

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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



ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road
P.O. Box 6288 Anchorage, Alaska 99502 / Phone (907) 277-5551
Telex 25-187

February 2, 1977

Mr. Donald Wold, Executive Director
Oil and Gas Royalty Advisory Board
Department of Natural Resources
Juneau, Alaska 99801

Dear Mr. Wold:

Following our conversation January 31 in your office, we have proceeded to write a re-draft (enclosed) of the contract executed June 4, 1976, to provide for the delivery of North Cook Inlet royalty gas to us by the State, near the Kenai LNG plant. This restructuring may be desirable and necessary to reflect the pricing, delivery conditions, start of deliveries, and non-jurisdictional aspects of the transaction which might otherwise cause serious problems with the existing contract.

It is our hope that this draft will be sufficient to describe the entire operation adequately so that it can be used as an attachment to and part of a State developed agreement to take delivery of the royalty gas from the Lessee (Phillips Petroleum Company) at the same onshore point and minimize the drafting of a detailed separate agreement with the Lessee. A suggested draft of a "notice" and "acceptance" letter for possible use with the Lessee is also enclosed.

There are several substantive changes in the proposed contract draft, none of which result in greater liability or less revenue to the State. In addition to reflecting the higher royalty price as of January 1, 1977, and preserving all prior price escalations, we would agree to pay the appropriate (proportionate) share of compression which the Lessee may install at a future date (after the initial unit). However, we would commit to purchase only the royalty gas we can readily re-sell (up to 100% of what is available) and thus not be committed to install a pipeline connecting to our existing pipeline to Anchorage, although we could do so at our option. The availability and cost of "stand-by gas" from our present suppliers may have to be determined before we can reach that decision. We are of course concerned about the short life remaining (only 6 years - to July 1984) to pay out a multi-million dollar pipeline. If the State could now amend the

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Mr. Donald Wold
February 2, 1977
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term of this contract to the "life of production", which we proposed originally, the feasibility of such a pipeline would be much improved.

There are several non-substantive additions in the proposed contract draft, copied largely from the contract draft we had negotiated with the Lessee. The provisions for the most part are technical and standard for the industry and we are not aware of any reason for controversy. In the proposed contract treatment there would be no contractual relationship between us and the Lessee, and thus these provisions appear to be necessary as part of our contract with the State.

We have forwarded copies of these drafts to the Lessee and hope to have their response in time to plan to attend the meeting of the Royalty Advisory Board on February 22. We must be in Houston on the morning of February 23 for our annual Board meeting and would ask to be scheduled as early on your agenda as possible.

Very truly yours,

Dale Teel
President

DT:dh

Enclosures

cc: John Horn-Phillips-Bartlesville
Bob Swetnam-Phillips-Anchorage

Proposed Notice
By the State of Alaska
To Phillips Petroleum Company
For the Taking of Royalty Gas in Kind
From the North Cook Inlet Gas Field

Gentlemen:

What are these?

The State of Alaska hereby notifies you that upon the completion of installation of the necessary physical facilities on shore by Alaska Pipeline Company, and their notice to you and to the State to that effect (which will be prior to May 1, 1978), the State of Alaska will elect to receive its royalty interest in gas produced from the North Cook Inlet Gas Field in kind to the extent of Alaska Pipeline Company's taking of said royalty gas. It is not anticipated that Alaska Pipeline Company will take 100% of the royalty gas each day or each month, and thus there will continue to be royalty payable in cash to the State to the extent of royalty gas not taken in kind.

**and whom?*
Since State takes delivery onshore, it must
be party to any negotiations on the gathering costs charged!

The point of delivery of the royalty gas is to be at a mutually acceptable point onshore (in the vicinity of your Kenai LNG plant). Measurement and control of the royalty gas taken in kind will be the responsibility of Alaska Pipeline Company. You may deduct, from the amount of royalty payment otherwise due the State, the charge(s) described on page(s) 7-9 of the State's contract with Alaska Pipeline Company as consideration for the dehydration and gathering including compression of the royalty gas which you will provide to the State. These charges were negotiated by you and are acceptable to the State and to Alaska Pipeline Company, as described in the contract, copy of which is attached hereto as information and for purposes of implementing this notice to you. *P. 6-10-78*

This notice and the attached copy of the State's contract with Alaska Pipeline Company are confirmation to you that your cooperation in agreeing to deliver royalty gas onshore at the charge(s) described and at the request of the State does not subject you to the jurisdiction of the Alaska Public Utilities Commission or the Alaska Pipeline Commission, nor does it affect the price payable by you for royalty gas you continue to take for processing.

It is understood and acknowledged by the State that the primary purpose of your operations is to meet your own contractual and other business obligations and that the delivery of royalty gas onshore is of secondary importance and is subordinate to your primary obligations.

Please acknowledge your acceptance of this Notice, and the terms and conditions as described herewith, in the space provided below and return two executed copies to us.

Accepted for Phillips Petroleum Company:

By _____ Date _____

For the State of Alaska:

By _____ Its _____

GAS PURCHASE CONTRACT

This Contract, made and entered into this day of 1977, by and between the Alaska Pipeline Company ("APC") herein referred to as "Buyer" and the State of Alaska, hereinafter referred to as "Seller":

WITNESSETH

WHEREAS, Buyer owns and operates a natural gas pipeline system in areas of Alaska for the delivery of natural gas for ultimate consumption within the State of Alaska, and

WHEREAS, Seller has the right under each of the leases identified at Exhibit "A" attached hereto to be paid by the Lessee thereunder a royalty of twelve and one-half percent in kind or in value of the natural gas produced and saved and used off of the lands covered by each such lease, and

WHEREAS, Seller is authorized by AS 38.05.183 to sell royalty gas; and

WHEREAS, Buyer represents to Seller that the gas received by Buyer under this contract will be used to meet the requirements of its customers within the State of Alaska;

NOW, THEREFORE, in consideration of the representations, covenants, and conditions herein contained, Buyer and Seller hereby agree as follows:

ARTICLE 1

Seller's Royalty Gas

1.1 Seller hereby agrees that within 30 days after the execution and approval of this agreement as required by the laws of the State of Alaska, Seller shall notify the Lessee under the leases set forth at Exhibit "A" of this agreement of Seller's election to take its royalty gas in kind. Said notice will provide that the Lessee shall commence the delivery of said royalty gas to Seller (or to Seller's designee) upon a receipt of notice from Seller that all facilities necessary to enable Buyer to receive and market said gas are ready; provided, however, in no event shall Lessee be required to commence the delivery of royalty gas to Seller (or its designee) prior to six (6) months following Lessee's receipt of notice of Seller's election to take its royalty gas in kind.

1.2 In order that Seller can give its Lessee as much advance notice as possible of the date it will start receiving its royalty gas in kind, Buyer shall notify Seller, and Seller shall notify its Lessee, at least 60 days prior to the date Buyer will receive gas from Seller pursuant to this contract.

ARTICLE II

Quantity

2.1 It is understood and agreed by the parties that the volume of gas available to Seller from the leases covered by this contract depends upon the production from the leases over which Seller has no control, and further depends upon the Lessee's gathering capacity installed and available, over which Seller likewise has no control.

Buyer hereby agrees to purchase on each day commencing with the date of first delivery hereunder and continuing during the term of this contract up to all of Seller's royalty gas available at the point of delivery described in Article IV hereof, it being understood that Buyer's requirements for its markets may not allow Buyer to purchase the entire amount of Seller's royalty gas on each day it is available.

ARTICLE III

Quality, Pressure, and Odorization

3.1 The gas to be delivered by Seller to Buyer at the delivery point shall be gas of the same quality and pressure as delivered to Seller by the Lessee at the point of delivery.

3.2 Gas delivered hereunder will not be odorized and if Buyer so utilizes the gas delivered hereunder for purposes which require odorization of such gas, the full responsibility for such use is Buyer's and Buyer agrees to comply with all laws and regulations respecting the odorization of such gas and hereby indemnifies and holds Seller harmless from any and all claims, injuries, expenses, penalties and damages arising out of or connected with Buyer's failure to observe strictly and comply with all laws, rules and regulations with respect hereto.

ARTICLE IV

Point of Delivery, Point of Measurement, Ownership, and Measurement

4.1 Buyer shall install, maintain, and operate a connection into the Lessee's pipeline system at or near Lessee's pipeline tap which

delivers gas to the Tesoro refinery located in the general vicinity of the Kenai LNG plant on the North Kenai Road, (hereinafter called "the point of delivery").

4.2 Buyer agrees to install, maintain, and operate all pipeline, pressure regulators, and related facilities necessary to receive gas hereunder at and from the point of delivery above specified, to Buyer's existing metering station also located in the general vicinity of the Kenai LNG plant on the North Kenai Road (hereinafter called "the point of measurement").

4.3 Buyer shall be deemed to be in control and possession of the gas delivered hereunder at and from the point of delivery and responsible for any damage or injury caused thereby. Buyer shall be responsible for any gas lost between the point of delivery and the point of measurement. Buyer shall indemnify and hold Seller harmless as to any injury or damage arising out of the delivery of gas to Buyer and its measurement hereunder.

4.4 Standards of Measurements and Tests

4.4.1 The unit of volume of gas delivered hereunder shall be one (1) cubic foot at an absolute pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch and at a base temperature of sixty (60) degrees Fahrenheit.

4.4.2 The volumes of gas delivered hereunder shall be measured and computed by Buyer in accordance with the methods prescribed in Gas Measurement Committee Report No. 3, Natural Gas Department, American Gas Association, including the Appendix thereto, dated April, 1955, except that the atmospheric pressure shall be assumed to be fourteen and seven-tenths (14.7) pounds per square inch. The method used for

correcting such volumes for deviation from the Ideal Gas Laws shall be the procedure recommended in the most current Report of the American Gas Association or by any other method mutually agreeable to the parties hereto.

4.4.3 The specific gravity of the gas delivered hereunder shall be determined by Lessee utilizing the method prescribed in American Petroleum Institute Code No. 50-A at the beginning of delivery hereunder and once during each month thereafter. The results of each such determination shall be used in computing the volume of gas delivered hereunder until the effective date of the next succeeding test.

4.4.4 The flowing temperature of the gas delivered hereunder shall be determined by means of a continuous recording thermometer installed by Buyer so that it will properly record the temperature of the gas flowing through the meter. The arithmetical average of the hourly temperatures recorded each day shall be used in computing the volumes of gas delivered during such day.

4.5 Measurement

4.5.1 The Lessee may, at its option and expense, install check meters upstream or downstream of Buyer's meter station provided that such check meters will be installed so as not to interfere with the operation of Buyer's facilities. The calibrating and adjusting of Lessee's meters and the changing of charts and the reading of charts on Lessee's meters shall be done by Lessee.

4.5.2 Buyer and Lessee shall have access at all times to Buyer's metering equipment including all other instruments used by

Buyer in determining the measurement and quality of the gas delivered hereunder, but the reading, calibrating and adjusting thereof, and the changing of charts shall be done only by the employees, agents, or representatives of Buyer. Upon request of Lessee, Buyer shall submit to Lessee records and charts from such equipment subject to return by Lessee within thirty (30) days after receipt thereof.

4.5.3 At least once a month Buyer shall test its above mentioned metering equipment or cause the same to be tested and Buyer shall give Lessee reasonable prior notice of the time all such tests are to be made so that Lessee may, if desired, have its representative present to observe such tests and any adjustments made upon such metering equipment. Following any test, any of Buyer's metering equipment found to be inaccurate to any degree shall be adjusted immediately to measure accurately. If upon any test such metering equipment is found to be inaccurate by two percent (2%) or more, registration from said metering equipment and any payments based upon such registrations shall be corrected at the rate of such inaccuracy for any period of inaccuracy which is definitely known or agreed upon, but in case the period is not definitely known or agreed upon, then for a period extending back one-half of the time elapsed since the last previous test, not exceeding however fifteen (15) days.

4.5.4 If for any reason Buyer's meter is out of service or is found registering inaccurately and the error is not determinable by ordinary test such that the volume of gas delivered through such meter cannot be ascertained or computed from the readings thereof, the volume of gas so delivered during the period the meter is out of service or registering inaccurately shall be estimated and agreed upon by the

parties hereto upon the basis of the best available data, using the first of the following methods which is feasible:

- (a) By correcting the error if the percentage of error is ascertainable by calibration, special test, or mathematical calculation;
- (b) By using the registration of any check measuring equipment of Lessee if installed and registering accurately;
- (c) By estimating the volume by comparing it with deliveries during preceding periods under similar conditions when the meter was registering accurately.

ARTICLE V

Price and Billing

5.1 The price to be paid by Buyer to Seller for gas deliveries shall be as follows:

(a) Commencing on the date of first deliveries hereunder Assuming that this date occurs prior to July 1, 1978 and continuing until the first day of July, 1978, the price shall be 64.65 cents per MCF. *vs. 60.36 mention in contract 76-1 of 6/4/76*

(b) Commencing on the first day of July, 1978 and continuing until the first day of July, 1979 the price shall be the higher of (i) 66.65 cents per MCF, (ii) the price Seller would have received from Lessee had it not elected to receive its royalty gas in kind, (iii) the highest price paid by

any purchaser in the upper Cook Inlet area for gas of similar quality and similar conditions of delivery; with due regard to appropriate factors including, but not limited to, difference of BTU content, delivery pressure, term of the contract and connection charges.

needs to be
referred to
per Gugg's
memo to
Fred Brown

(c) For each succeeding 12 month period commencing July 1, 1979 the price shall be increased to the higher of (i) the previous year's price plus 2 cents per MCF, (ii) the price Seller would have received had it not elected to take its royalty in kind, (iii) the highest price paid by any purchaser in the upper Cook Inlet area for gas of similar quality and conditions of delivery;

see above

with due regard to appropriate factors including, but not limited to, difference of BTU content, delivery pressure, term of the contract and connection charges.

(d) To the price otherwise payable hereinabove, Buyer shall add the charge of 10¢ per MCF from the ^{*}date of first deliveries hereunder until the ^{*}date of the completion of the first unit of compression facilities (approximately 3500 hp), ready for use on Lessee's platform and after such date Buyer shall add the charge of 20¢ per MCF, in consideration of Seller's costs for gathering gas sold hereunder to the point of delivery. Each of the above charges shall increase by six percent (6%) per year, commencing upon the ^{*}respective anniversary dates thereof.

In the event that further unit(s) of compression facilities may be required and are installed on Lessee's

platform, Buyer shall, after such date, add to the price and charges otherwise payable hereinabove a further charge, to be computed in the ratio of gas volumes delivered (the ratio of deliveries to Buyer compared to the Lessee's total deliveries) during the preceding year, a proportionate share of the Lessee's full cost of owning, maintaining, and operating such further unit(s) of compression, as reported by Lessee to Seller and subject to Seller's verification.

Nothing herein shall be construed as an obligation for Seller or Lessee to install or to operate any compression facilities, and all judgment with respect to such installation or operation shall be and remain solely with Lessee.

5.2 Thirty days prior to the date of each annual price change, Seller, at its option, may determine the price which it would have received from its Lessee had it not elected to take its royalty gas in kind and the highest price being paid for gas of similar quality and similar conditions of delivery; with due regard to appropriate factors including, but not limited to, difference of BTU content, delivery pressure, term of the contract and connection charges in the upper Cook Inlet area and submit the same to Buyer along with suitable supporting evidence as to such prices. Buyer shall have the right to submit other evidence within the 30 day period.

5.3 After the delivery of gas has commenced Buyer shall, on or before the 20th day following the end of each month, render to Seller and Lessee a statement showing the quantity of gas delivered during that month

! Does
the State
agree to
jurisdiction
in this
instance?

and shall therewith pay Seller the amount due for all such gas.

5.4 Each party hereto shall have, at its expense, the right to examine the books and records of the other party to the extent necessary to verify the accuracy of any statement, charge, computation, or demand made under or pursuant to this contract. Any statement shall be final as to both parties unless questioned in writing within two (2) years after payment thereof has been made.

5.5 The terms "upper Cook Inlet area" as used here in shall mean the area encompassed in a radius of 100 kilometers from the Lessee's North Cook Inlet platform.

ARTICLE VI

Term

6.1 This contract shall become effective upon the execution hereof and the approval of the Alaska Royalty Oil and Gas Development Advisory Board and the State Legislature and shall continue and remain in effect until July 1, 1984, unless terminated or extended prior to such date by mutual agreement of the parties, or pursuant to Article VII.

ARTICLE VII

Conditions Precedent and Force Majeure

7.1 Buyer shall have the right to terminate this contract upon 30 days written notice to Seller if Buyer is (unable to make satisfactory arrangements to take delivery of the gas.) Buyer shall exercise this right to terminate on or before June 30, 1978, thereafter Buyer may not exercise this right to terminate.

*No longer same
Valid since
the closing
point
now is
onshore*

*much 100
long*

7.2 It is expressly recognized and agreed that the gas gathering system utilized for deliveries hereunder is operated and maintained by Lessee for its own purpose and that Lessee will not dedicate any facilities or otherwise undertake to render any service to or for the public. This Agreement is being undertaken solely to effectuate the delivery of royalty gas which Buyer is purchasing from the State of Alaska, and the parties hereto make the material representation that neither this Agreement nor Buyer's use or disposition of the gas delivered hereunder will subject Lessee to regulation by the Federal Power Commission or the Alaska Public Utilities Commission or the Alaska Pipeline Commission.

7.3 Force Majeure

7.3.1 No liability shall result to either party from delay in performance or non-performance of any obligation hereunder (except Buyer's obligation to make payment hereunder) caused by circumstances reasonably beyond the control of the party affected, including, but not limited to, acts of God, fire, flood, storm, war (declared or undeclared), breakage or accident to machinery or lines of pipe, repair, redrilling or reworking of wells, governmental regulation, requisition or direction, or labor strikes or lockouts.

7.3.2 The party claiming relief under this Article VII shall advise the other party with reasonable promptness in writing giving full particulars of the cause or causes relied upon and shall also give prompt notice in writing of the cessation of any such cause or causes. The party claiming force majeure shall exercise due diligence in undertaking to remedy and overcome the cause of delay hereunder, but neither

party shall be required to agree to any demand of labor to settle any strike or labor dispute except in the sole discretion of the party subject to such strike or labor dispute.

ARTICLE VIII

Miscellaneous

2 / What does that mean?
8.1 The terms and provisions of this Agreement shall extend to and be binding upon the parties hereto, their assigns and successors in interest. It is understood, however, that Buyer may not assign its rights and interest in this Agreement without the written consent of Seller, except as may be necessary to Buyer to conform with its various financing documents or as may be desirable to Buyer as to its commonly owned affiliate or subsidiary. No assignment shall relieve any assignor of this Agreement of its obligations hereunder without the written consent of Seller.

who are they
ARTICLE IX

Notices

9.1 Notices required to be given under this contract shall be deemed sufficiently given and served when and if deposited in the United States mail postage prepaid and certified or registered addressed to Seller at:

AGO 801675

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Commissioner

Department of Natural Resources

Pouch M, Juneau, Alaska 99811

or to Buyer at:

Alaska Pipeline Company

P. O. Box 6288

Anchorage, Alaska 99502

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in four (4) original counterparts on this day and year first above written.

"BUYER"

STATE OF ALASKA

ATTEST:

ATTEST:

Phillips is "hooked" either by APC or H&A deal

42.05.701

[2] "public utility" or "utility" includes every corporation --- that owns, operates, manages or controls any plant, pipeline or system for

D. furnishing by transmission or distribution of natural or manufactured gas to the Alaska public for compensation

42.05.701

[5] "public" or "general public" means

A any group of 10 or more customers that purchase the service or commodity furnished by a 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 gas or manufactured gas, or petroleum products which are resold to a group included in [4] of this para or which are used to produce the service or commodity sold to the public by the utility.

The Commission, on a finding that no legitimate public interest will be served, may exempt a utility from all or any ^{part} of the chapter

when a compressor is installed

GAS GATHERING AGREEMENT

THIS AGREEMENT, made and entered into this _____ day of _____, 1976, between ALASKA PIPELINE COMPANY, herein referred to as "APC," and PHILLIPS PETROLEUM COMPANY, herein referred to as "Phillips,"

W I T N E S S E T H:

WHEREAS, APC has entered into a contract dated June 4, 1976, with the State of Alaska to purchase the State's royalty gas produced from the North Cook Inlet Field, a copy of which is attached hereto as Exhibit "A", and

WHEREAS, said contract provides that APC will accept said royalty gas at or near the wellhead in the North Cook Inlet Field, and

WHEREAS, Phillips operates a gas pipeline used to gather natural gas from the North Cook Inlet Field to the Kenai LNG Plant, and

WHEREAS, Phillips is willing to gather on a best efforts basis said royalty gas for APC and deliver same to APC at a mutually agreeable point near the Kenai LNG Plant, and

WHEREAS, the parties hereto recognize that it will be necessary for Phillips to provide substantial additional compression capacity over that otherwise required in order to handle the royalty gas through its gathering system, and

*See Div 2
H, Sec 2*
WHEREAS, APC represents that the quantity of gas contemplated per Exhibit "A" does not offer adequate feasibility for APC to justify participation in the installation of said additional compression capacity (or any other method of taking delivery of said royalty gas *(like building its own gasline)* except to the extent it may be available from time to time, and *(this must refer to APC's agreement to accept royalty gas on the basis of surplus capacity)*

WHEREAS, APC further represents that for reasons stated above APC cannot justify investment to deliver said royalty gas to other than APC's existing and potential new customers in the vicinity of the Kenai LNG Plant (as contrasted

1. *Identify amount to be delivered?*
2. *Detail cost of investment to ~~store~~ delivery, joint - compression out etc.?*
3. *When compressors installed? does state have control?*
4. *details of agreement -*

AGO 801678

See March 3, 1977 letter to Don. Wold by Phil Phillips

to delivering into APC's transmission system to Anchorage);

NOW THEREFORE, premises considered, the parties hereto mutually agree that:

ARTICLE I

DEFINITIONS

1. The term "day" shall mean a period of twenty-four (24) consecutive hours beginning and ending at 7:00 o'clock A.M. The reference date for any day shall be the date of the beginning of such day.
2. The term "month" shall mean a period beginning at 7:00 o'clock A.M. on the first day of a calendar month and ending at 7:00 o'clock A.M. on the first day of the next succeeding calendar month.
3. The term "Mcf" shall mean one thousand (1,000) cubic feet of natural gas measured as hereinafter provided.

ARTICLE II

FACILITIES

1. Phillips is presently operating and maintaining a natural gas gathering system between the North Cook Inlet Field and the Kenai LNG Plant.
2. APC agrees to install, maintain and operate all pipeline, pressure regulators, and related facilities necessary to receive gas hereunder at the point of delivery hereinafter specified. Said point of delivery shall be at or near the existing pipeline tap presently being used to deliver gas from Phillips' pipeline to the Tesoro refinery located in the general vicinity of the Kenai LNG Plant on the North Kenai Road. APC agrees to extend its gathering line from said point of delivery to its existing metering station also located in the general vicinity of the North Kenai Road (hereinafter called "the point of measurement").

3. APC hereby grants unto Phillips (or its designated agent) such rights of way and surface easements and rights of ingress and egress on its property or shall provide surface easements as may be required to install, maintain and operate the facilities necessary to facilitate delivery of gas by Phillips hereunder to the point of delivery and to APC's measuring station above mentioned.

4. APC agrees to install, operate and maintain all necessary equipment at the point of delivery and at APC's measuring station to properly control, odorize, and measure the volumes of gas delivered hereunder.

ARTICLE III

QUANTITY OF GAS

1. Subject to the availability of capacity in its facilities to handle volumes in excess of its own needs and to the extent of such availability, and upon proper written notice from APC, Phillips shall gather the royalty gas in the North Cook Inlet Field and deliver same to APC at the point of delivery specified herein. APC is entitled to receive at the wellhead all of the royalty gas owned by the State of Alaska and produced from the North Cook Inlet Field, and to the extent that Phillips gathers less than the total available, that difference shall be carried in the over and short account described below or Phillips shall purchase same on the basis provided in Section 2 below.

It is recognized that it is impossible to deliver to APC the exact amount of royalty gas as produced from the North Cook Inlet Field. Phillips agrees that it will carry an over and short account with respect to the receipts of royalty gas and the delivery of same to APC; provided however, that Phillips shall never be required to carry more than a total of 60,000 Mcf over or under-delivery. In the event the takes by APC on a cumulative basis shall ever be

more than 60,000 Mcf less than the deliveries of royalty gas, APC shall not be allowed to make up for any such underdelivery.

2. The parties recognize that APC may be unable from time to time to take and deliver to its customers the full volumes of gas attributable to the State's royalty interest although it is committed to purchase that volume from the State. In such event, Phillips agrees to purchase from APC from time to time those volumes, delivered at the wellhead, which APC is unable to take. For such volumes which it purchases from APC, Phillips will pay APC a price equal to that amount which Phillips would have otherwise paid the State of Alaska as royalty if the State had not elected to receive its royalty gas in kind.

ARTICLE IV

POINT OF DELIVERY AND OWNERSHIP

1. Point of delivery to APC for all gas gathered and delivered hereunder by Phillips shall be at the juncture of APC's facilities and Phillips' facilities located near the pipeline tap serving the Tesoro refinery as mentioned above.

2. Phillips shall be deemed to be in control and possession of the gas deliverable hereunder and responsible for any damage or injury caused thereby until said gas shall have been delivered to APC at the point of delivery, after which delivery APC shall be deemed to be in exclusive control and possession of the gas and responsible for any injury or damage caused thereby.

3. APC shall be responsible for any gas lost between the point of delivery and the point of measurement.

ARTICLE V

DELIVERY PRESSURE

1. Phillips shall deliver gas hereunder at the pressure existing from time to time in its facilities at the point of delivery.

ARTICLE VI
QUALITY OF GAS

1. Phillips agrees that the gas, when delivered at the point of delivery hereunder, shall be the quality of gas existing in its gathering system from time to time and APC agrees to accept such gas.

2. It is understood that the gas delivered hereunder will not be odorized by Phillips, and if APC so utilizes the gas delivered hereunder for purposes which require odorization of such gas, the full responsibility for such use is APC's and APC agrees to comply with all laws and regulations respecting the odorization of such gas and hereby indemnifies and holds Phillips harmless from any and all claims, injuries, expenses, penalties and damages arising out of or connected with APC's failure to observe strictly and comply with all laws, rules and regulations with respect hereto.

ARTICLE VII
STANDARDS OF MEASUREMENT AND TESTS

1. Except for the determination and computation of total heating value, the unit of volume of gas delivered hereunder shall be one (1) cubic foot at an absolute pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch and at a base temperature of sixty (60) degrees Fahrenheit.

2. The volumes of gas delivered hereunder shall be measured and computed by APC in accordance with the methods prescribed in Gas Measurement Committee Report No. 3, Natural Gas Department, American Gas Association, including the Appendix thereto, dated April, 1955, except that the atmospheric pressure shall be assumed to be fourteen and seven-tenths (14.7) pounds per square inch. The method used for correcting such volumes for deviation from the Ideal Gas Laws

shall be the procedure recommended in the most current Report of the American Gas Association or by any other method mutually agreeable to the parties hereto.

3. The specific gravity of the gas delivered hereunder shall be determined by Phillips utilizing the method prescribed in American Petroleum Institute Code No. 50-A at the beginning of delivery hereunder and once during each month thereafter. The results of each such determination shall be used in computing the volume of gas delivered hereunder until the effective date of the next succeeding test.

4. The flowing temperature of the gas delivered hereunder shall be determined by means of a continuous recording thermometer installed by APC so that it will properly record the temperature of the gas flowing through the meter. The arithmetical average of the hourly temperatures recorded each day shall be used in computing the volumes of gas delivered during such day.

5. If the gas delivered hereunder is solely from the 16-inch pipeline serving the North Cook Inlet Field, the total heating value of the gas shall be the average of that recorded on the recording calorimeter for Phillips' gas at the inlet to Kenai LNG Plant during the billing period corrected to thirty (30) inches of Mercury and sixty (60) degrees Fahrenheit dry.

ARTICLE VIII

MEASUREMENT

1. As agreed in Section 2 of Article II hereof, APC shall be obligated to and responsible for all metering of gas hereunder.

2. Phillips may, at its option and expense, install check meters upstream or downstream of APC's meter station provided that such check meters will be installed so as not to interfere with the operation of APC's facilities. The calibrating and adjusting of Phillips' meters and the changing of charts and the reading of charts on Phillips' meters shall be done by Phillips.

3. APC and Phillips shall have access at all times to APC's metering equipment including all other instruments used by APC in determining the measurement and quality of the gas delivered hereunder, but the reading, calibrating and adjusting thereof, and the changing of charts shall be done only by the employees, agents, or representatives of APC. Upon request of Phillips, APC shall submit to Phillips records and charts from such equipment subject to return by Phillips within thirty (30) days after receipt thereof.

4. At least once a month APC shall test its above mentioned metering equipment or cause the same to be tested and APC shall give Phillips or Phillips' representative reasonable prior notice of the time all such tests are to be made so that Phillips may, if desired, have its representative present to observe such tests and any adjustments made upon such metering equipment. Following any test, any of APC's metering equipment found to be inaccurate to any degree shall be adjusted immediately to measure accurately. If upon any test such metering equipment is found to be inaccurate by two percent (2%) or more, registration from said metering equipment and any payments based upon such registrations shall be corrected at the rate of such inaccuracy for any period of inaccuracy which is definitely known or agreed upon, but in case the period is not definitely known or agreed upon, then for a period extending back one-half of the time elapsed since the last previous test, not exceeding however fifteen (15) days.

5. If for any reason APC's meter is out of service or is found registering inaccurately and the error is not determinable by ordinary test such that the volume of gas delivered through such meter cannot be ascertained or computed from the readings thereof, the volume of gas so delivered during the period the meter is out of service or registering inaccurately shall be estimated and

agreed upon by the parties hereto upon the basis of the best available data, using the first of the following methods which is feasible:

- (a) By correcting the error if the percentage of error is ascertainable by calibration, special test, or mathematical calculation;
- (b) By using the registration of any check measuring equipment of Phillips if installed and registering accurately;
- (c) By estimating the volume by comparing it with deliveries during preceding periods under similar conditions when the meter was registering accurately.

ARTICLE IX

GATHERING AND COMPRESSION CHARGES AND TAXES

1. For all gas delivered by Phillips to APC at the delivery point, APC shall pay to Phillips the amount of ten cents (10.0¢) per Mcf as consideration for dehydration and delivery of such royalty gas onshore, at the point of delivery, rather than at Phillips' North Cook Inlet platform. The above stated charge shall increase by six percent (6%) on each anniversary date of this Agreement.

2. It is recognized by the parties hereto that it will be necessary for Phillips to install compression facilities during the term of this Agreement. At the time the first compressor unit (approximately 3500 h.p.) is installed and ready for operation, APC shall pay Phillips in addition to the gathering charge set forth in Section 1 of this Article IX, a compression charge of ten cents (10.0¢) per Mcf for all gas delivered by Phillips to APC at the delivery point. Such charge shall increase by six percent (6%) per year, commencing on

the first anniversary of the date such compression facilities are installed and ready for operation.

3. In the event that Phillips installs or causes to be installed compression facilities in addition to those mentioned in Section 2, then the parties shall make a good faith effort to agree on the compression charge applicable for each such additional compressor. The basis for arriving at such additional compression charge shall be as follows:

Phillips shall determine the appropriate share of the cost of said facilities which should be chargeable to APC, in the relationship of the anticipated volume of deliveries to be made to APC during the year as compared to the anticipated total volume of deliveries to be made by Phillips through these facilities for each such year. Phillips shall timely furnish this information to APC in writing.

In the event APC should dispute Phillips' determination of the cost share appropriately chargeable to APC for any such additional compression installation, APC may elect to give one (1) year's notice of termination of this Agreement, but APC shall, until such termination, still be liable to pay to Phillips the cost share appropriately chargeable to APC during the period of such notice of termination. In the event APC does not dispute Phillips' determination of the cost share appropriately chargeable to APC for any additional compressor installation within ninety (90) days of said determination, then APC shall thereby forfeit its right to elect to give notice of termination of this Agreement and shall continue to make said payment to Phillips for the remainder of the term hereof.

Nothing herein shall be construed by either party as an obligation

on Phillips to install any compression facilities whatever or to operate any compression facilities already installed.

5. Phillips shall pay all ad valorem taxes on its pipelines and facilities employed in delivering gas hereunder. In addition to the price and payments hereinabove provided, APC shall reimburse Phillips in the proportion of deliveries made to APC by Phillips, an amount equal to the aggregate total of any new or increased fee, impost, duty, charge, excise or tax levied or imposed in addition to the rates at which those, if any, are levied, assessed, or fixed as of the date hereof, with respect to the gathering of the gas delivered hereunder (including compression) prior to its delivery to APC that Phillips may be required to pay directly or indirectly.

ARTICLE X

BILLING AND PAYMENTS

1. On or before the 15th day of each month during the term hereof APC shall furnish Phillips with a full and complete statement reflecting all gas delivered by Phillips during the preceding month and the total amount due hereunder pursuant to Article IX hereof. Payment hereunder shall be made by APC to Phillips at its office in Bartlesville, Oklahoma within ten (10) days after delivery of each such statement.

2. On or before the 30th day of each month during the term hereof Phillips shall furnish to APC a full and complete statement reflecting the total amount of royalty gas produced by Phillips during the preceding month. Deducting the quantity taken by APC for such month, Phillips shall determine the amount of royalty gas not taken by APC for such month and shall make payment therefor to APC together with said statement.

ARTICLE XI

REPRESENTATION AND CONDITION PRECEDENT

It is expressly recognized and agreed that the gas gathering system utilized for deliveries hereunder is operated and maintained by Phillips for its own purpose and Phillips does not, by entering into this Agreement, dedicate any facilities or otherwise undertake to render any service to or for the public. This Agreement is being undertaken solely to effectuate the delivery of royalty gas which APC is purchasing from the State of Alaska, and APC makes the material representation that neither this Agreement nor APC's use or disposition of the gas delivered hereunder will subject Phillips to regulation by the Federal Power Commission or the Alaska Public Utilities Commission.

The parties shall co-operate to make the necessary filings with the Alaska Public Utilities Commission in order to secure a declaration by that agency that Phillips will not become a utility subject to regulation by such commission by virtue of the activities performed hereunder.

If such declaration of the non-utility status of Phillips has not been received in a form satisfactory to Phillips within ninety (90) days after the execution hereof, then either party shall have the option to terminate this Agreement upon thirty (30) days' notice in writing.

It is further expressly recognized that APQ's contract with the State of Alaska (Exhibit "A") must be amended to conform with the provisions of this Agreement, and that if such amendment has not been obtained in a form satisfactory to APC and Phillips within ninety (90) days after the execution hereof, then either party shall have the option to terminate this Agreement upon thirty (30) days' notice in writing.

ARTICLE XII

FORCE MAJEURE

1. No liability shall result to either party from delay in performance or non-performance of any obligation hereunder (except APC's obligation to make payment hereunder) caused by circumstances reasonably beyond the control of the party affected, including, but not limited to, acts of God, fire, flood, storm, war (declared or undeclared), breakage or accident to machinery or lines of pipe, repair, redrilling or reworking of wells, governmental regulation, requisition or direction, or labor strikes or lockouts.

2. The party claiming relief under this Article XII shall advise the other party with reasonable promptness in writing giving full particulars of the cause or causes relied upon and shall also give prompt notice in writing of the cessation of any such cause or causes. The party claiming force majeure shall exercise due diligence in undertaking to remedy and overcome the cause of delay hereunder, but neither party shall be required to agree to any demand of labor to settle any strike or labor dispute except in the sole discretion of the party subject to such strike or labor dispute.

ARTICLE XIII

TERM

1. This Agreement shall be effective from the date hereof and shall extend until June 1, 1984, unless sooner terminated as provided hereinabove.

ARTICLE XIV

MISCELLANEOUS

1. Except as herein otherwise provided, any notice, request, demand, statement or bill provided for in this Agreement, or any notice which either

party may desire to give to the other, shall be in writing and shall be considered as duly delivered when mailed by registered mail to either of the parties hereto as the case may be at the following address:

Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Phillips Petroleum Company
Attention: Gas and Gas Liquids Division
Bartlesville, Oklahoma 74004

or at such other address as either party shall designate from time to time by formal written notice. Routine communications, including monthly statements and payments, shall be considered as duly delivered when mailed by either registered or ordinary mail.

2. Each party shall have the right to examine at reasonable times the books, records, and charts of the other party to the extent necessary to verify the accuracy of any statement, charge, computation or demand made under or pursuant to any of the provisions of this Agreement.

3. The terms and provisions of this Agreement shall extend to and be binding upon the parties hereto, their assigns and successors in interest. It is understood, however, that APC may not assign its rights and interest in this Agreement without the written consent of Phillips, except as may be necessary to APC to conform with its various financing documents or as may be desirable to APC as to its commonly owned affiliate or subsidiary. No assignment shall relieve any assignor of this Agreement of its obligations hereunder without the written consent of Phillips.

IN WITNESS WHEREOF, this Agreement is executed as of the day and year
first above written.

ATTEST:

ALASKA PIPELINE COMPANY

Assistant Secretary

By _____
President

ATTEST:

PHILLIPS PETROLEUM COMPANY

Assistant Secretary

By _____
Vice President

Signature page to Gas Gathering Agreement dated _____, 1976,
by and between ALASKA PIPELINE COMPANY and PHILLIPS PETROLEUM COMPANY.



ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road
P.O. Box 6288 Anchorage, Alaska 99502 / Phone (907) 277-5555
Telex 25-187

Don. Wald
cc: Board
1-21-77

RECEIVED
DEC 20 1976

ALASKA LOYALTY
OIL & GAS BOARD

December 15, 1976

*Get this letter and
from APUC
if nec.*

Alaska Public Utilities Commission
1100 MacKay Building
338 Denali Street
Anchorage, Alaska 99501

Dear Commissioners:

... to Phillips from APUC jurisdiction

On December 2 we wrote asking for the earliest possible scheduling of a hearing on the subject of waiving jurisdiction over Phillips Petroleum Company's delivery of royalty gas to us.

In view of the lateness of the season and the lack of frozen ground (swamp) and the estimated time for obtaining right of way and other uncertainties, we wish now to withdraw our request for scheduling an early hearing. We cannot justify ordering the pipe (\$600,000) etc. at present.

We still hope to complete this project during 1977, and we will in due course again be requesting the waiver of jurisdiction, but it is not now regarded to be as urgent as indicated to you previously.

Very truly yours,

Dale Teel
Dale Teel

cc: Mr. John Horn
Phillips Petroleum Co.
Bartlesville, Oklahoma 74004

Commissioner Guy Martin
Department of Natural Resources
State of Alaska
Juneau, Alaska 99801

SUBSIDIARY OF ALASKA INTERSTATE COMPANY

AGO 801692



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-5551
TELEX 25-187

September 29, 1976

Alaska Public Utilities Commission
1100 MacKay Building
338 Denali Street
Anchorage, Alaska 99501

Dear Commissioners:

Order No. 5 of U-75-68 requires a report on the status of our purchasing royalty gas from the State of Alaska, by October 15. The matter of royalty gas availability was mentioned in Order No. 7 of U-75-95 as part explanation for setting a return on equity of only 14.25% for us, which in our opinion is inadequate.

Negotiations for royalty gas have had to be done intermittently because of the heavy attention required for U-75-95. We have had several meetings with Phillips and others regarding royalty gas, and still have some hope to reach a satisfactory conclusion. Our alternative would be to continue utilizing "Anchorage" reserves to supply our customers in the North Kenai Road area. This would avoid the need for further investment and the higher cost of gas.

If we can anticipate sufficient return and if we can obtain the necessary financing, we would of course want to proceed to obtain royalty gas as being a better, longer-term solution to this matter. But it became less feasible to us and less favorable to the public interest than we once envisioned because of three aspects of the contract with the State (copy which is enclosed):

- (1) The price is set to be equal to the highest of the defined area, whereas we hoped it would never be higher than the price of gas to be liquefied for Japan.
- (2) The state requires that we take 100% of the royalty gas although we do not have sales on the North Kenai Road for the full amount; we do not have facilities to interconnect with our pipeline to Anchorage; and we are not able to obtain an "exchange" agreement for gas at the Kenai field.



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3888 SPENARD ROAD
P. O. BOX 6188 ANCHORAGE, ALASKA 99501 / PHONE (907) 277-9331
TELEX 21-187

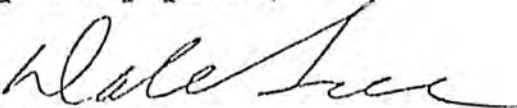
Alaska Public Utilities Commission
September 29, 1976
Page -2-

- (3) The contract term is limited to the term of the sale to Tokyo -- June 30 of 1984 -- which sharply limits the feasibility of investing for facilities. We had asked for this royalty for "the life of production."

Phillips has asked that we fund all of the first phase of a compressor station on their platform, estimated at \$5 million, as a condition for delivering the royalty to us onshore. We have countered with an offer to pay a pro-rata (volume) share for compression with a right to discontinue after one year's notice, and an offer to resell "excess" royalty gas back to Phillips at the price they would otherwise have paid to the State, and to forego taking royalty gas if (and while) pipeline capacity is a limitation. We will require a standby gas supply during such periods when royalty is not available. We have not been able to obtain such a supply and may have to build a pipeline from our existing line (to Anchorage) for this purpose. It is here that allowable rate of return and financing became essential to the decision.

We do not believe it is practical to develop "a complete record" of the negotiations for the Commission's files on this matter, but we would welcome an opportunity to discuss it informally at the convenience of the Commission. Clearly we do need to preserve the flow through provision in order to continue our negotiations, which apparently will require several more months.

Very truly yours,


Dale Teel
President

dh

Enclosure



ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road
P.O. Box 6288 Anchorage, Alaska 99502 / Phone (907) 277-5551
Telex 25-187

August 31, 1976

Mr. John Horn
Gas and Gas Liquids Division
Phillips Petroleum Company
Bartlesville, Oklahoma 74004

Dear John:

Here is a retyped and slightly edited version of a contract draft we hope you can accept on our effort to purchase the royalty gas from the North Cook Inlet gas field. You will particularly note the additions which are underlined in red on the marked-up copy.

I will approach the State Royalty Board on this matter at the earliest opportunity. I believe that if I had a letter from you effectively accepting this draft, they would approve it. I will also re-open with the APUC (after September 17 and their action in the pending rate case).

I will begin discussions with Tesoro later this week, and hope to obtain "standby" supply for "firm" customers (or more) also within the near future. While it may be most difficult to obtain all these concurrences in time for the necessary construction this fall, I will continue to hope that it is possible and will proceed on that basis as long as there is any chance.

We appreciate the attention you are giving this matter and hope to get it resolved at the earliest opportunity.

Very truly yours,

Dale Teel
Dale Teel

dh

Enclosures

bcc: Alaska Public Utilities Commission

GAS GATHERING AGREEMENT

RECEIVED
A.P.C.

SEP 2 1976

THIS AGREEMENT, made and entered into this _____ day of _____, 1976, between ALASKA PIPELINE COMPANY, herein referred to as "APC", and PHILLIPS PETROLEUM COMPANY, herein referred to as "Phillips",

W I T N E S S E T H:

WHEREAS, APC has entered into a contract dated June 4, 1976 with the State of Alaska to purchase the State's royalty gas produced from the North Cook Inlet Field, a copy of which is attached hereto as Exhibit "A" and made a part hereof, and

WHEREAS, said contract provides that APC will accept said royalty gas at or near the wellhead in the North Cook Inlet Field, and

WHEREAS, Phillips operates a gas pipeline used to gather natural gas from the North Cook Inlet Field to the Kenai LNG Plant, and

WHEREAS, the parties hereto recognize that it would be necessary for Phillips to provide substantial additional compression capacity over that otherwise required in order to handle the royalty gas through its gathering system, and

APC contract with State

WHEREAS, the parties hereto further recognize that the quantity of gas contemplated per Exhibit "A" does not offer adequate feasibility for APC to justify participation in the installation of said additional compression capacity or any other method of taking delivery of said royalty gas except to the extent it may be available from time to time at the discretion of Phillips, and

WHEREAS, the parties hereto also recognize that for reasons stated above APC cannot justify investment to deliver said royalty gas to other than APC's existing and potential new customers in the vicinity of the Kenai LNG plant (as contrasted to delivering into APC's transmission system to Anchorage);

NOW THEREFORE, premises considered, the parties hereto mutually agree that:

AGO 801696

ARTICLE I
DEFINITIONS

1. The term "day" shall mean a period of twenty-four (24) consecutive hours beginning and ending at 7:00 o'clock A.M. The reference date for any day shall be the date of the beginning of such day.

2. The term "month" shall mean a period beginning at 7:00 o'clock A.M. on the first day of a calendar month and ending at 7:00 o'clock A.M. on the first day of the next succeeding calendar month.

3. The term "MCF" shall mean one thousand (1,000) cubic feet of natural gas measured as hereinafter provided.

ARTICLE II
FACILITIES

1. Phillips is presently operating and maintaining a natural gas gathering system between the North Cook Inlet Field and the Kenai LNG Plant.

2. APC agrees to install, maintain and operate all pipeline, pressure regulators, and related facilities necessary to receive gas hereunder at the point of delivery hereinafter specified. Said point of delivery shall be at the existing pipeline tap presently being used to deliver gas from Phillips pipeline to the Tesoro refinery located in the general vicinity of the Kenai LNG plant on the North Kenai Road. APC agrees to extend its gathering line from said point of delivery to its existing metering station also located in the general vicinity of the North Kenai Road (hereinafter called "the point of measurement"), with a check valve also being installed at said point of delivery.

3. APC hereby grants unto Phillips (or its designated agent) such rights of way and surface easements on its property or shall provide surface easements as may be required to install, maintain

and operate the measuring and related facilities necessary to facilitate delivery of gas by Phillips hereunder to the point of delivery and to APC's measuring station above mentioned.

4. APC agrees to install, operate and maintain all necessary equipment at the point of delivery and at APC's measuring station to properly control, odorize, and measure the volumes of gas delivered hereunder.

ARTICLE III

QUANTITY OF GAS

1. Subject to the stipulations and conditions herein and upon proper written notice from APC, Phillips shall gather the royalty gas in the North Cook Inlet Field and deliver such gas to APC at the point of delivery specified herein. APC is entitled to receive at the wellhead all of the royalty gas owned by the State of Alaska and produced from the North Cook Inlet Field, subject to Phillips' discretion because of limitations resulting from Phillips' requirement for additional compression facilities and because of APC's inability to take delivery of all of the royalty gas for its customers in the vicinity of the North Kenai Road.

It is recognized that it is impossible to deliver to APC the exact amount of royalty gas as produced from the North Cook Inlet Field. Phillips agrees that it will carry an over and short account with respect to the receipts of royalty gas and the delivery of same to APC; provided however, that Phillips shall never be required to carry more than a total of 60,000 MCF over or underdelivery. In the event the takes by APC on a cumulative basis shall ever be more than 60,000 MCF less than the deliveries of royalty gas, APC shall not be allowed to make up for any such underdelivery.

2. Except as provided above, APC agrees to sell to Phillips at the price otherwise payable by Phillips directly to the State

of Alaska for this royalty gas, any of the royalty gas which APC is unable to take and deliver to its customers in the vicinity of the North Kenai Road, and any of the royalty gas which Phillips is unable, at its discretion, to deliver to APC by reason of transmission (or compression) capacity available from time to time.

ARTICLE IV

POINT OF DELIVERY AND OWNERSHIP

1. Point of delivery to APC for all gas gathered and delivered hereunder by Phillips shall be at the pipeline tap serving the Tesoro refinery as mentioned above.

2. Phillips shall be deemed to be in control and possession of the gas deliverable hereunder and responsible for any damage or injury caused thereby until said gas shall have been delivered to APC at the point of delivery, after which delivery APC shall be deemed to be in exclusive control and possession of the gas and responsible for any injury or damage caused thereby.

3. APC shall be deemed to be responsible for any gas lost between the point of delivery and the point of measurement.

ARTICLE V

DELIVERY PRESSURE

1. Phillips shall deliver gas hereunder at the pressure existing from time to time in its facilities at the point of delivery.

ARTICLE VI

QUALITY OF GAS

1. Phillips agrees that the gas, when delivered at the point of delivery hereunder, shall be the quality of gas existing in its gathering system from time to time and APC agrees to accept such gas.

2. It is understood that the gas delivered hereunder will not be odorized by Phillips, and if APC so utilizes the gas delivered hereunder for purposes which require odorization of such gas, the full

responsibility for such use is APC's and APC agrees to comply with all laws and regulations respecting the odorization of such gas and hereby indemnifies and holds Phillips harmless from any and all claims, injuries, expenses, penalties and damages arising out of or connected with APC's failure to observe strictly and comply with such laws, rules and regulations with respect hereto.

ARTICLE VII

STANDARDS OF MEASUREMENT AND TESTS

1. Except for the determination and computation of total heating value, the unit of volume of gas delivered hereunder shall be one (1) cubic foot at an absolute pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch and at a base temperature of sixty (60) degrees Fahrenheit.
2. The volumes of gas delivered hereunder shall be measured and computed by APC in accordance with the methods prescribed in Gas Measurement Committee Report No. 3, Natural Gas Department, American Gas Association, including the Appendix thereto, dated April, 1955, except that the atmospheric pressure shall be assumed to be fourteen and seven tenths (14.7) pounds per square inch. The method used for correcting such volumes for deviation from the Ideal Gas Laws shall be the procedure recommended in the most current Report of the American Gas Association or by any other method mutually agreeable to the parties hereto.
3. The specific gravity of the gas delivered hereunder shall be determined by Phillips utilizing the method prescribed in American Petroleum Institute Code No. 50-A at the beginning of delivery hereunder and once during each month thereafter. The results of each such determination shall be used in computing the volume of gas delivered hereunder until the effective date of the next succeeding test.
4. The flowing temperature of the gas delivered hereunder shall be determined by means of a continuous recording thermometer installed

by APC so that it will properly record the temperature of the gas flowing through the meter. The arithmetical average of the hourly temperatures recorded each day shall be used in computing the volumes of gas delivered during such day.

5. If the gas delivered hereunder is solely from the 16-inch pipeline serving the North Cook Inlet Field, the total heating value of the gas shall be the average of that recorded on the recording calorimeter for Phillips' gas at the inlet to Kenai LNG Plant during the billing period corrected to thirty (30) inches of Mercury and sixty (60) degrees Fahrenheit dry.

ARTICLE VIII

MEASUREMENT

1. Phillips may, at its option and expense, install check meters upstream or downstream of APC's meter station provided that such check meters will be installed so as not to interfere with the operation of APC's facilities. The calibrating and adjusting of Phillips' meters and the changing of charts and the reading of charts on Phillips' meters shall be done by Phillips.

2. APC and Phillips shall have access at all times to APC's metering equipment including all other instruments used by APC in determining the measurement and quality of the gas delivered hereunder, but the reading, calibrating and adjusting thereof, and the changing of charts shall be done only by the employees, agents, or representatives of APC. Upon request of Phillips, APC shall submit to Phillips records and charts from such equipment subject to return by Phillips within thirty (30) days after receipt thereof.

3. At least once a month APC shall test its above mentioned metering equipment or cause the same to be tested and APC shall give Phillips or Phillips' representative reasonable prior notice of the time all such tests are to be made so that Phillips may, if desired, have its representative present to observe such tests and any adjustments made upon such metering equipment. Following any test, any of APC's metering equipment found to be inaccurate to any degree shall be adjusted immediately to measure accurately. If upon any test such metering equipment is found to be inaccurate by two percent (2%) or

more, registration from said metering equipment and any payments based upon such registrations shall be corrected at the rate of such inaccuracy for any period of inaccuracy which is definitely known or agreed upon, but in case the period is not definitely known or agreed upon, then for a period extending back one-half of the time elapsed since the last previous test, not exceeding however fifteen (15) days.

4. If for any reason APC's meter is out of service or is found registering inaccurately and the error is not determinable by ordinary test such that the volume of gas delivered through such meter cannot be ascertained or computed from the readings thereof, the volume of gas so delivered during the period the meter is out of service or registering inaccurately shall be estimated and agreed upon by the parties hereto upon the basis of the best available data, using the first of the following methods which is feasible:

- (a) By correcting the error if the percentage of error is ascertainable by calibration, special test, or mathematical calculation;
- (b) By using the registration of any check measuring equipment of Phillips if installed and registering accurately;
- (c) By estimating the volume by comparing it with deliveries during preceding periods under similar conditions when the meter was registering accurately.

ARTICLE IX

GATHERING CHARGE AND TAXES

1. It is recognized by the parties hereto that it may be necessary for Phillips to install compression facilities during the term of this Agreement. In the event Phillips does install such compression facilities, then Phillips shall be entitled to determine the appropriate share of the cost of said facilities which should be chargeable to APC, in the relationship of the volume of deliveries made to APC during the prior year as compared to the total volume of deliveries made by Phillips through these facilities for that prior year. Upon

Exact
125
Full Share Royalty

Phillips' determination of the cost share for these facilities which is appropriately chargeable to APC, APC shall have twelve (12) months during which to make payment to Phillips therefor, by equal monthly installments.

In the event APC may dispute Phillips' determination of the cost share appropriately chargeable to APC, APC may elect to give one (1) year's notice of termination of this agreement, but APC shall, until such termination, still be liable to pay to Phillips the cost share appropriately chargeable to APC during the period of such notice of termination. In the event APC does not dispute Phillips' determination of the cost share appropriately chargeable to APC within one year of said determination, then APC shall thereby forfeit its right to elect to give notice of termination of this Agreement and shall continue to make said payment to Phillips for the remainder of the term hereof.

Nothing herein shall be construed by either party as an obligation on Phillips to install any compression facilities whatever or to operate any compression facilities already installed.

2. APC shall pay to Phillips the amount of ten cents (10.0¢) per MCF as consideration for dehydration and delivery of the royalty gas onshore, at the point of delivery, rather than at Phillips' North Cook Inlet platform.

3. Phillips shall pay all ad valorem taxes on its pipelines and facilities employed in delivering gas hereunder. In addition to the price and payments hereinabove provided, APC shall reimburse Phillips an amount equal to the aggregate total of any new or increased fee, impost, duty, charge, excise or tax levied or imposed in addition to the rates at which those, if any, are levied, assessed, or fixed as of the date hereof, with respect to the gathering of the gas delivered hereunder prior to its delivery to APC that Phillips may be required to pay directly or indirectly.

ARTICLE X
BILLING AND PAYMENTS

1. On or before the 15th day of each month during the term hereof APC shall furnish Phillips with a full and complete statement reflecting all gas delivered during the preceding month and the total amount due hereunder pursuant to Article IX hereof. Payment hereunder shall be made by APC to Phillips at its office in Bartlesville, Oklahoma, within ten (10) days after delivery of each such statment.

ARTICLE XI
REPRESENTATION AND CONDITION PRECEDENT

It is expressly recognized and agreed that the gas gathering system utilized for deliveries hereunder is operated and maintained by Phillips for its own purpose and Phillips does not, by writing this Agreement, dedicate or otherwise undertake to render any service or facilities to or for the public. This Agreement is being undertaken solely to effectuate the delivery of gas which APC is purchasing from the State of Alaska, and APC makes the material representation that neither this Agreement nor APC's use or disposition of the gas delivered hereunder will subject Phillips to regulation by the Federal Power Commission or the Alaska Public Utilities Commission.

The parties shall co-operate to make the necessary filings with the Alaska Public Utilities Commission in order to secure a declaration by that agency that Phillips will not become a utility subject to regulation by such commission by virtue of the activities performed hereunder.

If such declaration of the non-utility status of Phillips has not been received in a form satisfactory to Phillips within ninety (90) days after the execution hereof, then either party shall have the option to terminate this Agreement upon thirty (30) days' notice in writing.

It is further expressly recognized that APC's contract with the State of Alaska (Exhibit "A") must be amended to conform with the provisions of this Agreement, and that if such amendment has not been obtained in a form satisfactory to Phillips within ninety (90) days after the execution hereof, then either party shall have the option to terminate this Agreement upon thirty (30) days' notice in writing.

ARTICLE XII

CONTINUITY OF SUPPLY

The parties hereto recognize that APC will redeliver said royalty gas to its affiliate Alaska Gas and Service Company, Division of Alaska Interstate Company, for residential, commercial, and industrial purposes as required from time to time. The parties recognize that the industrial purposes can be and must be served on a dual-fuel, interruptible basis so that interruptions will be practicable. The parties further recognize that the residential and commercial purposes have to be served on a "firm" basis (except for force majeure), and that the public health and welfare could be adversely affected in the event of interruptions occurring during periods of winter weather. Accordingly, the parties pledge their good faith to take reasonable and prudent actions to assure a continuity of supply to serve the residential and commercial purposes.

ARTICLE XIII

FORCE MAJEURE

1. No liability shall result to either party from delay in performance or non-performance of any obligation hereunder (except APC's obligation to make payment hereunder) caused by circumstances reasonably beyond the control of the party affected, including, but not limited to, acts of God, fire, flood, storm, war (declared or undeclared), breakage or accident to machinery or lines of pipe, repair, redrilling or reworking of well, governmental regulation, requisition or direction, or labor strikes or lockouts.

2. The party claiming relief under this Article XII shall advise the other party with reasonable promptness in writing giving full particulars of the cause or causes relied upon and shall also give prompt notice in writing of the cessation of any such cause or causes. The party claiming force majeure shall exercise due diligence in undertaking to remedy and overcome the cause of delay hereunder, but neither party shall be required to agree to any demand of labor to settle any strike or labor dispute except in the sole discretion of the party subject to such strike or labor dispute.

ARTICLE XIV

TERM

1. This Agreement shall be effective from the date hereof and shall extend until June 1, 1984.

ARTICLE XV

MISCELLANEOUS

1. Except as herein otherwise provided, any notice, request, demand, statement or bill provided for in this Agreement, or any notice which either party may desire to give to the other, shall be in writing and shall be considered as duly delivered when mailed by registered mail to either of the parties hereto as the case may be at the following address:

Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Phillips Petroleum Company
Attention: Gas and Gas Liquids Division
Bartlesville, Oklahoma 74004

or at such other address as either party shall designate from time to time by formal written notice. Routine communications, including monthly statements and payments, shall be considered as duly delivered when mailed by either registered or ordinary mail.

2. Each party shall have the right to examine at reasonable times the books, records, and charts of the other party to the extent necessary to verify the accuracy of any statement, charge, computation or demand made under or pursuant to any of the provisions of this Agreement.

3. The terms and provisions of this Agreement shall extend to and be binding upon the parties hereto, their assigns and successors in interest. It is understood, however that APC may not assign its rights and interest in this Agreement without the written consent of Phillips, except as may be necessary to APC to conform with its various financing documents or as may be desirable to APC as to its commonly - owned affiliate or subsidiary. No assignment shall relieve any assignor of this Agreement of its obligations hereunder without the written consent of Phillips.

IN WITNESS WHEREOF, this Agreement is executed as of the day and year first above written.

ATTEST:

ALASKA PIPELINE COMPANY

Assistant Secretary

By _____
President

ATTEST:

PHILLIPS PETROLEUM COMPANY

Assistant Secretary

By _____
Vice President

June 11, 1976

Mr. Harold Schmidt
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Harold:

Enclosed are two (2) copies of the North Cook Inlet
royalty gas sale and purchase contract duly executed
for your files.

The entire endeavor should remind us of the old saying
"The mills of the gods grind exceedingly slow. . . etc."
They have to be almost stationary to be slower than our
process. In any case this part is accomplished.

I enjoyed working with you.

Yours truly,

William C. Fackler
Executive Director

Enclosures (2)

WCF:lb

Gas Purchase Contract

This Contract, made and entered into this 4th day of June 1976, by and between the Alaska Pipeline Company ("APC") herein referred to as "Buyer" and the State of Alaska, hereinafter referred to as "Seller" :

WITNESSED

WHEREAS, Buyer owns and operates a natural gas pipeline system in areas of Alaska for the delivery of natural gas for ultimate consumption within the State of Alaska, and

WHEREAS, Seller has the right under each of the leases identified at Exhibit "A" attached hereto to be paid by the lessee thereunder a royalty of twelve and one-half percent in kind or in value of the natural gas produced and saved and used off of the lands covered by each such lease, and

WHEREAS, Seller is authorized by AS 38.05.183 to sell royalty gas; and

WHEREAS, Buyer represents to Seller that all gas purchased under this contract will be used to meet the requirements of its customers within the State of Alaska;

NOW, THEREFORE, in consideration of the representations, covenants, and conditions herein contained, Buyer and Seller hereby agree as follows:

ARTICLE 1

Seller's Royalty Gas

1.1 Seller hereby agrees that within 30 days after the execution and approval of this agreement as required by the laws of the State of Alaska, Seller shall notify the lessee under the leases set forth at Exhibit "A" of this agreement of Seller's election to take its royalty gas in kind. Said notice will provide that the lessee shall commence the delivery of said royalty gas to Seller (or to Seller's designee) upon a receipt of notice from Seller that all facilities necessary to enable Buyer to receive and market said gas are ready; provided, however, in no event shall lessee be required to commence the delivery of royalty gas to Seller (or its designee) prior to six (6) months following lessee's receipt of notice of Seller's election to take its royalty gas in kind.

1.2 In order that Seller can give its lessee as much advance notice as possible of the date it will start receiving its royalty gas in kind, Buyer shall notify Seller, and Seller shall notify its lessee, at least 60 days prior to the date Buyer will receive gas from Seller pursuant to this contract.

ARTICLE II

Quantity

2.1 It is understood and agreed by the parties that the volume of gas available to Seller from the leases covered by this contract depends upon the production from the leases over which Seller has no control. Buyer hereby agrees to purchase on each day commencing with the date of first delivery

hereunder and continuing during the term of this contract all of Seller's royalty gas available at the point of delivery described in Article III hereof.

ARTICLE III

Delivery Point and Delivery Pressure

There is that
3.1 The point of delivery of all gas delivered hereunder shall be at the same point of delivery that Seller receives delivery of its royalty gas from its lessee in the North Cook Inlet Field.

3.2 Buyer, at its own expense, shall arrange to accept Seller's gas at the point of delivery.

3.3 Seller will deliver gas received by Seller from lessee at the pressure at which the gas is received by Seller from its lessee.

ARTICLE IV

Quality

4.1 The gas to be delivered by Seller to Buyer at the delivery point shall be gas of the same quality as is delivered to Seller by the lessee at the point of delivery.

ARTICLE V

Price and Billing

5.1 The price to be paid by Buyer to Seller for gas delivered shall be as follows:

- a. Commencing on the date of first deliveries hereunder, assuming that this date occurs prior to July 1, 1977 and continuing until the first day of July 1977, the price shall be 55.5 cents per MCF.
- b. Commencing on the first day of July 1977 and continuing until the first day of July 1978 the price shall be the higher of (i) 60.36 cents per MCF, (ii) the price Seller would have received from Phillips Petroleum Company had it not elected to receive its royalty gas in kind, (iii) the highest price paid by any purchaser in the upper Cook Inlet area for gas of similar quality and similar conditions of delivery; with due regard to appropriate factors including, but not limited to, difference of BTU content, delivery pressure, term of the contract and connection charges.
- c. For each succeeding 12 month period commencing July 1, 1978 the price shall be increased to the higher of (i) the previous year's price plus 2 cents per MCF, (ii) the price Seller would have received had it not elected to take its

royalty in kind, (iii) the highest price paid by any purchaser in the upper Cook Inlet area for gas of similar quality and conditions of delivery; with due regard to appropriate factors including, but not limited to, difference of BTU content, delivery pressure, term of the contract and connection charges.

5.2 Thirty days prior to the date of each annual price change, Seller, at its option, may determine the price which it would have received from its lessee had it not elected to take its royalty gas in kind and the highest price being paid for gas of similar quality and similar conditions of delivery; with due regard to appropriate factors including, but not limited to, difference of BTU content, delivery pressure, term of the contract and connection charges in the upper Cook Inlet area and submit the same to Buyer along with suitable supporting evidence as to such prices. Buyer shall have the right to submit other evidence within the 30 day period.

5.3 After the delivery of gas has commenced Buyer shall, on or before the 20th day following the end of each month, render to Seller a statement showing the quantity of gas delivered during that month and shall therewith pay Seller the amount due for all such gas.

5.4 Each party hereto shall have, at its expense, the right to examine the books and records of the other party to the extent necessary to verify the accuracy of any statement, charge, computation, or demand made under or pursuant to this

contract. Any statement shall be final as to both parties unless questioned in writing within two (2) years after payment thereof has been made.

5.5 The terms "upper Cook Inlet area" as used here in shall mean the area encompassed in a radius of 100 kilometers from the Phillips Petroleum North Cook Inlet platform.

ARTICLE VI

Term

6.1 This contract shall become effective upon the execution hereof and the approval of the Alaska Royalty Oil and Gas Development Advisory Board and the State Legislature and shall continue and remain in effect until July 1, 1984, unless terminated prior to such date by mutual agreement of the parties, or pursuant to Article VII.

ARTICLE VII

Conditions Precedent

7.1 Buyer shall have the right to terminate this contract upon 30 days written notice to Seller if Buyer is unable to make satisfactory arrangements to take delivery of the gas. Buyer shall exercise this right to terminate on or before January 31, 1978, thereafter Buyer may not exercise this right to terminate.

ARTICLE VIII

Notices

8.1 Notices required to be given under this contract shall be deemed sufficiently given and served when and if

*has this
contract
been
terminated?
specimens
never
approved by
the Legislature*

deposited in the United States mail postage prepaid and certified
or registered addressed to Seller at:

Commissioner

Department of Natural Resources

Pouch M, Juneau, Alaska 99811

or to Buyer at:

Alaska Pipeline Company

P. O. Box 6288

Anchorage, Alaska 99502

IN WITNESS WHEREOF, the parties hereto have caused
this Agreement to be executed in four (4) original counterparts
on this day and year first above written.

"BUYER"

STATE OF ALASKA

Harold E. Schmidt

Guy R. Martin

ATTEST:

Richard F. Barner

ATTEST:

William J. Fackler



April 26, 1976

North Cook Inlet Field Royalty Gas
Commissioner's Proposal in Concept

The Commissioner of Natural Resources has recognized that the increasing growth of the Cook Inlet area of Alaska with its resultant increase in the use of natural gas requires that additional natural gas reserves be allocated for that purpose from State of Alaska royalty gas. From the standpoint of size of uncommitted gas reserves, geographical location and possible pipeline access, the North Cook Inlet field royalty gas appears the best available supply at this time. Pursuant to AS 38.05.182 the Commissioner proposes that it is in the best interest of the State to take in kind the State's royalty share of the gas production from the North Cook Inlet gas field and requests the consent of the Alaska Royalty Oil and Gas Development Advisory Board for this change.

The Commissioner further proposes to dispose of the North Cook Inlet field royalty gas to Alaska Pipeline Company and its subsidiaries through a negotiated contract. The proposed contract will contain the following provisions:

1. Purchaser agrees to take 1/8 of daily production from the North Cook Inlet gas field on an if and as deliverable basis for the contract period. The State will report to the Purchaser each month the amount of royalty gas produced by Phillips during the prior months.

The approximate average daily royalty gas share of the production from Phillips' North Cook Inlet field platform is 17,000 MCF. Gas production from the platform varies as LNG plant needs dictate therefore no daily amount can be specified.

2. Point of delivery will be the wellhead.
3. Purchaser is responsible for measurement costs, and any compression or dehydration costs if or when necessary.
4. The contract expires on June 1, 1984, unless extended by mutual agreement for a period not to exceed one year.
5. The price of the gas will be equal to the price the State otherwise would have received from Phillips for its royalty gas for export as LNG to Japan; but not less than the highest price paid by any purchaser in the Cook Inlet area for a similar sale of gas of similar quality. The price will be adjusted yearly on the anniversary date of the contract.

6. The contract shall not be effective until

-all necessary permits and authorizations by
governing bodies are obtained

-all transportation or exchange arrangements have
been completed to the satisfaction of the parties
involved.

-six month's notice required under lease

The Commissioner request approval of the above proposed conceptual plan by the Alaska Royalty Oil and Gas Development Advisory Board.

North Cook Inlet Field Royalty Gas
Commissioner's Proposal in Concept
Procedure

1. Commissioner determines that the best interests of the State are served by the taking in kind of the State's royalty gas share of the production of the North Cook Inlet gas field.

Requires consent of the board.

2. Commissioner determines that it would not be in the best interest of the State to sell the North Cook Inlet field royalty gas by competitive bid.
 - a. Requires prior written approval by board.
 - b. Requires Commissioner make public in writing the specific findings and conclusions upon which that determination is based.

A Summary of the Case for the Sale
of the State of Alaska's North Cook
Inlet "Royalty Gas" to the
Alaska Pipeline Company ("Anchorage Natural Gas")

Prepared for presentation to the
Resources Committees of the
Ninth Alaska State Legislature

May, 1976

In an effort to meet an immediate need for additional gas reserves for the North Kenai area and to assist in maintaining the long term reserves required to meet the on-going and ever increasing demands of its entire service area, Alaska Pipeline Company ("APC") has reached agreement with the State of Alaska on the terms of a contract whereby APC would purchase the State's one-eighth (1/8th) royalty share of the North Cook Inlet Field. The majority of the gas so obtained would be used to satisfy the needs of the North Kenai area while the balance would be available for use throughout the service area.

Essentially the contract calls for APC to take the gas at the platform on a when and as available basis with no operational burden or financial loss to the State. The pricing features of the contract are such as to prevent any subsidization of Cook Inlet gas and power consumers by the State.

The need for additional reserves for service to the North Kenai area is immediate and is a consequence of the actual exhaustion of the reserves under contract for that area. An extension of the contract for one year has been obtained but with the gas to be taken from "Anchorage" reserves. While such an extension serves well to meet an immediate need, dependance on further such extensions is unwise as it accelerates

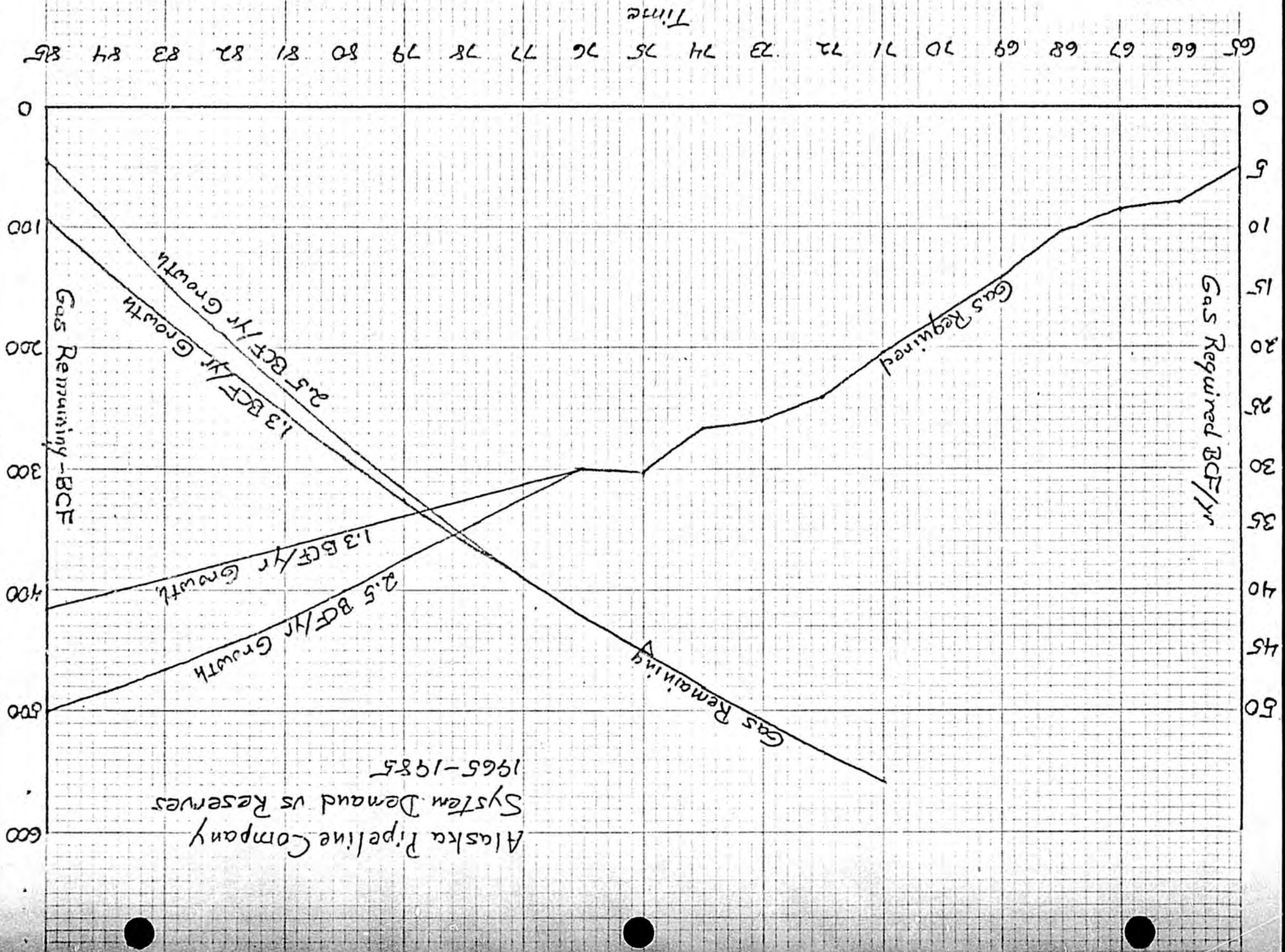
"Anchorage" reserve depletion while at the same time it affects deliverability and precludes long range company and customer planning.

The interrelation of usage and reserve life in a growing market is quite fluid, sometimes misleading and always to an extent subjective. The attached chart provides a graphic presentation of the situation as presently viewed. The lower growth rate assumed is quite conservative and represents the lowest probable condition while the higher growth rate approximates our historical growth and is considered to be realistic. In either case it is evident that a need for additional reserves exists.

Recognizing the need for more reserves, APC had earlier contacted several producers regarding this matter of obtaining reserve commitments. Such negotiations are time consuming and at times frustrating (as can be attested to by others searching for reserve commitments in the same region) and as yet have not been fruitful. In addition, APC has commenced an exploration program on its leases in the Susitna River area but this, too, has not yet been successful.

While APC will continue to explore for gas finds of its own and to negotiate for the commitment of other reserves as they may become available, APC does believe that this contract, and the gas and reserve life that it represents, is essential to the well being of the entire Cook

Inlet area and strongly urges that favorable and timely legislative action be taken.



RECEIVED
MAY 05 1976

ALASKA ROYALTY
OIL & GAS BOARD

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
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

TO: 

The Honorable Jay S. Hammond
Office of the Governor

DATE : April 30, 1976

FROM:

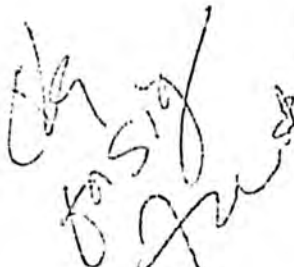
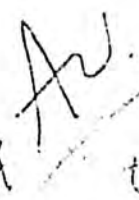
Guy R. Martin
Commissioner 

SUBJECT: Transmittal of Alaska
Royalty Gas Sale No. 76-1

Attached are letters to the President of the Senate and Speaker of the House for your signature. Accompanying each letter is a copy of the subject contract, necessary written approvals by the Alaska Royalty Oil and Gas Development Advisory Board findings and conclusions by the Commissioner of Natural Resources supporting the decision to hold a non-competitive sale.

The letter and attachments should be sent to each House for their approval by concurrent resolution.

PLEASE NOTE: Mag Cards are attached for your use in case there are any changes made. Please return the mag cards with our information copy. Thanks.

 
OK - N

April 30, 1976

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Transmittal of Proposed
Alaska Royalty Gas Sale No. 76-1

Dear Mr. Speaker:

Attached is Alaska Royalty Gas Sale Contract No. 76-1 providing for a sale of State royalty gas from the North Cook Inlet Gas Field to Alaska Pipeline Company pursuant to AS 38.06 et seq., AS 38.05.132-133, and 11AAC26.005-.900. Also attached are all necessary waivers or consents related to this action and required under the law. The contract and all necessary related actions have been approved by the Alaska Royalty Oil and Gas Development Advisory Board pursuant to the above statutes and regulations. Other information pertinent to the proposed sale is also attached, with the intention of supplying you with an adequate record on this matter.

Alaska Pipeline Company, and its subsidiary Alaska Gas and Service Company, supply natural gas to the Anchorage area and a portion of the North Kenai peninsula known as the North Kenai road area. Increased use of natural gas due to growth in both areas is diminishing the gas reserves dedicated to Alaska Pipeline Company faster than anticipated. The company estimates that the contract amount for the North Kenai road area will be exhausted by May of this year and has executed a one year contract with their present supplier to extend their service.

Natural gas from the North Cook Inlet Gas Field, operated by Phillips Petroleum Company, is transported from the offshore platform to the LNG plant in the Nikiski area served by the North Kenai road and liquified for export to Japan.

The proposed contract provides that the State of Alaska will take its royalty share of the North Cook Inlet Gas Field production in kind rather than in value, and sell this gas to Alaska Pipeline Company at the same price that the State would otherwise receive from Phillips Petroleum Company. The amount of gas sold would average 15 to 16 million cubic feet per day and total about 41 billion cubic feet over the term of the royalty sales contract, which would expire June 1, 1984, coincidentally with the expiration of the present Phillips contract for export to Japan. Transportation or exchange provisions will be arranged by Alaska Pipeline Company, as will all necessary regulatory clearances.

The present peak gas demands along the North Kenai road can be as high as 10 million cubic feet per day. Gas excess to these needs can be used to augment the gas supply to Anchorage and extend the life of those reserves.

The total contract amount represents about one and one-half year's supply of gas at Anchorage's present rate of use, and about one year's production of the North Cook Inlet Gas Field.

The Commissioner of Natural Resources and the Alaska Royalty Oil and Gas Development Advisory Board recognize that the proposed sale of royalty gas will somewhat shorten the productive life of the North Cook Inlet Gas Field by approximately one year. Since the LNG contract requires delivery of a specified amount each year it will be necessary to increase the daily production of the field by the amount of the royalty gas withdrawn from the LNG plant. On balance, however, the sale of this royalty gas to supply the North Kenai road area and Anchorage is deemed to be in the best interest of the State, as it returns State royalty gas from foreign export to Alaska consumers at a price which assures all Alaskans a fair return for their resources.

I have, at various times, expressed the belief that section 55 of the Royalty Board Statute (which requires legislative approval by concurrent resolution of any sale of surplus royalty gas) is unconstitutional. The Administration believes that this requirement raises a substantial constitutional question and has concluded that in the future appropriate action will be necessary either by the Legislature to amend the Royalty Board Statute or by the courts to decide the constitutionality of

April 1976

section 55. Notwithstanding such doubts concerning the constitutionality of this provision, the contract is being submitted to the Legislature for approval. Two reasons support this submission. First, early in this session, the Commissioner of Natural Resources advised the Legislature of his intent as a policy matter to carry out all the requirements of the Royalty Board Statute. I believe it would be less than forthright to pursue any other course for a sale during the closing days of the legislative session. Second, although this sale involves a relatively small quantity of gas, I am anxious to see it consummated at the earliest possible time as it will directly and immediately benefit gas consumers in the Anchorage and North Kenai areas. For that reason, it is undesirable that this contract become entangled in litigation which might extend over a lengthy period of time.

To avoid the choice of either appearing to acquiesce in the requirement of legislative approval or undertaking a perhaps unnecessary confrontation, a term has been included within the contract which provides that the contract will not become effective until approved by concurrent resolution passed by a majority of each house of the Legislature. The Administration always has the right to seek the advice and counsel of the Legislature and I have in this contract sought to make legislative approval a condition precedent to the contract becoming effective. I am submitting this contract to you for your approval pursuant to that term. However, in doing so, I wish to make clear beyond peradventure that my action should not be construed as either approval of or acquiescence in section 55 of the Royalty Board Statute and that I do not feel personally or legally obligated to submit future contracts for the sale of royalty oil or gas to the Legislature for approval by concurrent resolution.

You are aware that this is the first royalty sale contract prepared under the existing Statute, and of the first of its kind in the Nation. The Commissioner of Natural Resources, who is the official responsible for the agreement, is prepared to supply all necessary additional information to assist you in your consideration of this sale contract. Thank you for your consideration.

Sincerely,

Jay S. Hammond
Governor

Attachment

Natural Resources/WCF/dk/tdg

CC: [unclear]

Findings and Conclusions for Non-Competitive Sale

Pursuant to AS.38.05.183 and AS.38.06 the findings and conclusions which form the basis for the decision that the sale of North Cook Inlet Gas Field royalty gas to Alaska Pipeline Company should be non-competitive sale are summarized.

- note!*
1. Alaska Pipeline Company formerly Anchorage Natural Gas Company, is in need of additional natural gas supply. The present contract of 10 billion cubic feet to supply the North Kenai road area will be exhausted during the first half of 1976. Alaska Pipeline has executed an agreement recently with their supplier which enables them to use gas from the Anchorage contract reserves to supply the North Kenai area for one additional year. Projections of the present growth rate of Anchorage and use of natural gas indicate that the Anchorage contract dedicated gas supply could be exhausted several years before the contract termination at the end of 1992.
 2. The proposed sale amount of royalty gas is sufficient to meet the needs of the North Kenai area for the term of the agreement. Present use of the North Kenai area is 10 million cubic feet per day. About 90% of this gas is used by the Bernice Lake electric generating plant of Chugach Electric Association. The difference between winter and summer loads is small. The North Cook Inlet Gas Field royalty gas share averages 15 to 16 million cubic feet per day. Gas in excess to the North Kenai area demand can be used to augment the Anchorage contract gas supply. The total volume of gas which would be sold under the proposed agreement is approximately 40 to 41 billion cubic feet.
 - note!* 3. North Cook Inlet Gas Field gas furnishes 70% of the gas supply of the Nikiski LNG plant, the remaining 30% is supplied by Marathon from the Kenai Gas Field. The LNG is shipped to Japan in cryogenic tankers and revaporized for use by Tokyo Gas and Tokyo Electric. At this time, the State is taking its royalty share in value and this gas brings the greatest return to the State of any royalty gas.
 - note!* 4. Proposed sale of this royalty gas will not diminish State revenue. Alaska Pipeline has agreed to pay the State the same price that the State otherwise would have received

from Phillips. Price terms in the proposed agreement are based on Phillips prices plus an agreement to pay a price equal to the highest price paid in Upper Cook Inlet for gas of similar quality and similar conditions of delivery.

5. The proposed action may reduce the productive life of the field equivalent to one year at the present rate of production. The total amount of gas sold under the agreement will be about 40 to 41 billion cubic feet per year. The present LNG contract dedicated reserves are 647,543 million cubic feet. Estimated original recoverable reserves were 1,500,000 million cubic feet. The estimated remaining gas reserves not committed to contract are about 834 billion cubic feet. The proposed sale involves about 5% of the remaining uncommitted reserves. Because the LNG sale contract requires delivery of 50,750 million cubic feet of gas per year to Tokyo, it will be necessary for Phillips to increase the field production by the amount withdrawn for royalty sale. While this increased production will shorten the producing life of the field, the amount of decrease is small and amounts to less than one year's production.

6. During the period of review of Alaska Pipeline Company's application for purchase of royalty gas applications were also made by Homer Electric Association, Pacific Alaska LNG and Phillips Petroleum.

Homer Electric wished to buy the Bernice Lake generating facility from Chugach Electric and wanted to use the North Cook Inlet Gas Field royalty gas to supply the generator. This would be the same use proposed by Alaska Pipeline. Homer Electric subsequently advised the Alaska Royalty Oil and Gas Development Board that HEA had made satisfactory arrangements with the City of Kenai for a gas supply in the event it would be needed.

Pacific Alaska LNG made a statement that they would be interested in bidding for the North Cook Inlet royalty gas if it were offered in a competitive bid sale.

Later, Pacific Alaska advised the Board both by mail and in person that they were not making application for the North Cook Inlet royalty gas but rather a general statement applicable to possible future sales of other royalty gas.

Phillips Petroleum made a firm offer to purchase the royalty gas with an increase in price of five cents per thousand cubic feet (MCF) the first year, a similar increase the second year, and an annual escalation of two cents per MCF thereafter for the life of the present contract. *

The withdrawals of Homer Electric and Pacific Alaska LNG left Phillips Petroleum as the only viable alternate to Alaska Pipeline's application.

CONCLUSION:

The decision to hold a negotiated sale rather than a competitive sale was based on several factors: end use, price to consumers, and future gas supply for Alaska.

The export of LNG to Japan has created a substantial market for Alaska's natural gas converting a non-revenue producing resource into a valuable asset with substantial revenues to the State.

The exported LNG produces about 75% of the State revenue from natural gas. While there was a reluctance to alter the use of the royalty gas and possibly necessitate additional costs to the LNG project, the use of the gas by the Kenai and Anchorage consumers was deemed to be a higher and better use.

Alaska Pipeline agreed to pay the State the same price the State otherwise would have received for the gas thereby maintaining the same revenue from the gas. While a competitive sale might have resulted in more revenue for the State it would also result in the gas being exported from the State and not available for Alaskan use. Alternately, if an Alaskan company was the successful high bidder it likely would set a new high price to the Alaskan consumer. *

The present sale represents a balance of public values regarding this series of issues. The proposed non-competitive sale of North Cook Inlet Gas Field royalty gas appears to be in the best interest of the State as a whole and of the Kenai and Anchorage area gas consumers more directly. There is no loss of revenue to the State; the gas sale will be the gas supply for the North Kenai road area and add to the Anchorage area gas reserves; the slight loss of productive life of the North Cook Inlet Gas Field is offset by the continued service to the Alaskan gas consumers.

Approval to Reject Bids

The Alaska Royalty Oil and Gas Development Advisory Board
approves rejections of all bids or applications for the
royalty gas from the North Cook Inlet gas field except that
of Alaska Pipeline Company as provided for in AS.38.06.050(b)

Date

Oct 26, 1976

Approved

John M. Tangle
Robert A. [unclear]
William R. Tuxey

Disapprove

Approval of North Cook Inlet Field
Royalty Gas Purchase and Sale Agreement

The Alaska Royalty Oil and Gas Development Advisory
Board approves the Gas Purchase and Sale Agreement
for the sale of North Cook Inlet Field royalty gas
to the Alaska Pipeline Company as provided for in
AS 38.05.183 and AS 38.06.050.

Date April 26, 1976

APPROVED

John M. Tripleton
John M. Tripleton
John M. Tripleton
John M. Tripleton

Disapproved

Approval to Waive Competitive Bidding

The Alaska Royalty Oil and Gas Development Advisory Board
approves the waiver of competitive bidding by the Commissioner
of Natural Resources in the sale of North Cook Inlet royalty
gas to Alaska Pipeline as provided for in AS.38.05.183(a)
and AS.38.06.050(c).

Date

April 26, 1976

Approved

Don M. Tangle
Robert A. [unclear]
Chen R. [unclear]

Disapproved

TELEGRAM

ALASKA ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

RECEIVED PM 5 03

IPMAFUB AHG

1-034980089 03/29/76

TWX PAC LGHT LSA

2 15 LOS ANGELES, CA MARCH 29, 1976

PMS MR. GUY MARTIN, CHAIRMAN

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

7580

POUCH M

JUNEAU, ALASKA 99801

RECEIVED
MAR 30 1976
ALASKA ROYALTY
OIL & GAS BOARD

WITH REFERENCE TO THE LETTER FROM PACIFIC ALASKA LNG COMPANY
TO MR. GUY R. MARTIN, COMMISSIONER OF NATURAL RESOURCES, DATED
MARCH 5, 1976. OUR OFFER TO BID ON THE PURCHASE OF THE STATES
ROYALTY SHARE OF GAS IN THE NORTH COOK INLET AREA WAS LIMITED
ONLY TO THOSE FIELDS IN THAT GENERAL AREA IN WHICH WE CURRENT-
LY HAVE THE RIGHT TO PURCHASE GAS OR MAY IN THE FUTURE HAVE THE
RIGHT TO PURCHASE GAS. WE HAVE NO INTEREST IN BIDDING ON THE
PURCHASE OF ANY STATE ROYALTY GAS PRODUCED FROM THE "NORTH
COOK INLET FIELD"

PACIFIC ALASKA LNG COMPANY

P. VER PLANCK

1956 EST

AGO 801736

PACIFIC ALASKA LNG COMPANY



720 West Eighth Street

Los Angeles, California

Mailing address:

P.O. Box 54288 Terminal Annex

Los Angeles, Calif. 90054

March 5, 1976

RECEIVED
MAR 09 1976

Mr. Guy R. Martin, Chairman
State of Alaska
Department of Natural Resources
Office of the Commissioner
Pouch M
Juneau, Alaska 99801

ALASKA PETROLEUM
OIL & GAS BOARD

Dear Mr. Martin:

As you know, Pacific Alaska LNG Company for some time now has been carefully following developments relating to the state of Alaska's position on the disposition of the royalty gas in the Cook Inlet Area of the state that it is entitled to take in kind pursuant to AS § 38.05.182. Our interest stems from our proposal to purchase natural gas in the Cook Inlet Area of the state of Alaska for liquefaction, transportation as LNG, regasification and delivery to markets in the state of California.

The project proposed by our company contemplates the creation of a market for natural gas produced in the southern part of the state of Alaska, the building of a cross-inlet natural gas pipeline to open the northwest Cook Inlet to natural gas production, the construction of facilities to liquefy natural gas on the eastern side of the Inlet and the creation of new jobs within the state.

At this time Pacific Alaska has commitments for natural gas reserves in the Beluga River, Ivan River, Lewis River, Beaver Creek, McArthur River and Trading Bay fields. It is anticipated that Pacific Alaska will obtain commitments from additional fields in the north Cook Inlet Area and exploratory efforts are expected to discover new fields. However, in order to make Pacific Alaska's project economically viable, it is imperative that Pacific Alaska retain its commitments on the portion of the gas attributable to the state's royalty interest share in those fields.

It has been the position of Pacific Alaska not to get involved in the royalty issue in the Cook Inlet unless the state of Alaska indicated that it was about to make the determination that the best interest of the state dictated that Cook Inlet royalty gas should be taken in kind. We have now been made aware that the state is actively considering the sale of such royalty gas from certain Cook Inlet fields other than those mentioned

Harvey A. Proctor

President

AGO 801737

PACIFIC ALASKA LNG COMPANY

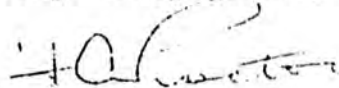
Mr. Guy R. Martin
March 5, 1976
Page 2

above, and Pacific Alaska is compelled at this time to take action to preserve its project (currently on file with the United States Federal Power Commission in Docket No. CP75-140).

In that the state is considering the sale of royalty gas from certain fields in the Cook Inlet, in the event that the Commissioner makes the determination that it is in the best interest of the state to take Cook Inlet royalty gas in kind, Pacific Alaska is prepared to make an offer to the state regarding the purchase of such royalty gas so taken. To this end, Pacific Alaska respectfully requests notice of any actions of the Alaska Royalty Oil and Gas Development Advisory Board with respect to this matter.

Thank you for your consideration.

Very truly yours,



H. A. Proctor, President



PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004 918 661-6600

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NATURAL RESOURCES GROUP
Lands Division

March 5, 1976

State Royalty Gas
North Cook Inlet Field

File: 1-Ho-111-76-G&GL

ALASKA ROYALTY
OIL & GAS BOARD

Commissioner Guy Martin, Chairman
Alaska Royalty Oil and Gas Development
Advisory Board
c/o Department of Natural Resources
Pouch M
Juneau, AK 99801

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MAR 9 1976

Department of
Natural Resources

Dear Mr. Martin:

We have become aware that since the Board's decision of December 10, 1975, to take the State's royalty share of the gas in the North Cook Inlet Field and sell it to Anchorage Natural Gas, other parties have indicated a desire to purchase this gas. Assuming that the State does elect to take its royalty in kind under the lease, Phillips would be interested in an opportunity to purchase such gas. Phillips submits the following proposal to purchase all of the royalty gas from the North Cook Inlet Field.

1. Volume: The State will sell and Phillips will purchase all of the royalty gas owned by the State of Alaska as produced from the North Cook Inlet Field each day.
2. Price: 50.25¢ per million Btu until July 1, 1976;
55.5¢ per million Btu from July 1, 1976 to July 1, 1977;
60.0¢ per million Btu from July 1, 1977 to July 1, 1978.

For the yearly period commencing July 1, 1978, and each yearly period thereafter, the price will increase 2¢ per million Btu.

3. Term: Until June 1, 1984.
4. Delivery Point: At the wellhead on the platform in the North Cook Inlet Field.
5. Delivery Pressure: The pressure available at the wellhead.

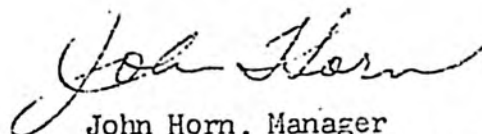
The above proposal is subject to the completion of a mutually agreeable contract between the State of Alaska and Phillips. This offer is open until July 1, 1976.

Commissioner Guy Martin
File: 1-Ho-111-76-G&GL

March 5, 1976
Page 2

If the above proposal is of interest to you, we will be happy to meet with you or your representatives and negotiate the details of the formal agreement.

Very truly yours,

A handwritten signature in cursive script, appearing to read "John Horn".

John Horn, Manager
Gas and LNG Sales Branch

JH:bla

*Draft by APC of April 7, 1976
with comments by _____*

AGREEMENT FOR THE SALE OF NORTH COOK INLET ROYALTY GAS
FROM THE STATE OF ALASKA
TO ALASKA PIPELINE COMPANY

APR 12 1976

ALASKA PIPELINE
OIL & GAS CO.

This memorandum ("Agreement") reflects the intent of the State of Alaska ("the State") and Alaska Pipeline Company ("APC") regarding APC's purchase of the State's 1/8th (one-eighth) royalty share of natural gas produced at the North Cook Inlet Gas Field, which is operated by Phillips Petroleum Company ("Phillips").

WHEREAS, Union Oil Company of California ("Union") as Operator of the Kenai Gas Field and the gas transmission line from the Kenai Gas Field to the North Kenai Road now supplies APC's total requirements for natural gas at the Kenai Gas Field and at three (3) pipeline taps on the North Kenai Road; and

WHEREAS, APC has an early and urgent need to purchase additional natural gas for its customers in the vicinity of the North Kenai Road, and has applied to the State to acquire the State's 1/8th royalty share of gas produced by Phillips at the North Cook Inlet Gas Field to the extent any portion or all of such royalty gas may be available to APC without causing additional investment by Phillips, and

WHEREAS, the royalty gas and the Kenai Field Gas are sufficiently similar that exchange rather than literal transfer of the royalty gas may be of advantage to all parties concerned including APC's ultimate gas consumers and such exchange may be practical because of the Kenai Gas Field's interconnection with the North Cook Inlet Gas Field which has allowed exchanges to be made from time to time in the past, and

WHEREAS, APC considers that the merit of proceeding to purchase this royalty gas is sufficient to justify its installing the necessary pipeline, compressors, and connections to facilitate the literal transfer of this gas into APC's existing pipeline as an alternative to exchanging in the event such exchanging is found to be impractical either before or after the purchase has begun, and

WHEREAS, the proposed sale of the royalty gas is seen to be in the public interest of the citizens of Alaska and the gas consumers served by APC (as evidenced by various statements which are of public record),

NOW

however that such price as determined each June 1, to be effective on deliveries from June 1 through May 31 of the following year, shall not be less than the highest price paid for gas produced in the area designated ~~as~~ Exhibit A hereof during the twelve preceding months at wellhead for gas of comparable quality and at comparable terms and conditions of delivery.

Said payments shall be made on or before the 20th day of the month following the month in which the purchases occur.

The State and APC agree that the quantity and quality of gas purchased by APC hereunder shall be at the sole determination of Phillips, ~~provided that APC shall be entitled to receive, at a mutually agreeable point of delivery at or near the Phillips liquefaction plant,~~ gas of the quality and at the pressure existing in Phillips' pipeline, and in daily volume of one-eighth (1/8th) the total volume delivered by Phillips during the preceding day, except that by mutual agreement other delivery volumes may be in effect from time to time if necessary and desirable to suit the mutual interests of Phillips and APC.

3. This Agreement shall not serve to predispose APC's opportunity to develop an exchange agreement with Union, it being agreed that such an exchange agreement may be desirable and preferable to APC's installing of the pipeline and compressors which otherwise would be required.

4. This Agreement shall not be used to require Phillips to submit to any form of regulation by the Alaska Public Utilities Commission or by any other administrative or legislative body or agency, whether federal, or state, or other which would not be applicable if this Agreement did not exist. In the event of such regulation being asserted and implemented, then this Agreement shall terminate and become null and void.

5. This Agreement shall not be used to require Phillips to make additional investment except on terms to which Phillips and APC may agree, it being understood that in the event additional investment by Phillips should become necessary in order for Phillips to meet its contractual obligations as to production and transportation of gas from its North Cook Inlet Gas Field to its liquefaction plant and in the further event that APC is unwilling or unable to participate in or to reimburse Phillips as reasonably necessary for that investment, then this Agreement shall terminate and become null and void, or in the alternative at its option, APC shall agree to reduce deliveries hereunder as necessary to enable Phillips to meet ~~its~~ contractual obligations without making such additional investment.

6. APC shall install and operate, at its cost, all gas metering and compression equipment required hereunder, if any, on land provided by the State (or Phillips) without charge to APC. If such metering equipment is installed and operated by APC, it shall conform to recognized industry standards and shall be available for inspection and verification by the State (or Phillips) at all reasonable times. In the event APC develops an exchange agreement such that no metering equipment is required hereunder, then APC and the State agree to accept the metering performed by Phillips (and by Union or others), subject to APC's right of inspection and verification at all reasonable times.

7. The State shall not be deemed to be in control of gas taken by APC hereunder whether by exchange or otherwise, and APC shall not be deemed to be in control of gas it receives except from the downstream flange of its metering equipment, if any is installed.

8. It is the intent of this Agreement that APC shall receive ^{up to} all of the royalty gas produced by Phillips during the term hereof, each day of such production. Failure of APC to receive such gas each day, except with the consent of Phillips and the State or by force majeure, shall require APC to forfeit its right to subsequent receipt of that gas not taken. Recurring or continuing failure of APC to receive such gas, without such consent and not due to force majeure or other reasonable cause, or failure of APC to make timely payment therefor, may serve as the basis for termination of this Agreement by the State at its option.

9. This contract shall become binding on APC the day of its approval by the legislature and shall terminate on June 1, 1984 or earlier as provided herein, except that it may be extended indefinitely by mutual agreement. APC shall not be required to take delivery of gas hereunder prior to one year after the effective date hereof if an agreement is reached for exchange as contemplated in paragraphs (1) and (3) hereof, or 18 months from the effective date hereof if an exchange agreement is not obtained and it thus becomes necessary for APC to install a pipeline and compressors in order to receive gas hereunder.

This Agreement was executed on _____, 1976.

for the State of Alaska

for Alaska Pipeline Company

by _____

by _____

AGO 801743



ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road
P.O. Box 6288 Anchorage, Alaska 99502 / Phone (907) 277-5551
Telex 25-187

April 9, 1976

RECEIVED
APR 12 1976

Mr. Bill Fackler, Executive Director
State of Alaska Oil and Gas Royalty Board
Department of Natural Resources
Pouch M
Juneau, AK 99811

Department of
Natural Resources

Dear Bill:

I talked to Commissioner Martin this morning and he recommended that we should proceed with a contract draft as soon as possible. The enclosed draft should be a starting point at least, and I have tried to keep it as simple as I could.

¹⁹⁷⁷
Apparently we may need until August of next year to get compressors delivered and installed, and I would hope that start-up could be so scheduled unless Union-Marathon should agree to begin a temporary exchange operation after May 1, 1977 when the present contract is finished, or agree to a continuing exchange so that the pipeline and compressors would not be required. Alternately, of course, if Phillips would agree for us to take only the royalty needed on the North Kenai Road, and supply us during any plant downtime, we would not need a pipeline.

I am forwarding to Phillips, and Union and Marathon, a copy of this letter and the draft in order to get their reaction as soon as possible. I do not infer that the draft carries any blessing by the State as yet, however. Please advise us as to whom we should contact next to review the draft, as soon as you have retained counsel for that purpose.

Cordially,

Dale Teel
Dale Teel
President

*cc: Board members
4/13/76 AK*

DT:jdj

Enclosure

cc: Mr. John Horn, Phillips
Mr. Bart Emery, Marathon
Mr. Larry Bradford, Union
Alaska Public Utilities Commission
SUBSIDIARY OF ALASKA INTERSTATE COMPANY

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ALASKA ROYALTY
OIL & GAS BOARD

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