, after notice to Lessee and an opportunity to be heard, Lessor finds that production from such well is draining lands then subject to this lease, Lessee shall within 120 days after written demand by Lessor begin in good faith and prosecute diligently drilling operations for an offset well on said land. In lieu of drilling any well required by this paragraph, Lessee may with Lessor's consent compensate Lessor in full each month for the estimated loss of royalty through drainage in the amount determined by Lessor.

19. OTHER WELLS. This lease contemplates the reasonable development of said land for oil and gas as the facts may justify. Upon discovery of oil or gas in paying quantities on said land, Lessee shall drill such wells as a reasonably prudent operator would drill having due regard for the interests of Lessor as well as the interests of Lessee.

20. DILIGENCE; PREVENTION OF WASTE. Lessee shall exercise reasonable diligence in drilling, producing, and operating wells on said land unless consent to suspend operations temporarily is granted by Lessor; shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas and the entrance of water to the oil and gas bearing sands or strata to the destruction or injury of such deposits and the preservation and conservation of the property for future productive operations; shall use reasonable care and all proper safeguards to prevent the pollution of water; shall plug securely in an approved manner any well before abandoning it; shall allow Lessor to inspect all operations at any time; shall carry out at Lessee's expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land, and on failure of Lessee so to do, Lessor shall have the right together with any other recourse available to it to enter on said land to repair damage or prevent waste at Lessor's expense; and shall abide by and conform to valid applicable rules and regulations of the Alaska Oil and Gas Conservation Commission and the regulations of Lessor relating to the matters covered by this paragraph in effect on the effective date hereof or hereafter in effect if not inconsistent with any specific provisions of this lease.

21. WELL LOCATIONS. Lessee shall within five days after spudding in a well advise Lessor in writing of the location and date of spudding of said well.

22. APPROVAL OF PLANS. Lessee shall not place into actual operation any plan or method for the purpose of stimulating or increasing production on said land other than plans and methods in common use without first having obtained the written approval of Lessor.

23. LOGS AND RECORDS. An electric log or radioactive log, if taken, and a descriptive geologic sample log, if taken, and a record of all tests run for each well drilled on said land, together with a plat showing the exact location of each such well, shall be filed with Lessor within thirty (30) days after such well has been completed, suspended, or abandoned. Any and all information filed by Lessee with Lessor in connection with this lease shall be available at all times for the confidential use of Lessor for the purpose of enforcing compliance with the terms, covenants, and conditions of this lease and the regulations of the Lessor but shall not be open for inspection by any person other than officers, or employees of Lessor and persons performing any function or work assigned to them by Lessor for a period of twenty-four (24) months after the thirty (30) day filing period, except upon written consent of Lessee. Notwithstanding any other provision hereof, said information may be disclosed to any person where such disclosure is reasonably necessary for the administration of the functions, responsibilities, and duties vested by law in the Commissioner of the Department of Natural Resources or in the Division of Lands or the Director thereof. Including but not limited to functions, responsibilities, and duties arising in connection with any litigation or administrative adjudication relating to this lease or to the rights, duties, and obligations arising hereunder.

24. RECORDS. Lessee shall keep and have in its possession books and records showing the production and disposition of all oil and gas produced from said land and shall permit Lessor or its agents at all reasonable hours to examine the same. Such records and reports of production shall be based upon such methods and techniques as shall insure the most accurate figures reasonably available without requiring the Lessee to provide separate tankage for each well.

25. DAMAGES. Sect. 2 of Article VII of the Alaska Land Act, Chapt. 169, S.L.A., 1959, as amended, provides in part that no rights under reservations contained in certain leases or grants of Alaska land shall be exercised by Lessor or its Lessee until provision has been made to pay to the owner of the land upon which the reserved rights are sought to be exercised full payment for all damages sustained by said owner by reason of entering upon said land; provided, that if said owner for any cause whatever refuses or neglects to settle said damage Lessor or its Lessee shall have the right to institute such legal proceedings in a court of competent jurisdiction wherein the land is situated as may be necessary to determine the damage which the owner of such land may suffer. Lessee hereby agrees to pay any damage that may become payable under said statutory provisions and to indemnify Lessor and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this section will be regarded by Lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

26. BONDS.

(a) Lessee shall maintain the bond furnished prior to the issuance of this lease in an amount equal to at least \$2.00 per acre or fraction thereof contained in said land but not less than \$1,000.00.

(b) Before beginning drilling operations on said land Lessee must have furnished and shall maintain a bond in an amount of at least \$5,000.00.

(c) Lessee may, in lieu of the foregoing, furnish and maintain a statewide bond in the amount of \$100,000.00.

(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

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25. **DAMAGES.** Sect. 2 of Article VII of the Alaska Land Act, Chapt. 169, S.L.A., 1959, as amended, provides in part that no rights under reservations contained in certain leases or grants of Alaska land shall be exercised by Lessor or its Lessee until provision has been made to pay to the owner of the land upon which the reserved rights are sought to be exercised full payment for all damages sustained by said owner by reason of entering upon said land; provided, that if said owner for any cause whatever refuses or neglects to settle said damage Lessor or its Lessee shall have the right to institute such legal proceedings in a court of competent jurisdiction wherein the land is situated as may be necessary to determine the damage which the owner of such land may suffer. Lessee hereby agrees to pay any damage that may become payable under said statutory provisions and to indemnify Lessor and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this provision will be regarded by Lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

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(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. **ACTS OF GOD.** Should Lessee be prevented from complying with any expressed or implied covenant of this lease, from conducting drilling operations thereon, or from producing or marketing oil or gas from said land after efforts made in good faith, by reason of war, riots, acts of God, severe weather in the area of said land, acts of governmental authorities, failure or lack of adequate transportation facilities, or any other cause beyond Lessee's reasonable control whether similar to those enumerated or not, then while so prevented and for a reasonable time thereafter within which to resume operations, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply therewith. If drilling or reworking operations are suspended by virtue of this paragraph and the prosecution of such operations would have had the effect of preventing the expiration or termination of this lease, then this lease shall not terminate during the period which the obligation to perform such operations is suspended under this paragraph; provided, however, that nothing in this paragraph shall be construed to suspend the payment of rentals or of minimum royalties.

28. **SUSPENSION.** Lessor may from time to time direct or assent to the suspension of production or other operations or both under this lease if such action is necessary or justified in the interest of conservation.

29. **RESERVATIONS.** Lessor reserves the right to dispose of the surface of said land to others subject to this lease, and the right to authorize others by grant, lease, or permit subject to this lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights of Lessee and operations under this lease, to enter upon and use said land:

(a) To explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet.

(b) To explore for, develop and remove natural resources other than oil, gas, and associated substances on or from said land.

(c) For nonexclusive easements and rights of way for any lawful purpose including shafts and tunnels necessary or appropriate for the working of said land or other lands for natural resources other than oil, gas or associated substances.

(d) For well sites and well bores of wells drilled from or through said land to explore for or produce oil, gas, and associated substances in and from other lands.

(e) For any other purpose now or hereafter authorized by law and not inconsistent with the rights of Lessee under this lease.

30. **UNDERGROUND STORAGE.** This lease does not authorize the subsurface storage of oil or gas except as a necessary incident to recycling pressure maintenance, repressuring, or other similar operations designed to increase the ultimate recovery of oil or gas or prevent the waste of oil or gas produced from said land or from any unit area of which the said land is a part. Lessor reserves the right to authorize the subsurface storage of oil or gas in said land by Lessee or by others in order to avoid waste or to promote conservation of natural resources and upon such conditions as will prevent unnecessary or unreasonable interference with the rights and operations of Lessee under this lease, including conditions prohibiting the storage of oil or gas without the consent of Lessee in any reservoir covered by this lease capable of producing oil or gas in paying quantities.

31. **ASSIGNMENTS.** This lease or any undivided interest herein may with the approval of Lessor be assigned or subleased as to said land or any one or more legal subdivisions included therein, or any separate and distinct zone or geological horizon underlying said land or such one or more legal subdivisions, to any person or persons qualified to hold a lease. No transfer of any interest in this lease including assignments of working or royalty interests and operating agreements and subleases shall be binding upon Lessor unless approved by Lessor. Lessee shall remain liable for all obligations under this lease accruing prior to the approval of such transfer. Approval of transfer of this lease or an interest therein will not be denied except (1) for failure to comply with the regulations, (2) in the discretion of Lessor, where the transfer covers any distinct zone or geological horizon, or (3) where Lessor determines that the best interests of Lessor justify such action. Applications for approval of a transfer under this paragraph must comply with the regulations and must be filed within ninety days after the date of final execution of the instrument of transfer. Where a transfer is made of all or a part of Lessee's interest in and to a portion of the acreage in said land the assigned acreage shall, at the option of Lessor, or may upon request of the transferee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

32. **UNITIZATION.** Whenever determined and certified by Lessor to be necessary or advisable in the public interest for the purpose of properly conserving the natural resources of any oil or gas pool, field or like area or any part thereof, which includes or underlies said land or any part thereof, Lessee may unite with other Lessees of Lessor or with others owning or operating lands not belonging to Lessor including lands belonging to the United States and with others, jointly or separately, in collectively adopting and operating under a cooperative or unit agreement for the development or operation of the pool or field or like area or part thereof. Lessee shall within thirty days after demand by Lessor subscribe to such a cooperative or unit agreement, which agreement shall be reasonable and shall adequately protect all parties in interest including Lessor. Lessor may with the consent of Lessee establish, alter, change, or revoke drilling, producing, rental, minimum royalty, and royalty requirements of this lease if committed to any such cooperative or unit agreement and may make such regulations with reference to this lease with the like consent of Lessee in connection with the institution and operation of any such cooperative or unit agreement as Lessor may determine to be necessary or proper to secure the proper protection of the public interest. If a portion of said land is committed to an approved or prescribed unit agreement, the committed acreage shall at the option of Lessor and may upon the request of Lessee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

33. **SURRENDER.** Lessee may at any time make and file with Lessor a written surrender of all rights under this lease or any portion thereof comprising one or more legal subdivisions or, with the consent of Lessor, of any separate and distinct zone or geological horizon underlying said lands or such one or more legal subdivisions thereof. Such a surrender shall be effective as of the date of filing subject to the continued obligations of Lessee and his surety to make payment of all royalties theretofore accrued and to place all wells on the surrendered land or in the surrendered zones or horizons in condition satisfactory to Lessor for suspension or abandonment; thereupon, Lessee shall be released from all other obligations accrued or to accrue under this lease with respect to the surrendered lands, zones, or horizons.

34. **DEFAULT; TERMINATION.** Whenever Lessee fails to comply with any of the provisions of this lease other than the payment of rental and Lessee fails within sixty days after written notice of such default to commence to remedy and thereafter prosecute diligently operations to remedy such default, Lessor may cancel this lease if at that time there is no well on said land capable of producing oil or gas in paying quantities. If at such time there is on said land a well capable of producing oil or gas in paying quantities, this lease may be cancelled only by judicial proceedings. In the event of any cancellation under this paragraph, Lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well and such rights of way through said land as may be reasonably necessary to enable Lessee to drill and operate each retained well or wells.

35. **EXCESS AREA.** If for any reason said land includes more acreage than the maximum permitted under applicable laws and/or regulations, this lease shall not be void but the acreage included in said land shall be reduced to the permitted maximum. Whenever Lessor determines that this lease so exceeds the permitted acreage and notifies Lessee stating the amount of acreage that must be eliminated, Lessee may within sixty days after such notice surrender one or more legal subdivisions included in said lands comprising at least the amount of acreage that must be eliminated. If such a surrender is not filed within such sixty days Lessor may terminate this lease as to the acreage that must be eliminated by mailing notice of such termination to Lessee describing the parcel or parcels eliminated. Such a notice shall have the effect of terminating this lease as to the parcel or parcels described in such notice.

36. **RIGHTS ON TERMINATION.** Upon the expiration or earlier termination of this lease as to all or any portion of said lands, Lessee shall have the privilege at any time within a period of six months thereafter, or such extension thereof as may be granted by Lessor, of removing from said land or portion thereof all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided which are allowed to remain on said land or portion thereof shall become the property of Lessor upon expiration of such period; provided, that Lessee shall remove any and all of such properties when so directed by Lessor. Subject to the foregoing, Lessee shall deliver up said lands or such portion or portions thereof in good order and condition.

37. **INTEREST IN LAND.** It is the intention of the parties that the rights vested in Lessee by this lease shall constitute an interest in real property in said land.

38. **LESSOR INTEREST.** If Lessor owns a lesser interest in the oil and gas deposits in said land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid Lessor only in the proportion which its interest bears to the whole and undivided fee.

39. **CONDITIONAL LEASE.** If all or a part of said land is land that has been selected by the Lessor under laws of the United States granting lands to Lessor, but such land has not been patented to Lessor by the United States, then this lease is a conditional lease as provided by law until such patent become effective. If for any reason such a selection is not finally approved or such a patent does not become effective, and rental, royalty or minimum royalty payments made to Lessor under this lease will not be refunded.

40. **DRILLING OPERATIONS.** As used in this lease "drilling operations" mean any work or actual operations undertaken or commenced in good faith for the purpose of carrying out any of the rights, privileges or duties of Lessee under this lease, followed diligently and in due course by the construction of a road or derrick and/or other necessary structures for the drilling of an oil or gas well, and by the actual operation of drilling in the ground. Any such work or operations preliminary to drilling in the ground may be undertaken either on said land or in the vicinity of said land in any order Lessee shall see fit.

40. (a) **ACTUAL DRILLING.** As used in this lease, "actual drilling" means any and all operations necessary or convenient to the drilling of a well in the ground after the first drilling or spudding with equipment of sufficient size and capacity to drill to the total depth proposed for the well.

41. **RULES AND REGULATIONS.** As used in this lease "regulations" mean the applicable and valid oil and gas leasing regulations of the Commissioner of the Department of Natural Resources in effect on the effective date of this lease unless otherwise specified.

42. **INTERPRETATION.** As used in this lease words which are defined in the regulations have the meaning assigned by such definition except where the context clearly requires a different meaning. The paragraph headings are not a part of this lease and are inserted only for convenience.

43. **NOTICES.** Any notice required or permitted under this lease shall be in writing and shall be given by registered or certified mail, return receipt requested, addressed as follows:

To Lessor:

Director, Division of Lands
State of Alaska
344 Sixth Avenue
Anchorage, Alaska

To Lessee:

SHELL OIL COMPANY
1008 W. SIXTH STREET
LOS ANGELES 54, CALIFORNIA

Any such notice shall be deemed given when delivered to the foregoing address. Either party may change the address to which such notices are to be sent, by a notice given in accordance with this paragraph.

44. **HEIRS AND ASSIGNS.** Subject to the other provisions of this lease, the covenants, conditions, and agreements contained in this lease shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of Lessor and Lessee.

45. **WILDLIFE STIPULATIONS.** This lease is subject to such stipulations as are attached.

IN WITNESS WHEREOF the parties have executed this lease.

LESSEE

STATE OF ALASKA
By Earl J. Ingvald
Title Mineral Leasing Officer LESSOR

THE UNITED STATES OF AMERICA }
STATE OF ALASKA }

This certifies that on the 17th day of February, 1967, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared Earl J. Ingvald, to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Department of Natural Resources, or his authorized agent. The said Earl J. Ingvald executed said lease in my presence and, after being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska and for the Division of Lands, Department of Natural Resources.

WITNESS my hand and official seal the day and year in this certificate above written

John R. Ralston

Notary Public in and for Alaska. My Commission expires 9-27-68

On this 15th day of December, in the year of our Lord One Thousand Nine Hundred and Sixty One before me, Edmond Lee Kelly, a Notary Public in and for said City and County and State, residing therein, duly commissioned and sworn, personally appeared GEO. D. ENGLISH and J. P. BOWMAN known to me to be the CONTRACT AGENT and ASSISTANT SECRETARY, respectively of STANDARD OIL COMPANY OF CALIFORNIA the Corporation described in and that executed the within instrument, and also known to me to be the persons who executed it on behalf of the said Corporation therein named, and they acknowledged to me that such Corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal, at my office in the City and County and State aforesaid the day and year in this certificate above written.

EDMOND LEE KELLY

Notary Public in and for said City and

County of San Francisco, State of California

Edmond Lee Kelly 35
Notary Public in and for said City and
County of San Francisco, State of California

RECORDING AT SAN FRANCISCO, CALIFORNIA
In the event of any cancellation under this paragraph, Lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well

STATE OF CALIFORNIA,

COUNTY OF LOS ANGELES.

On this 14th day of December, in the year 1961, before me, personally appeared SUE M. MASON, a Notary Public in and for said County and State, known to me to be the R. G. NELSON, Assistant General Manager of Production Dept., and Secretary of RICHFIELD OIL CORPORATION, the corporation that executed the within instrument, known to me to be the persons who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My Commission Expires May 4, 1964
My commission expires

Sue M. Mason
Notary Public in and for said County and State.

ACK ROC CORP
ROC FORM 2529
PRTO. IN U.S.A. 4-61

STATE OF CALIFORNIA

COUNTY OF LOS ANGELES

This certifies that on the 13th day of December, 1961, personally appeared before me, the undersigned, a notary public in and for said County and State, residing therein, S. F. BOWLBY, a Vice President of Shell Oil Company, the corporation described in and which executed the foregoing instrument, and said S. F. BOWLBY acknowledged to me that such corporation executed the same freely and voluntarily, for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.

Mildred M. Crawford
Mildred M. Crawford Notary Public in and for said
County and State

My Commission expires December 11, 1963

IN WITNESS WHEREOF the parties have executed this lease.

SHELL OIL COMPANY

By S. F. Bowlby Vice President

STANDARD OIL COMPANY OF CALIFORNIA

By Geo. D. English CONTRACT AGENT

By J. P. Bowman ASSISTANT SECRETARY

RICHFIELD OIL CORPORATION

By F. E. McPhillips Assistant General Manager of Production Dept.

By R. G. Nelson Assistant Secretary

LESSOR

AGO 801558

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
Division of Lands

LEASE NO. ADL 18740

Competitive Oil and Gas Lease

THIS LEASE, dated the 1st day of September, 1962, is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources or his authorized agent, hereinafter called "lessor", and
Pan American Petroleum Corporation

hereinafter called "Lessee", whether one or more.

1. GRANT. For and in consideration of a cash bonus and the first year's rental, the receipt of which is hereby acknowledged, and of the rentals, royalties, covenants, and conditions herein contained on the part of the Lessee to be paid, kept and performed, and subject to the conditions and reservations herein contained, Lessor does hereby grant and lease unto Lessee, exclusively, without warranty, for the sole and only purposes of exploration, development, production, processing and marketing of oil, gas, and associated substances produced therewith, and of installing pipe lines and structures thereon to find, produce, save, store, treat, process, transport, take care of and market all such substances, and for drilling water wells and taking underground and surface water for use in its operations thereon, and for housing and boarding employees in its operation thereon, the following described tract of land in Alaska:

S-13-6-28

containing 5120 acres, more or less, hereinafter called "said land".

For the purposes of this lease, said land contains 8 legal subdivisions, as shown on the plat of said land attached hereto, marked Exhibit A and by this reference made a part of this lease.

If said land is described above by protracted legal subdivisions, or by officially designated tract numbers, and Lessor hereafter causes said land to be surveyed under the public land rectangular system, the boundaries of said land shall be those established by such survey, when approved, subject, however, to the provisions of the regulations relating to such surveys.

2. "OIL AND GAS". "Oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods. "Gas" means all natural gas and all hydrocarbons produced at the well not defined herein as oil. "Associated substances" means all substances produced in association with oil or gas and not defined herein as oil or gas.

3. TERM. This lease is issued for an initial primary term of five years from the date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either or any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 6, 7, and 8 hereof.

4. EXTENSION BY SUSPENSION OF OPERATIONS. If, prior to the expiration of the primary term, Lessor, in the interest of conservation, directs or assents to the suspension of all operations and production, if any, hereunder, the primary term will be extended by adding the period of suspension thereto.

5. EXTENSION BY UNIT PRODUCTION (a) This lease shall without application be extended beyond its primary term if upon or prior to the expiration date of such term the lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, production of oil or gas is had in paying quantities under the agreement, and a portion of such production is allocated to said land under the agreement. In such event this lease shall continue in effect so long as it remains subject to such agreement and action production under said agreement is allocated to said land; (b) The Commissioner may, in his discretion provide for the extension of the term of this lease, if such lease is on the expiration date thereof included in an approved unit plan or if it is included in a program of secondary recovery operation designed to bring about or restore production, provided, however, that if any lease or portion thereof is eliminated from such unit plan or recovery program, or if such unit plan or recovery program is terminated, then no such lease or portion thereof shall continue in full force and effect for ninety (90) days from the date of such elimination or termination and so long thereafter as drilling or redrilling operations are being conducted thereon and so long thereafter as oil or gas is produced in paying quantities.

6. EXTENSION BY DRILLING. (a) If production shall have been obtained in paying quantities during the primary term, and if, at the end of the primary term, or at any time prior to the end of the primary term, such production shall have ceased from any cause, or in the event production shall at any time or times after the expiration of the primary term cease from any cause, then this lease shall not terminate if the Lessee commences drilling or reworking operations (either in a well from which such production has ceased or in a new well) within sixty days after the cessation of production, and the lease shall remain in full force and effect so long as such operations are prosecuted with reasonable diligence or are suspended under Paragraph 27 hereof; and, if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities; (b) if actual drilling has commenced on the expiration date of the primary terms of the lease and is continued with reasonable diligence, such operations to include redrilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in full force and effect until ninety (90) days after such drilling had ceased and for so long thereafter as oil or gas is produced in paying quantities; (c) if all or part of the lands covered by the lease are lands that have been selected by Alaska under laws of the United States granting lands to Alaska and the conditional lease was issued thereon, the term of the lease shall be extended for a period equal to the period during which the lease was conditional.

7. EXTENSION BY SHUT-IN PRODUCTION. If, upon the expiration of the primary term or at any time or times thereafter, there is on said land a well capable of producing oil or gas in paying quantities, this lease shall not expire because Lessee fails to produce the same unless Lessor gives notice to Lessee allowing a reasonable time, which shall not be less than sixty days, after such notice to place the well on a producing status, and Lessee fails to do so; provided, that after such status is established such production shall continue on the said land unless and until suspension of production is allowed by Lessor.

8. EXTENSION BY SUSPENSION OF PRODUCTION. This lease shall not expire because of any suspension of operations in or upon or production from said land if such suspension is made under any order or with the consent of Lessor.

9. **RENTAL.** This lease shall terminate on any anniversary date hereof prior to the completion on said land of a well capable of producing oil or gas in paying quantities, unless on or before said anniversary date Lessee shall pay or tender to Lessor as annual rental a sum equal to \$1.00 per acre, or fraction thereof, then included in this lease, or unless such annual rental has been waived or suspended as provided in Paragraph 13 of this lease. If Lessor's office is not open for business on the anniversary date, the time for payment is extended to include the next day on which said office is open for business. Any rental paid for any one lease year shall be credited on any royalty for that year.

10. **MINIMUM ROYALTY.** Commencing with the lease year beginning on or after completion on said land of a well capable of producing oil or gas in paying quantities, Lessee shall pay Lessor, at the expiration of each lease year, in lieu of rental a minimum royalty equal to \$1.00 per acre, or fraction thereof, then included in this lease, or the difference between the actual royalty paid on production during the year if less than \$1.00 per acre and the prescribed minimum royalty.

11. **ROYALTY ON PRODUCTION.** Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

- (a) On oil 12 1/2 per cent in amount or value of the oil produced and saved and removed or sold from said land.
- (b) On gas 12 1/2 per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.
- (c) On associated substances 12 1/2 per cent in amount or value of such substances produced and saved and removed or sold from said lands.

12. **REDUCTION OF ROYALTY RATES FOR DISCOVERY.** If Lessee shall drill on said land and make the first discovery of oil or gas in commercial quantities in any geological structure, the royalty rate under this lease shall, instead of the rates prescribed in Paragraph 11, be five per cent for a period of ten years following the date of such discovery, and thereafter the royalty rates shall be those prescribed in Paragraph 11. If this lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, the five per cent royalty rate shall apply to all, but only, the production allocated to this lease under such agreement.

13. **REDUCTION OF RENTAL AND ROYALTY.** Rental or minimum royalty may be waived, suspended, or reduced, or royalty may be reduced on all of said land or any tract or portion thereof segregated for royalty purposes if Lessor finds that such relief is necessary for the purpose of encouraging the greatest ultimate recovery of oil or gas and is in the interest of conservation of natural resources and either that such relief is necessary in order to promote development or that the lease cannot be successfully operated under the terms provided herein.

14. **ROYALTY IN KIND.** Whenever, at the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, Lessor elects to take its royalty in kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon) to Lessor or to such individual, firm, or corporation as Lessor may designate all royalty oil and/or gas produced and saved from said land. Such oil and/or gas shall be in good and merchantable condition. Lessee shall, if necessary, furnish storage for royalty oil free of charge for thirty days after the end of the calendar month in which the oil is produced from said land; provided, that Lessee shall not be held liable for loss or destruction of royalty oil and/or gas from causes beyond Lessee's reasonable control. Should Lessee dehydrate or clean the oil or gas produced from said land, Lessee shall be entitled to an allowance of the actual cost of dehydrating or cleaning said royalty oil or gas.

15. **ROYALTY IN VALUE.** At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. **PRICE.** The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

17. **PAYMENTS.** All payments to Lessor under this lease shall be made payable to the Department of Revenue of the State of Alaska and shall be tendered to Lessor at the place designated under Paragraph 43 for giving notices to Lessor.

18. **OFFSET WELLS.** Lessee shall drill such wells as a reasonably prudent operator would drill to protect Lessor adequately from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas should be produced in a well on other land not owned by Lessor or on which Lessor receives a lower rate of royalty than the royalty under this lease, which well is within 600 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this lease, and such well shall produce oil or gas in paying quantities for a period of thirty consecutive days, and if, after notice to Lessee and an opportunity to be heard, Lessor finds that production from such well is draining lands then subject to this lease, Lessee shall within 120 days after written demand by Lessor begin in good faith and prosecute diligently drilling operations for an offset well on said land. In lieu of drilling any well required by this paragraph, Lessee may with Lessor's consent compensate Lessor in full each month for the estimated loss of royalty through drainage in the amount determined by Lessor.

19. **OTHER WELLS.** This lease contemplates the reasonable development of said land for oil and gas as the facts may justify. Upon discovery of oil or gas in paying quantities on said land, Lessee shall drill such wells as a reasonably prudent operator would drill having due regard for the interests of Lessor as well as the interests of Lessee.

20. **DILIGENCE; PREVENTION OF WASTE.** Lessee shall exercise reasonable diligence in drilling, producing, and operating wells on said land unless consent to suspend operations temporarily is granted by Lessor; shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas and the entrance of water to the oil and gas bearing sands or strata to the destruction or injury of such deposits and the preservation and conservation of the property for future productive operations; shall use reasonable care and all proper safeguards to prevent the pollution of water; shall plug securely in an approved manner any well before abandoning it; shall allow Lessor to inspect all operations at any time; shall carry out at Lessee's expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land, and on failure of Lessee so to do, Lessor shall have the right together with any other recourse available to it to enter on said land to repair damage or prevent waste at Lessor's expense; and shall abide by and conform to valid applicable rules and regulations of the Alaska Oil and Gas Conservation Commission and the regulations of Lessor relating to the matters covered by this paragraph in effect on the effective date hereof or hereafter in effect if not inconsistent with any specific provisions of this lease.

21. **WELL LOCATIONS.** Lessee shall within five days after spudding in a well advise Lessor in writing of the location and date of spudding of said well.

22. **APPROVAL OF PLANS.** Lessee shall not place into actual operation any plan or method for the purpose of stimulating or increasing production on said land other than plans and methods in common use without first having obtained the written approval of Lessor.

23. **LOGS AND RECORDS.** An electric log or radioactive log, if taken, and a descriptive geologic sample log, if taken, and a record of all tests run for each well drilled on said land, together with a plat showing the exact location of each such well, shall be filed with Lessor within thirty (30) days after such well has been completed, suspended, or abandoned. Any and all information filed by Lessee with Lessor in connection with this lease shall be available at all times for the confidential use of Lessor for the purpose of enforcing compliance with the terms, covenants, and conditions of this lease and the regulations of the Lessor but shall not be open for inspection by any person other than officers, or employees of Lessor and persons performing any function or work assigned to them by Lessor for a period of twenty four (24) months after the thirty (30) day filing period, except upon written consent of Lessee. Notwithstanding any other provision hereof, said information may be disclosed to any person where such disclosure is reasonably necessary for the administration of the functions, responsibilities, and duties vested by law in the Commissioner of the Department of Natural Resources or in the Division of Lands or the Director thereof. Including but not limited to functions, responsibilities, and duties arising in connection with any litigation or administrative adjudication relating to this lease or to the rights, duties, and obligations arising hereunder.

24. **RECORDS.** Lessee shall keep and have in its possession books and records showing the production and disposition of all oil and gas produced from said land and shall permit Lessor or its agents at all reasonable hours to examine the same. Such records and reports of production shall be based upon such methods and techniques as shall insure the most accurate figures reasonably available without requiring the Lessee to provide separate tankage for each well.

25. **DAMAGES.** Sect. 2 of Article VII of the Alaska Land Act, Chapt. 169, S.L.A., 1959, as amended, provides in part that no rights under reservations contained in certain leases or grants of Alaska land shall be exercised by Lessor or its Lessee until provision has been made to pay to the owner of the land upon which the reserved rights are sought to be exercised full payment for all damages sustained by said owner by reason of entering upon said land; provided, that if said owner for any cause whatever refuses or neglects to settle said damage Lessor or its Lessee shall have the right to institute such legal proceedings in a court of competent jurisdiction within the land is situated as may be necessary to determine the damage which the owner of such land may suffer. Lessee hereby agrees to pay any damage that may become payable under said statutory provisions and to indemnify Lessor and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this Lease will be regarded by Lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

26. BOND.

(a) Lessee shall maintain the bond furnished prior to the issuance of this lease in an amount equal to at least \$2.00 per acre or fraction thereof contained in said land but not less than \$1,000.00.

(b) Before beginning drilling operations on said land Lessee must have furnished and shall maintain a bond in an amount of at least \$5,000.00.

(c) Lessee may, in lieu of the foregoing, furnish and maintain a statewide bond in the amount of \$100,000.00.

(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor, a bond shall be furnished in accordance with the regulations, Lessee

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and duties arising in connection with any litigation or administrative adjudication relating to this lease or to the performance of the duties, and obligations arising hereunder.

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(c) Lessee may, in lieu of the foregoing, furnish and maintain a statewide bond in the amount of \$100,000.00.

(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. **ACTS OF GOD.** Should Lessee be prevented from complying with any expressed or implied covenant of this lease, from conducting drilling operations thereon, or from producing or marketing oil or gas from said land after efforts made in good faith, by reason of war, riots, acts of God, severe weather in the area of said land, acts of governmental authorities, failure or lack of adequate transportation facilities, or any other cause beyond Lessee's reasonable control whether similar to those enumerated or not, then while so prevented and for a reasonable time thereafter without which to resume operations, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply therewith. If drilling or reworking operations are suspended by virtue of this paragraph and the prosecution of such operations would have had the effect of preventing the expiration or termination of this lease, then this lease shall not terminate during the period which the obligation to perform such operations is suspended under this paragraph; provided, however, that nothing in this paragraph shall be construed to suspend the payment of rentals or of minimum royalties.

28. **SUSPENSION.** Lessor may from time to time direct or assent to the suspension of production or other operations or both under this lease if such action is necessary or justified in the interest of conservation.

29. **RESERVATIONS.** Lessor reserves the right to dispose of the surface of said land to others subject to this lease, and the right to authorize others by grant, lease, or permit subject to this lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights of Lessee and operations under this lease, to enter upon and use said land:

(a) To explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet.

(b) To explore for, develop and remove natural resources other than oil, gas, and associated substances on or from said land.

(c) For nonexclusive easements and rights of way for any lawful purpose including shafts and tunnels necessary or appropriate for the working of said land or other lands for natural resources other than oil, gas or associated substances.

(d) For well sites and well bores of wells drilled from or through said land to explore for or produce oil, gas, and associated substances in and from other lands.

(e) For any other purpose now or hereafter authorized by law and not inconsistent with the rights of Lessee under this lease.

30. **UNDERGROUND STORAGE.** This lease does not authorize the subsurface storage of oil or gas except as a necessary incident to recycling pressure maintenance, repressuring, or other similar operations designed to increase the ultimate recovery of oil or gas or prevent the waste of oil or gas produced from said land or from any unit area of which the said land is a part. Lessor reserves the right to authorize the subsurface storage of oil or gas in said land by Lessee or by others in order to avoid waste or to promote conservation of natural resources and upon such conditions as will prevent unnecessary or unreasonable interference with the rights and operations of Lessee under this lease, including conditions prohibiting the storage of oil or gas without the consent of Lessee in any reservoir covered by this lease capable of producing oil or gas in paying quantities.

31. **ASSIGNMENTS.** This lease or any undivided interest herein may with the approval of Lessor be assigned or subleased as to said land or any one or more legal subdivisions included therein, or any separate and distinct zone or geological horizon underlying said land or such one or more legal subdivisions, to any person or persons qualified to hold a lease. No transfer of any interest in this lease including assignments of working or royalty interests and operating agreements and subleases shall be binding upon Lessor unless approved by Lessor. Lessee shall remain liable for all obligations under this lease accruing prior to the approval of such transfer. Approval of transfer of this lease or an interest therein will not be denied except (1) for failure to comply with the regulations, (2) in the discretion of Lessor, where the transfer covers any distinct zone or geological horizon, or (3) where Lessor determines that the best interests of Lessor justify such action. Applications for approval of a transfer under this paragraph must comply with the regulations and must be filed within ninety days after the date of final execution of the instrument of transfer. Where a transfer is made of all or a part of Lessee's interest in and to a portion of the acreage in said land the assigned acreage shall, at the option of Lessor, or may upon request of the transferee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

32. **UNITIZATION.** Whenever determined and certified by Lessor to be necessary or advisable in the public interest for the purpose of properly conserving the natural resources of any oil or gas pool, field or like area or any part thereof, which includes or underlies said land or any part thereof, Lessee may unite with other Lessees of Lessor or with others owning or operating lands not belonging to Lessor including lands belonging to the United States and with others, jointly or separately, in collectively adopting and operating under a cooperative or unit agreement for the development or operation of the pool or field or like area or part thereof. Lessee shall within thirty days after demand by Lessor subscribe to such a cooperative or unit agreement, which agreement shall be reasonable and shall adequately protect all parties in interest including Lessor. Lessor may with the consent of Lessee establish, alter, change, or revoke drilling, producing, rental, minimum royalty, and royalty requirements of this lease if committed to any such cooperative or unit agreement and may make such regulations with reference to this lease with the like consent of Lessee in connection with the institution and operation of any such cooperative or unit agreement as Lessor may determine to be necessary or proper to secure the proper protection of the public interest. If a portion of said land is committed to an approved or prescribed unit agreement, the committed acreage shall at the option of Lessor and may upon the request of Lessee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

33. **SURRENDER.** Lessee may at any time make and file with Lessor a written surrender of all rights under this lease or any portion thereof comprising one or more legal subdivisions or, with the consent of Lessor, of any separate and distinct zone or geological horizon underlying said lands or such one or more legal subdivisions thereof. Such a surrender shall be effective as of the date of filing subject to the continued obligations of Lessee and his surety to make payment of all royalties theretofore accrued and to place all wells on the surrendered land or in the surrendered zones or horizons in condition satisfactory to Lessor for suspension or abandonment; thereupon, Lessee shall be released from all other obligations accrued or to accrue under this lease with respect to the surrendered lands, zones, or horizons.

34. **DEFAULT; TERMINATION.** Whenever Lessee fails to comply with any of the provisions of this lease other than the payment of rental and Lessee fails within sixty days after written notice of such default to commence to remedy and thereafter prosecute diligently operations to remedy such default, Lessor may cancel this lease if at that time there is no well on said land capable of producing oil or gas in paying quantities. If at such time there is on said land a well capable of producing oil or gas in paying quantities, this lease may be cancelled only by judicial proceedings. In the event of any cancellation under this paragraph, Lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well or wells and such rights of way through said land as may be reasonably necessary to enable Lessee to drill and operate such retained well or wells.

35. **EXCESS AREA.** If for any reason said land includes more acreage than the maximum permitted under applicable laws and/or regulations, this lease shall not be void but the acreage included in said land shall be reduced to the permitted maximum. Whenever Lessor determines that this lease so exceeds the permitted acreage and notifies Lessee stating the amount of acreage that must be eliminated, Lessee may within sixty days after such notice surrender one or more legal subdivisions included in said lands comprising at least the amount of acreage that must be eliminated. If such a surrender is not filed within such sixty days Lessor may terminate this lease as to the acreage that must be eliminated by mailing notice of such termination to Lessee describing the parcel or parcels eliminated. Such a notice shall have the effect of terminating this lease as to the parcel or parcels described in such notice.

36. **RIGHTS ON TERMINATION.** Upon the expiration or earlier termination of this lease as to all or any portion of said lands, Lessee shall have the privilege at any time within a period of six months thereafter, or such extension thereof as may be granted by Lessor, of removing from said land or portion thereof all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided which are allowed to remain on said land or portion thereof shall become the property of Lessor upon expiration of such period; provided, that Lessee shall remove any and all of such properties when so directed by Lessor. Subject to the foregoing, Lessee shall deliver up said lands or such portion or portions thereof in good order and condition.

37. **INTEREST IN LAND.** It is the intention of the parties that the rights vested in Lessee by this lease shall constitute an interest in real property in said land.

38. **LESSOR INTEREST.** If Lessor owns a lesser interest in the oil and gas deposits in said land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid Lessor only in the proportion which its interest bears to the whole and undivided fee.

39. **CONDITIONAL LEASE.** If all or a part of said land is land that has been selected by the Lessor under laws of the United States granting lands to Lessor, but such land has not been patented to Lessor by the United States, then this lease is a conditional lease as provided by law until such patent become effective. If for any reason such a selection is not finally approved or such a patent does not become effective, and rental, royalty or minimum royalty payments made to Lessor under this lease will not be refunded.

40. **DRILLING OPERATIONS.** As used in this lease "drilling operations" mean any work or actual operations undertaken or commenced in good faith for the purpose of carrying out any of the rights, privileges or duties of Lessee under this lease, followed diligently and in due course by the construction of a road or derrick and/or other necessary structures for the drilling of an oil or gas well, and by the actual operation of drilling in the ground. Any such work or operations preliminary to drilling in the ground may be undertaken either on said land or in the vicinity of said land in any order Lessee shall see fit.

40. (a) **ACTUAL DRILLING.** As used in this lease, "actual drilling" means any and all operations necessary or convenient to the drilling of a well in the ground after the first drilling or spudding with equipment of sufficient size and capacity to drill to the total depth proposed for the well.

41. **RULES AND REGULATIONS.** As used in this lease "regulations" mean the applicable and valid oil and gas leasing regulations of the Commissioner of the Department of Natural Resources in effect on the effective date of this lease unless otherwise specified.

42. **INTERPRETATION.** As used in this lease words which are defined in the regulations have the meaning assigned by such definition except where the context clearly requires a different meaning. The paragraph headings are not a part of this lease and are inserted only for convenience.

43. **NOTICES.** Any notice required or permitted under this lease shall be in writing and shall be given by registered or certified mail, return receipt requested, addressed as follows:

To Lessor:

Director, Division of Lands
State of Alaska
344 Sixth Avenue
Anchorage, Alaska

To Lessee:

Pan American Petroleum Corporation
P. O. Box 712
Anchorage, Alaska

Any such notice shall be deemed given when delivered to the foregoing address. Either party may change the address to which such notices are to be sent, by a notice given in accordance with this paragraph.

44. **HEIRS AND ASSIGNS.** Subject to the other provisions of this lease, the covenants, conditions, and agreements contained in this lease shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of Lessor and Lessee.

45. **WILDLIFE STIPULATIONS.** This lease is subject to such stipulations as are attached.

IN WITNESS WHEREOF the parties have executed this lease.

Pan American Petroleum Corporation

STATE OF ALASKA

BY:

Ross W. Tracy
Its Attorney-in-Fact

LESSEE

By

Norris C. Bakke, Jr.
Norris C. Bakke, Jr.

Title

Minerals Officer

LESSOR

THE UNITED STATES OF AMERICA

STATE OF ALASKA

ss.

This certifies that on the 28th day of August, 1965, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared NORRIS C. BAKKE, JR. to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Department of Natural Resources, or his authorized agent. The said NORRIS C. BAKKE, JR. executed said lease in my presence and, after being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska and for the Division of Lands, Department of Natural Resources.

WITNESS my hand and official seal

the day and year in this certificate above written

Notary Public in and for Alaska, My Commission expires 9-27-65

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL 17589

Competitive Oil and Gas Lease

THIS LEASE, dated the 1st day of February, 1962, is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources or his authorized agent, hereinafter called "lessor", and

Pan American Petroleum Corporation, P. O. Box 712, Anchorage, Alaska

hereinafter called "Lessee", whether one or more.

1. GRANT. For and in consideration of a cash bonus and the first year's rental, the receipt of which is hereby acknowledged, and of the rentals, royalties, covenants, and conditions herein contained on the part of the Lessee to be paid, kept and performed, and subject to the conditions and reservations herein contained, Lessor does hereby grant and lease unto Lessee, exclusively, without warranty, for the sole and only purposes of exploration, development, production, processing and marketing of oil, gas, and associated substances produced therewith, and of installing pipe lines and structures thereon to find, produce, save, store, treat, process, transport, take care of and market all such substances, and for drilling water wells and taking underground and surface water for use in its operations thereon, and for housing and boarding employees in its operation thereon, the following described tract of land in Alaska:

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containing 5002 acres, more or less, hereinafter called "said land".

For the purposes of this lease, said land contains 8 legal subdivisions, as shown on the plat of said land attached hereto, marked Exhibit A and by this reference made a part of this lease.

If said land is described above by protracted legal subdivisions, or by officially designated tract numbers, and Lessor hereafter causes said land to be surveyed under the public land rectangular system, the boundaries of said land shall be those established by such survey, when approved, subject, however, to the provisions of the regulations relating to such surveys.

2. "OIL AND GAS". "Oil" means crude petroleum oil and other hydrocarbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods. "Gas" means all natural gas and all hydrocarbons produced at the well not defined herein as oil. "Associated substances" means all substances produced in association with oil or gas and not defined herein as oil or gas.

3. TERM. This lease is issued for an initial primary term of five years from the date hereof, subject to extension as provided in Paragraph 4 hereof, and shall continue so long thereafter as oil and gas or either or any of them are produced in paying quantities from said land; provided, that this lease may be extended beyond its primary term as provided in Paragraph 5 hereof and shall not expire under the conditions set forth in Paragraphs 6, 7, and 8 hereof.

4. EXTENSION BY SUSPENSION OF OPERATIONS. If, prior to the expiration of the primary term, Lessor, in the interest of conservation, directs or assents to the suspension of all operations and production, if any, hereunder, the primary term will be extended by adding the period of suspension thereto.

5. EXTENSION BY UNIT PRODUCTION. (a) This lease shall without application be extended beyond its primary term if upon or prior to the expiration date of such term the lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, production of oil or gas is had in paying quantities under the agreement, and a portion of such production is allocated to said land under the agreement. In such event this lease shall continue in effect so long as it remains subject to such agreement and action production under said agreement is allocated to said land; (b) The Commissioner may, in his discretion provide for the extension of the term of this lease, if such lease is on the expiration date thereof included in an approved unit plan or if it is included in a program of secondary recovery operation designed to bring about or restore production, provided, however, that if any lease or portion thereof is eliminated from such unit plan or recovery program, or if such unit plan or recovery program is terminated, then no such lease or portion thereof shall continue in full force and effect for ninety (90) days from the date of such elimination or termination and so long thereafter as drilling or re-drilling operations are being conducted thereon and so long thereafter as oil or gas is produced in paying quantities.

6. EXTENSION BY DRILLING. (a) If production shall have been obtained in paying quantities during the primary term, and if, at the end of the primary term, or at any time prior to the end of the primary term, such production shall have ceased from any cause, or in the event production shall at any time or times after the expiration of the primary term cease from any cause, then this lease shall not terminate if the Lessee commences drilling or reworking operations (either in a well from which such production has ceased or in a new well) within sixty days after the cessation of production, and the lease shall remain in full force and effect so long as such operations are prosecuted with reasonable diligence or are suspended under Paragraph 27 hereof; and, if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities; (b) if actual drilling has commenced on the expiration date of the primary terms of the lease and is continued with reasonable diligence, such operations to include re-drilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in full force and effect until ninety (90) days after such drilling had ceased and for so long thereafter as oil or gas is produced in paying quantities; (c) if all or part of the lands covered by the lease are lands that have been selected by Alaska under laws of the United States granting lands to Alaska and the conditional lease was issued thereon, the term of the lease shall be extended for a period equal to the period during which the lease was conditional.

7. EXTENSION BY SHUT-IN PRODUCTION. If, upon the expiration of the primary term or at any time or times thereafter, there is on said land a well capable of producing oil or gas in paying quantities, this lease shall not expire because Lessee fails to produce the same unless Lessor gives notice to Lessee allowing a reasonable time, which shall not be less than sixty days, after such notice to place the well on a producing status, and Lessee fails to do so; provided, that after such status is established such production shall continue on the said land unless and until suspension of production is allowed by Lessor.

8. EXTENSION BY SUSPENSION OF PRODUCTION. This lease shall not expire because of any suspension of operations in or upon or production from said land if such suspension is made under any order or with the consent of Lessor.

9. **RENTAL.** This lease shall terminate on any anniversary date hereof prior to the completion on said land of a well capable of producing oil or gas in paying quantities, unless on or before said anniversary date Lessee shall pay or tender to Lessor as annual rental a sum equal to \$1.00 per acre, or fraction thereof, then included in this lease, or unless such annual rental has been waived or suspended as provided in Paragraph 13 of this lease. If Lessor's office is not open for business on the anniversary date, the time for payment is extended to include the next day on which said office is open for business. Any rental paid for any one lease year shall be credited on any royalty for that year.

10. **MINIMUM ROYALTY.** Commencing with the lease year beginning on or after completion on said land of a well capable of producing oil or gas in paying quantities, Lessee shall pay Lessor, at the expiration of each lease year, in lieu of rental a minimum royalty equal to \$1.00 per acre, or fraction thereof, then included in this lease, or the difference between the actual royalty paid on production during the year if less than \$1.00 per acre and the prescribed minimum royalty.

11. **ROYALTY ON PRODUCTION.** Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

- (a) On oil $12\frac{1}{2}\%$ per cent in amount or value of the oil produced and saved and removed or sold from said land.
- (b) On gas $12\frac{1}{2}\%$ per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.
- (c) On associated substances $12\frac{1}{2}\%$ per cent in amount or value of such substances produced and saved and removed or sold from said lands.

12. **REDUCTION OF ROYALTY RATES FOR DISCOVERY.** If Lessee shall drill on said land and make the first discovery of oil or gas in commercial quantities in any geological structure, the royalty rate under this lease shall, instead of the rates prescribed in Paragraph 11, be five per cent for a period of ten years following the date of such discovery, and thereafter the royalty rates shall be those prescribed in Paragraph 11. If this lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, the five per cent royalty rate shall apply to all, but only, the production allocated to this lease under such agreement.

13. **REDUCTION OF RENTAL AND ROYALTY.** Rental or minimum royalty may be waived, suspended, or reduced, or royalty may be reduced on all of said land or any tract or portion thereof segregated for royalty purposes if Lessor finds that such relief is necessary for the purpose of encouraging the greatest ultimate recovery of oil or gas and is in the interest of conservation of natural resources and either that such relief is necessary in order to promote development or that the lease cannot be successfully operated under the terms provided herein.

14. **ROYALTY IN KIND.** Whenever, at the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, Lessor elects to take its royalty in kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon) to Lessor or to such individual, firm, or corporation as Lessor may designate all royalty oil and/or gas produced and saved from said land. Such oil and/or gas shall be in good and merchantable condition. Lessee shall, if necessary, furnish storage for royalty oil free of charge for thirty days after the end of the calendar month in which the oil is produced from said land; provided, that Lessee shall not be held liable for loss or destruction of royalty oil and/or gas from causes beyond Lessee's reasonable control. Should Lessee dehydrate or clean the oil or gas produced from said land, Lessee shall be entitled to an allowance of the actual cost of dehydrating or cleaning said royalty oil or gas.

15. **ROYALTY IN VALUE.** At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. **PRICE.** The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

17. **PAYMENTS.** All payments to Lessor under this lease shall be made payable to the Department of Revenue of the State of Alaska and shall be tendered to Lessor at the place designated under Paragraph 43 for giving notices to Lessor.

18. **OFFSET WELLS.** Lessee shall drill such wells as a reasonably prudent operator would drill to protect Lessor adequately from loss by reason of drainage resulting from production on other land. Without limiting the generality of the foregoing sentence, if oil or gas should be produced in a well on other land not owned by Lessor or on which Lessor receives a lower rate of royalty than the royalty under this lease, which well is within 500 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this lease, and such well shall produce oil or gas in paying quantities for a period of thirty consecutive days, and if, after notice to Lessee and an opportunity to be heard, Lessor finds that production from such well is draining lands then subject to this lease, Lessee shall within 120 days after written demand by Lessor begin in good faith and prosecute diligently drilling operations for an offset well on said land. In lieu of drilling any well required by this paragraph, Lessee may with Lessor's consent compensate Lessor in full each month for the estimated loss of royalty through drainage in the amount determined by Lessor.

19. **OTHER WELLS.** This lease contemplates the reasonable development of said land for oil and gas as the facts may justify. Upon discovery of oil or gas in paying quantities on said land, Lessee shall drill such wells as a reasonably prudent operator would drill having due regard for the interests of Lessor as well as the interests of Lessee.

20. **DILIGENCE; PREVENTION OF WASTE.** Lessee shall exercise reasonable diligence in drilling, producing, and operating wells on said land unless consent to suspend operations temporarily is granted by Lessor; shall carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas and the entrance of water to the oil and gas bearing sands or strata to the destruction or injury of such deposits and the preservation and conservation of the property for future productive operations; shall use reasonable care and all proper safeguards to prevent the pollution of water; shall plug securely in an approved manner any well before abandoning it; shall allow Lessor to inspect all operations at any time; shall carry out at Lessee's expense all reasonable orders and requirements of Lessor relative to the prevention of waste and the preservation of said land, and on failure of Lessee so to do, Lessor shall have the right together with any other recourse available to it to enter on said land to repair damage or prevent waste at Lessor's expense; and shall abide by and conform to valid applicable rules and regulations of the Alaska Oil and Gas Conservation Commission and the regulations of Lessor relating to the matters covered by this paragraph in effect on the effective date hereof or hereafter in effect if not inconsistent with any specific provisions of this lease.

21. **WELL LOCATIONS.** Lessee shall within five days after spudding in a well advise Lessor in writing of the location and date of spudding of said well.

22. **APPROVAL OF PLANS.** Lessee shall not place into actual operation any plan or method for the purpose of stimulating or increasing production on said land other than plans and methods in common use without first having obtained the written approval of Lessor.

23. **LOGS AND RECORDS.** An electric log or radioactive log, if taken, and a descriptive geologic sample log, if taken, and a record of all tests run for each well drilled on said land, together with a plat showing the exact location of each such well, shall be filed with Lessor within thirty (30) days after such well has been completed, suspended, or abandoned. Any and all information filed by Lessee with Lessor in connection with this lease shall be available at all times for the confidential use of Lessor for the purpose of enforcing compliance with the terms, covenants, and conditions of this lease and the regulations of the Lessor but shall not be open for inspection by any person other than officers, or employees of Lessor and persons performing any function or work assigned to them by Lessor for a period of twenty four (24) months after the thirty (30) day filing period, except upon written consent of Lessee. Notwithstanding any other provision hereof, said information may be disclosed to any person where such disclosure is reasonably necessary for the administration of the functions, responsibilities, and duties vested by law in the Commissioner of the Department of Natural Resources or in the Division of Lands or the Director thereof. Including but not limited to functions, responsibilities, and duties arising in connection with any litigation or administrative adjudication relating to this lease or to the rights, duties, and obligations arising hereunder.

24. **RECORDS.** Lessee shall keep and have in its possession books and records showing the production and disposition of all oil and gas produced from said land and shall permit Lessor or its agents at all reasonable hours to examine the same. Such records and reports of production shall be based upon such methods and techniques as shall insure the most accurate figures reasonably available without requiring the Lessee to provide separate tankage for each well.

25. **DAMAGES.** Sect. 2 of Article VII of the Alaska Land Act, Chapt. 169, S.L.A., 1959, as amended, provides in part that no rights under reservations contained in certain leases or grants of Alaska land shall be exercised by Lessor or its Lessee until provision has been made to pay to the owner of the land upon which the reserved rights are sought to be exercised full payment for all damages sustained by said owner by reason of entering upon said land; provided, that if said owner for any cause whatsoever refuses or neglects to settle said damages, Lessor or its Lessee shall have the right to institute such legal proceedings in a court of competent jurisdiction wherein the land is situated as may be necessary to determine the damage which the owner of such land may suffer. Lessee hereby agrees to pay any damage that may become payable under said statutory provisions and to indemnify Lessor and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this Lease will be regarded by Lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

26. BONDS

(a) Lessee shall maintain the bond furnished prior to the issuance of this lease in an amount equal to at least \$2.00 per acre or fraction thereof contained in said land but not less than \$1,000.00.

(b) Before beginning drilling operations on said land Lessee must have furnished and shall maintain a bond in an amount of at least \$5,000.00.

(c) Lessee may, in lieu of the foregoing, furnish and maintain a statewide bond in the amount of \$100,000.00.

(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. **ACTS OF GOD.** Should Lessee be prevented from complying with any expressed or implied covenant of this lease by acts of God, Lessee shall not be liable for failure to comply with such covenant.

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Lessee until provision has been made to pay to the owner of the land upon which the reserved rights are sought to be exercised full payment for all damages sustained by said owner by reason of the exercise of said rights upon said land; provided, that if said owner for any cause whatever refuses or neglects to settle said damage, Lessor or its Lessee shall have the right to institute such legal proceedings in a court of competent jurisdiction wherein the land is situated as may be necessary to determine the damage which the owner of such land may suffer. Lessee hereby agrees to pay any damage that may become payable under said statutory provisions and to indemnify Lessor and hold it harmless from and against any claims, demands, liabilities, and expenses arising from or in connection with such damage. The furnishing of a bond in compliance with this Lease will be regarded by Lessor as a sufficient provision for the payment of all damage that may become payable under said statutory provisions.

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(d) Lessor may, after notice to Lessee and an opportunity to be heard, require a bond in a reasonable amount greater than the amount specified above in this paragraph where such greater amount is justified by the nature of the surface and its uses and improvements in the vicinity of said land and the degree of the risks involved in the types of operations being or to be carried out under this lease. A statewide bond will not satisfy any requirement of a bond imposed under this subparagraph but will be considered by Lessor in determining the need for and the amount of any additional bond under this subparagraph.

(e) If said land is committed in whole or in part to a cooperative or unit agreement approved or prescribed by Lessor pursuant to law and the regulations and a unit bond is furnished in accordance with the regulations, Lessee need not thereafter maintain any bond with respect to the portion of said land so committed to such agreement.

27. ACTS OF GOD. Should Lessee be prevented from complying with any expressed or implied covenant of this lease, from conducting drilling operations thereon, or from producing or marketing oil or gas from said land after efforts made in good faith, by reason of war, riots, acts of God, severe weather in the area of said land, acts of governmental authorities, failure or lack of adequate transportation facilities, or any other cause beyond Lessee's reasonable control whether similar to those enumerated or not, then while so prevented and for a reasonable time thereafter within which to resume operations, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply therewith. If drilling or reworking operations are suspended by virtue of this paragraph and the prosecution of such operations would have had the effect of preventing the expiration or termination of this lease, then this lease shall not terminate during the period which the obligation to perform such operations is suspended under this paragraph; provided, however, that nothing in this paragraph shall be construed to suspend the payment of rentals or of minimum royalties.

28. SUSPENSION. Lessor may from time to time direct or assent to the suspension of production or other operations on both under this lease if such action is necessary or justified in the interest of conservation.

29. RESERVATIONS. Lessor reserves the right to dispose of the surface of said land to others subject to this lease, and the right to authorize others by grant, lease, or permit subject to this lease and under such conditions as will prevent unnecessary or unreasonable interference with the rights of Lessee and operations under this lease, to enter upon and use said land:

(a) To explore for oil or gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet.

(b) To explore for, develop and remove natural resources other than oil, gas, and associated substances on or from said land.

(c) For nonexclusive easements and rights of way for any lawful purpose including shafts and tunnels necessary or appropriate for the working of said land or other lands for natural resources other than oil, gas or associated substances.

(d) For well sites and well bores of wells drilled from or through said land to explore for or produce oil, gas, and associated substances in and from other lands.

(e) For any other purpose now or hereafter authorized by law and not inconsistent with the rights of Lessee under this lease.

30. UNDERGROUND STORAGE. This lease does not authorize the subsurface storage of oil or gas except as a necessary incident to recycling pressure maintenance, repressuring, or other similar operations designed to increase the ultimate recovery of oil or gas or prevent the waste of oil or gas produced from said land or from any unit area of which the said land is a part. Lessor reserves the right to authorize the subsurface storage of oil or gas in said land by Lessee or by others in order to avoid waste or to promote conservation of natural resources and upon such conditions as will prevent unnecessary or unreasonable interference with the rights and operations of Lessee under this lease, including conditions prohibiting the storage of oil or gas without the consent of Lessee in any reservoir covered by this lease capable of producing oil or gas in paying quantities.

31. ASSIGNMENTS. This lease or any undivided interest herein may with the approval of Lessor be assigned or subleased as to said land or any one or more legal subdivisions included therein, or any separate and distinct zone or geological horizon underlying said land or such one or more legal subdivisions, to any person or persons qualified to hold a lease. No transfer of any interest in this lease including assignments of working or royalty interests and operating agreements and subleases shall be binding upon Lessor unless approved by Lessor. Lessee shall remain liable for all obligations under this lease accruing prior to the approval of such transfer. Approval of transfer of this lease or an interest therein will not be denied except (1) for failure to comply with the regulations, (2) in the discretion of Lessor, where the transfer covers any distinct zone or geological horizon, or (3) where Lessor determines that the best interests of Lessor justify such action. Applications for approval of a transfer under this paragraph must comply with the regulations and must be filed within ninety days after the date of final execution of the instrument of transfer. Where a transfer is made of all or a part of Lessee's interest in and to a portion of the acreage in said land the assigned acreage shall, at the option of Lessor, or may upon request of the transferee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

32. UNITIZATION. Whenever determined and certified by Lessor to be necessary or advisable in the public interest for the purpose of properly conserving the natural resources of any oil or gas pool, field or like area or any part thereof, which includes or underlies said land or any part thereof, Lessee may unite with other Lessees of Lessor or with others owning or operating lands not belonging to Lessor including lands belonging to the United States, and with others, jointly or separately, in collectively adopting and operating under a cooperative or unit agreement for the development or operation of the pool or field or like area or part thereof. Lessee shall within thirty days after demand by Lessor subscribe to such a cooperative or unit agreement, which agreement shall be reasonable and shall adequately protect all parties in interest including Lessor. Lessor may with the consent of Lessee establish, alter, change, or revoke drilling, producing, rental, minimum royalty, and royalty requirements of this lease if committed to any such cooperative or unit agreement and may make such regulations with reference to this lease with the like consent of Lessee in connection with the institution and operation of any such cooperative or unit agreement as Lessor may determine to be necessary or proper to secure the proper protection of the public interest. If a portion of said land is committed to an approved or prescribed unit agreement, the committed acreage shall at the option of Lessor and may upon the request of Lessee and with the approval of Lessor be segregated into a separate and distinct lease having the same effective date as this lease.

33. SURRENDER. Lessee may at any time make and file with Lessor a written surrender of all rights under this lease or any portion thereof comprising one or more legal subdivisions or, with the consent of Lessor, of any separate and distinct zone or geological horizon underlying said lands or such one or more legal subdivisions thereof. Such a surrender shall be effective as of the date of filing subject to the continued obligations of Lessee and his surety to make payment of all royalties theretofore accrued and to place all wells on the surrendered land or in the surrendered zones or horizons in condition satisfactory to Lessor for suspension or abandonment; thereupon, Lessee shall be released from all other obligations accrued or to accrue under this lease with respect to the surrendered lands, zones, or horizons.

34. **DEFAULT; TERMINATION.** Whenever Lessee fails to comply with any of the provisions of this lease other than the payment of rental and Lessee fails within sixty days after written notice of such default to commence to remedy and thereafter prosecute diligently operations to remedy such default, Lessor may cancel this lease if at that time there is no well on said land capable of producing oil or gas in paying quantities. If at such time there is on said land a well capable of producing oil or gas in paying quantities, this lease may be cancelled only by judicial proceedings. In the event of any cancellation under this paragraph, Lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well or wells and such rights of way through said land as may be reasonably necessary to enable Lessee to drill and operate such retained well or wells.

35. **EXCESS AREA.** If for any reason said land includes more acreage than the maximum permitted under applicable laws and/or regulations, this lease shall not be void but the acreage included in said land shall be reduced to the permitted maximum. Whenever Lessor determines that this lease so exceeds the permitted acreage and notifies Lessee stating the amount of acreage that must be eliminated, Lessee may within sixty days after such notice surrender one or more legal subdivisions included in said lands comprising at least the amount of acreage that must be eliminated. If such a surrender is not filed within such sixty days Lessor may terminate this lease as to the acreage that must be eliminated by mailing notice of such termination to Lessee describing the parcel or parcels eliminated. Such a notice shall have the effect of terminating this lease as to the parcel or parcels described in such notice.

36. **RIGHTS ON TERMINATION.** Upon the expiration or earlier termination of this lease as to all or any portion of said lands, Lessee shall have the privilege at any time within a period of six months thereafter, or such extension thereof as may be granted by Lessor, of removing from said land or portion thereof all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided which are allowed to remain on said land or portion thereof shall become the property of Lessor upon expiration of such period; provided, that Lessee shall remove any and all of such properties when so directed by Lessor. Subject to the foregoing, Lessee shall deliver up said lands or such portion or portions thereof in good order and condition.

37. **INTEREST IN LAND.** It is the intention of the parties that the rights vested in Lessee by this lease shall constitute an interest in real property in said land.

38. **LESSOR INTEREST.** If Lessor owns a lesser interest in the oil and gas deposits in said land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid Lessor only in the proportion which its interest bears to the whole and undivided fee.

39. **CONDITIONAL LEASE.** If all or a part of said land is land that has been selected by the Lessor under laws of the United States granting lands to Lessor, but such land has not been patented to Lessor by the United States, then this lease is a conditional lease as provided by law until such patent become effective. If for any reason such a selection is not finally approved or such a patent does not become effective, and rental, royalty or minimum royalty payments made to Lessor under this lease will not be refunded.

40. **DRILLING OPERATIONS.** As used in this lease "drilling operations" mean any work or actual operations undertaken or commenced in good faith for the purpose of carrying out any of the rights, privileges or duties of Lessee under this lease, followed diligently and in due course by the construction of a road or derrick and/or other necessary structures for the drilling of an oil or gas well, and by the actual operation of drilling in the ground. Any such work or operations preliminary to drilling in the ground may be undertaken either on said land or in the vicinity of said land in any order Lessee shall see fit.

40. (a) **ACTUAL DRILLING.** As used in this lease, "actual drilling" means any and all operations necessary or convenient to the drilling of a well in the ground after the first drilling or spudding with equipment of sufficient size and capacity to drill to the total depth proposed for the well.

41. **RULES AND REGULATIONS.** As used in this lease "regulations" mean the applicable and valid oil and gas leasing regulations of the Commissioner of the Department of Natural Resources in effect on the effective date of this lease unless otherwise specified.

42. **INTERPRETATION.** As used in this lease words which are defined in the regulations have the meaning assigned by such definition except where the context clearly requires a different meaning. The paragraph headings are not a part of this lease and are inserted only for convenience.

43. **NOTICES.** Any notice required or permitted under this lease shall be in writing and shall be given by registered or certified mail, return receipt requested, addressed as follows:

To Lessor:

Director, Division of Lands
State of Alaska
344 Sixth Avenue
Anchorage, Alaska

To Lessee:

Pan American Petroleum Corporation
P. O. Box 712
Anchorage, Alaska

Any such notice shall be deemed given when delivered to the foregoing address. Either party may change the address to which such notices are to be sent, by a notice given in accordance with this paragraph.

44. **HEIRS AND ASSIGNS.** Subject to the other provisions of this lease, the covenants, conditions, and agreements contained in this lease shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of Lessor and Lessee.

45. **WILDLIFE STIPULATIONS.** This lease is subject to such stipulations as are attached.

IN WITNESS WHEREOF the parties have executed this lease.

Pan American Petroleum Corporation

By: Willard B. Condit
Its Attorney in Fact

LESSEE

STATE OF ALASKA

By: Roscoe E. Bell

Title: Director, Div. of Lands LESSOR

THE UNITED STATES OF AMERICA }

STATE OF ALASKA }

ss.

This certifies that on the 31 day of January, 1962, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared ROSCOE E. BELL, to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Department of Natural Resources, or his authorized agent. The said ROSCOE E. BELL executed said lease in my presence and, after being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska for the Division of Lands, Department of Natural Resources.

WITNESS my hand and official seal the day and year in this certificate above written.

John M. Oster Notary Public in and for Alaska. My Commission expires 9-27-65

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APPLICABLE STATUTES

(s) *Short title.* This section may be cited as the Geothermal Resources Act.

(am §§ 40, 41 ch 127 SLA 1974)

Effect of amendment.

The 1974 amendment substituted "AS 41.08.020" for "AS 41.07.020" near the middle of subsection (b) (1) and "AS 41.08.040" for "AS 41.07.040" at the end of subsection (b) (2) and deleted "of 1971" from the end of subsection (s).

As the rest of the section was not affected by the amendment, it is not set out.

Legislative committee report.

For report on ch. 127, SLA 1974 (SCSHB 817 am S), see 1974 House Journal, p. 657.

Sec. 38.05.182. Royalty on natural resources. Any royalty provided for in §§ 135 — 181 of this chapter may be taken in kind rather than in money if the commissioner, with the consent of the Alaska Royalty Oil and Gas Development Advisory Board, determines that the taking in kind would be in the best interest of the state. The consent of the board is required only with respect to oil and gas royalty-in-kind under § 183 of this chapter. (§ 1 ch 56 SLA 1970; am § 7 ch 71 SLA 1971; am § 1 ch 9 SSSLA 1974; am § 5 ch 218 SLA 1976)

Effect of amendments. — The 1974 amendment substituted "if the commissioner, with the consent of the board, determines" for "at the discretion of the commissioner if he determines" near the middle of the first sentence and added the second sentence.

The 1976 amendment substituted "Alaska Royalty Oil and Gas Development Advisory Board" for "board" in the first sentence.

Sec. 38.05.183. Sale of royalty. (a) The sale, exchange or other disposal of a mineral obtained by the state as a royalty under § 182 of this chapter, or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, shall be by competitive bid and the sale, exchange or other disposal made to the highest responsible bidder, except that competitive bidding is not required when the commissioner, with the prior written approval of the Alaska Royalty Oil and Gas Development Advisory Board where applicable, determines that the best interest of the state does not require it or that no competition exists.

(b) When competitive bids are required, the commissioner, with the prior written approval of the Alaska Royalty Oil and Gas Development Advisory Board, may reject all bids if he determines that because of the amount of the bids, the lack of responsibility on the part of the bidders, or for reasons consistent with the criteria set out in AS 38.06.070, the acceptance of the bids would not be in the best interest of the state.

(c) If the commissioner determines that a sale, exchange or other disposal of a mineral obtained by the state as a royalty under § 182 of this chapter or of a right to receive future mineral production under a state lease under this chapter shall be made otherwise than by

competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board where applicable has approved that determination, the commissioner shall make public in writing the specific findings and conclusions upon which that determination is based.

(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner with the approval of the Alaska Royalty Oil and Gas Development Advisory Board determines that the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The commissioner shall make public, in writing, the specific findings and reasons on which his determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met. (§ 1 ch 56 SLA 1970; am § 3 ch 9 SSSLA 1974)

Effect of amendment. — The 1974 amendment rewrote this section.

Sec. 38.05.184. Limitation on oil and gas leases in certain areas, and reacquisition of leases. (a) The legislature finds that Kachemak Bay is an area of extraordinary abundance and diversity of marine life that has provided, and will continue to provide in the future, a basis for one of the state's most important commercial fisheries; that recent information discloses that even minute quantities of oil released into the marine environment may be harmful to the larval forms of crabs and other marine life and that the existence of gyral currents within the bay may increase the likelihood of oil coming into contact with these valuable commercial fish and shellfish species; and that therefore oil and gas development in the bay, at this time, presents an undue hazard to this valuable state renewable resource.

(b) No additional oil or gas leases may be issued by the Department of Natural Resources or any other state agency for the exploration for or the development or production of oil and gas on state-owned land and waters seaward of the mean higher high water line, beginning at Anchor Point; then around the perimeter of Kachemak Bay, to Point Pogibshi; then west to the three mile limit of state land and waters; then north to a point three miles west of Anchor Point; then east to the mean higher high water line of Anchor Point, the point of beginning.

(c) The commissioner of natural resources may enter into negotiations to reacquire by purchase in the name of the state, title to or accountable interests in oil or gas leases within the boundaries described in (b) of this section which were issued before June 4, 1976.

(d) In lieu of cash payment for a negotiated purchase of a leasehold interest, the commissioner may authorize a credit of the purchase price plus interest at the rate prescribed by AS 09.30.070 to be granted the

public interest, or migration and spawning of fish in which there is a public interest.
(am § 4 ch 117 SLA 1976)

Effect of amendment. — The 1976 amendment added paragraphs (22) and (23).

As the rest of the section was not affected by the amendment, it is not set out.

Editor's note. — Section 1, ch. 117, SLA 1976, provides: "It is the intent of this Act to implement the provisions of art. VIII,

sec. 14, Alaska State Constitution, relating to access to the navigable or public waters of the state."

Applied in *Moore v. State*, Sup. Ct. Op. No. 1284 (File Nos. 2551, 2587), 553 P.2d 8 (1976).

Chapter 06. Alaska Royalty Oil and Gas Development Advisory Board.

Section

10. Purpose

20. Establishment

25. Membership

30. Compensation; per diem, travel expenses

35. Meetings, rules, quorum, votes required; conflict of interest

Section

40. Powers

50. Board approval required

55. Action by legislature

60. Confidentiality

70. Criteria

80. Definitions

Sec. 38.06.010. Purpose. It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for sales, exchanges or other disposition of those interests in ways calculated to promote private economic growth consistent with applicable environmental standards and public fiscal stability, and in accordance with AS 38.05.183. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.020. Establishment. There is established in the Department of Natural Resources the Alaska Royalty Oil and Gas Development Advisory Board. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.025. Membership. The board consists of the commissioner of natural resources, who is chairman, the commissioner of revenue, and three public members. Each of the public members shall possess experience in petroleum-related fields in such areas as exploration, development, production and economics, and shall be appointed by the governor to serve at his pleasure for three-year staggered terms and confirmed by a vote of a majority of the members of the legislature in joint session. The public members may not be state officers or employees. A public member, upon the expiration of his term, shall continue to hold office until his successor is appointed and qualifies. Vacancies in public membership shall be filled in the same manner as original appointment. An appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. A vacancy in board membership does not impair the authority of a quorum of the board members to exercise all the powers and duties of the board. (§ 2 ch 9 SSSLA 1974; am § 8 ch 207 SLA 1975)

Effect of amendment. — The 1975 "commissioner of economic development" amendment, effective July 1, 1975, in the first sentence. substituted "commissioner of revenue" for

Sec. 38.06.030. Compensation; per diem, travel expenses. Members of the board are in the exempt service under AS 39.25.110 and shall receive per diem and travel allowances as provided by law for other boards and commissions. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.035. Meetings, rules, quorum, votes required; conflict of interest. (a) The board shall prescribe its own rules of procedure. It shall meet at a time and place determined by the chairman, and at other times and places as the chairman, or a majority of the board members, considers necessary. A quorum is a majority of the members of the board. The votes of the board members shall be recorded. Effective action to carry out the powers granted under this chapter requires the affirmative vote of a majority of the board members. No board member may, with respect to a matter before the board, vote for or on behalf of another member of the board.

(b) No member of the board may act upon a matter in which his relationship with any person creates a conflict of interest. No board member may have an official connection with or hold stock or securities in, or have a pecuniary interest in, a corporation, company or association engaged in the production or transportation of oil or gas. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.040. Powers. The board has the power to

(1) direct the commissioner of natural resources to solicit inquiries, development plans or bids from persons for the sale, exchange or other disposal of oil or gas or both obtained by the state as a royalty under AS 38.05.182, or for the sale, exchange or other disposal in whole or part of rights to receive future oil or gas production or both under a state lease, subject to terms and conditions established by the board;

(2) examine proposed sales, exchanges or other disposals of oil or gas or both obtained by the state as a royalty under AS 38.05.182, or of rights to receive future oil or gas production or both under a state lease, for the purpose of approving or disapproving the proposed sale, exchange or other disposal;

(3) hire an executive director, consultants expert in technical, economic or other relevant professions and other persons as necessary to assist the board in the exercise of its powers;

(4) promulgate regulations under the Administrative Procedure Act (AS 44.62) that are necessary or appropriate in the exercise of its powers; and

(5) take whatever other actions are reasonably necessary in the furtherance of the purposes of this chapter. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.050. Board approval required. (a) No sale, exchange, encumbrance, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas may be made by the commissioner of natural resources under AS 38.05.183 without the prior written approval of the board.

(b) Bids or applications for the purchase of royalty oil or gas may not be rejected by the commissioner of natural resources without the prior written approval of the board.

(c) Competitive bidding in a sale, exchange or other disposition described in (a) of this section may not be waived by the commissioner of natural resources under AS 38.05.183 without the prior written approval of the board.

(d) The board may require conditions relating to the sale, delivery, transportation, or refining or processing within the state to be included by the commissioner of natural resources in the offer of and sale by competitive bidding of oil or gas obtained by the state as royalty under AS 38.05.182. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.055. Action by legislature. (a) In addition to the approval by the board required under § 50 of this chapter, no sale, exchange or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas may be made by the commissioner of natural resources under AS 38.05.183 without the prior approval of the legislature by a concurrent resolution concurred in by a majority of the members of each house.

(b) Until July 1, 1975, contracts for the sale of state-owned royalty gas or oil that specify the sale and delivery of not more than 400 barrels of crude oil per day or not more than 460 barrels of natural gas liquids per day or not more than 2,400 Mcf of natural gas per day may be executed without ratification by the legislature. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.060. Confidentiality. Notwithstanding AS 09.25.110 — 09.25.120, the board may provide by regulation for the confidentiality of these documents and records in its possession or control which contain confidential business or marketing information the protection of which is essential to the person who has submitted them to the board or in the judgment of the board is essential to the best interest of the state. Such confidentiality, however, shall not preclude the proper review by the legislature. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.070. Criteria. (a) In the exercise of its powers under § 40(1) — (2) and § 50 of this chapter the board shall consider

- (1) the revenue needs and projected fiscal condition of the state;
- (2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state or federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;

(3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange or other disposition of oil and gas or both;

(4) the projected social impacts of the transaction;

(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction;

(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;

(7) the projected positive and negative environmental effects related to the transaction; and

(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

(b) When it is economically feasible, the board may require, as a condition of the sale of oil or gas obtained by the state as royalty, that the oil or gas be refined or processed in the state and may, when it is feasible and in the best interests of the state to do so, provide for processing or refining of the oil or gas under a contract entered into by competitive bidding before the sale of the oil or gas. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.080. Definitions. In this chapter

(1) "board" means the Alaska Royalty Oil and Gas Development Advisory Board; and

(2) "state lease" means an oil and gas lease on state land. (§ 2 ch 9 SSSLA 1974)

Chapter 35. Right-of-Way Leasing Act.

Section

- 10. Legislative declaration of policy
- 20. Grant of right-of-way lease
- 30. Abandonment, reduction or impairment of service of pipeline
- 40. Temporary or emergency service or temporary abandonment, reduction or impairment of service by lessee
- 50. Applications for right-of-way leases
- 60. [Repealed]
- 70. Notice of application
- 80. Analysis and public hearing
- 100. Decision on application
- 110. Term of lease
- 120. Covenants required to be included in lease
- 130. Right-of-way easements or leases acquired from others

Section

- 140. Payment of rental and costs
- 150 — 160. [Repealed]
- 170. Forfeiture of lease
- 180. Suits to enjoin or recover damages for defaults
- 190. Application of the Administrative Procedure Act
- 200. Judicial review of decisions of commissioner on application
- 205. Lease savings clause
- 210. Delegation of commissioner's authority
- 220. Continued operation of certain carriers
- 225. Binding effect of covenants
- 230. Definitions

(3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange or other disposition of oil and gas or both;

(4) the projected social impacts of the transaction;

(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction;

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