

SCOMMM

#16:3

# PUC Regulation Inevitable

Oil Daily Mon Aug 29, 1977

By BILL GREGG



CALIFORNIA Public Utilities Commission regulation of most intrastate crude oil and petroleum product pipelines now appears inevitable.

The PUC, for the past two years, has been conducting a non-publicized investigation into the operations of crude and product lines in California owned by Atlantic Richfield, Exxon, Gulf Oil, Mobil Oil, Shell Oil, Superior Oil, Chevron USA, Texaco and Union Oil Co. of California.

The purpose of the investigation has been to determine whether the pipelines should be classified as common carriers and as such regulated by the state agency.

Undeterred by the fact that only last year the state Senate Public Utilities Committee rejected (by an 8 to 0 vote) lower house bill authored by Assemblyman Terry Goggin (D-San Bernardino) which would have classified all privately owned oil pipelines in the state as common carriers, the PUC continued its probe.

Then, last week, it was disclosed that Arco had negotiated a settlement with the PUC staff which is subject to commission approval.

UNDER TERMS of the tentative settlement Arco would submit most of its pipelines to PUC jurisdiction and transfer all these assets to a subsidiary which would then file tariffs with the commission.

The proposed rate base (approximately \$9.5 million) would result in widely varying rates, ranging in the case of crude lines as low as 2 cents per barrel for very short hauls, to as high as 41 cents a barrel for shipments from Cuyama station to Los Angeles basin refineries (approximately 150 miles).

All of Arco's 23 major trunk lines are included in the proposed deal.

The PUC is currently inviting reactions of shippers—especially independent producers and refiners—to the terms of the tentative settlement with Arco. Specific details have been supplied to

many and are available to others on request.

The commission staff urges that the response of these shippers be sent early enough (at least by Sept. 21) to allow time for analysis.

The PUC, incidentally, dismissed Exxon from its proceedings upon discovering early in the investigation that the company operates only a 3.4-mile crude line—a "stub" line to take deliveries from a Getty Oil Petroleum line to Connecia refinery in northern California.

COMPROMISE legislation relating to the siting of liquefied natural gas marine terminals and processing plants (heavily revised S.B. 1081) sailed through the California lower house Resources, Land Use and Energy Committee with a 10 to 2 vote and is expected to be approved by the Assembly's Ways and Means Committee this week.

There even some who privately predict the measure will be approved by the lower house and sent to the Senate before the end of the week.

After all, the compromise was hammered out earlier this month (Aug. 15 Oil Daily, p. 8) at a four-hour conference between key state solons, gas companies, and organized labor and is known to have Gov. Edmund G. Brown

Jr.'s approval.

IN ITS revised form S.B. 1081 states that the first LNG terminal and processing plant can only handle LNG now under contract from Indonesia and south Alaska; that it must be located in an area where the population density within one mile of the site may not exceed 10 persons per square mile; that beyond this there must be a four-mile zone with a population density not more than 60 persons per square mile. The state Public Utilities Commission is named the lead government siting agency and its decision could be appealed only to the state Supreme Court.

In Los Angeles, Keith McKinney, president of Western LNG Terminal Associates, which will build and operate the facilities, said he was "encouraged" by the assembly committee's action.

As this column noted earlier this month, enactment of the compromise legislation makes it probable that the state's first LNG marine terminal and processing plant will be located at Point Conception.

If S.B. 1031 clears both legislative houses by Sept. 15, and there seems little doubt that it will, and is then signed by the governor who has made his approval of the revised measure abundantly clear, it will become effective Jan. 1, 1978.

## Oceaneering Settles Suit Over Submersible

HOUSTON—An injunction hearing concerning the WASP, a one-man submersible with articulating arms, has been settled out of court, Oceaneering International Inc. announced.

The action was brought by Oceaneering and two U.K. affiliates, D.H.B. Construction Ltd. and U.M.E.L. Ltd., to stop Graham Hawkes from selling ideas that had been developed while Hawkes worked for D.H.B. Hawkes formed Osel Offshore Submersibles Ltd. to develop and

market the WASP for underwater exploration.

The terms of the settlement require Osel to sell WASP units exclusively to Oceaneering for the next several years. Other firms desiring to use WASP will buy it from Oceaneering.

The WASP unit, designed for midwater work, complements the JIM suit which is used for work on the sea bottom at depths up to 1,000 feet. The WASP offers the diver mobility at midwater by a rotary engine.

CORRES.

MEMORANDUM

April 27, 1977

SUBJECT: Policy Considerations in North Cook Inlet Royalty Gas Sale  
(W.O. #4105, Supplemental)

TO: The Honorable John Rader

FROM: Gregg K. Erickson  
Director of Research

Summary

As you requested, we have provided you, in the form of Ms. Kallab's memorandum of April 26, a review of the history and issues raised by the proposed North Cook Inlet royalty gas sale. After review of Ms. Kallab's findings (in which we concur), we believe that approval of this contract will tend to create far-reaching precedents with respect to the terms and conditions under which the state may make royalty gas available for in-state use, both elsewhere in the Cook Inlet field and in the northern part of the state. In addition, we believe that a brief technical analysis of the charges established by Phillips for transportation of the state's royalty gas is in order.

Precedents That Would Be Established By The Proposed Sale

*As a matter of public policy, there will be no regulatory review of the transportation costs charged against royalty gas.* In general, it makes no economic or technical sense to have a multiplicity of oil or gas pipelines running from point A to point B. Because of the fact that the efficiency of pipeline transportation increases very rapidly as one goes from smaller to larger pipelines, it minimizes the real economic costs of transportation to have a single line of the largest possible diameter. The owner of such a line has a monopoly, but it is a "natural monopoly" in the same sense that an electrical distribution or telephone system is a natural monopoly, i.e., to have more than one system would simply raise costs to the consumer. In the absence of regulatory restraint, however, the natural monopolist will have every incentive to charge "what the market will bear". Ratification of the current proposal may establish an important precedent with respect to the means by which

charges are assessed against gas taken in kind for in-state use elsewhere in Alaska. We may reasonably expect to see many other situations in the future where industrial facilities are served by private carrier lines similar to the Phillips line in Cook Inlet. Use of these lines may be the only reasonable way for the state to bring its royalty gas to local markets. Ratification of the current contract would tend to establish the precedent that the owners of these lines should be permitted to charge for the transportation of the state's royalty gas on the basis of what the market will bear rather than on the basis of the cost to them of providing the transportation service.

*Whenever the state takes its royalty gas (or oil) it will be obligated to bear the cost of increasing production by the amount necessary to maintain the original flow level. In the instant case, these costs are the 10¢ per Mcf which would be charged by Phillips to cover their costs of additional compression facilities.*

*The legislature (and the Alaska Public Utilities Commission) will acquiesce in an arrangement which proposes the construction of a \$4 million gas transmission facility which is, by any standard of technical and economic efficiency, totally unnecessary. Because of the lack of regulatory jurisdiction or the unwillingness of Alaska Pipeline Company (APC) and the Alaska Public Utilities Commission (APUC) to pursue regulatory solutions which may be available under existing law, APC has not been able to negotiate an exchange agreement with Union-Marathon (U-M) which would, as Ms. Kallab's memorandum points out, make the \$4 million "royalty gas line" unnecessary. Although the negotiation of such an agreement would not appear to increase costs to U-M by one iota (they may even reduce them) there are commercial advantages to U-M in refusing to negotiate, since blocking such an agreement limits the alternative supply options of Alaska Pipeline Company and thus enhances the value of U-M's gas reserves in the Kenai field. Of course, Phillips has its own reasons for not wishing to enter into such an agreement; i.e., to retain the royalty gas share.*

*By ratifying this agreement the legislature (and the APUC) encourage the cross subsidization of one group of rate payers by another group. The commission has, as noted in Ms. Kallab's memorandum, stated that the higher costs of royalty gas shall be allocated proportionately among all rate payers served by Alaska Pipeline Company. Until and unless the proposed royalty gas line is built (or an exchange agreement is developed) this will result in those rate payers located in the North Kenai Road Service Area (who consume the relatively high cost gas) being subsidized by the rate payers elsewhere in APC's system. If, as expected, the wellhead price of gas in Cook Inlet rises, it will almost certainly result in the Bernice Lake power plant paying less for its gas than Alaska Pipeline Company is paying for it. Apart from the questions of*

April 27, 1977

fairness involved, this is certainly an invitation to a rate-payer action in which it would be asserted that the rates charged by APC are noncompensatory and thus not "just and reasonable" as required under existing law.

Technical Considerations With Respect to the Proposed Rates

As Ms. Kallab has pointed out, Phillips has asserted that the 5.5¢/Mcf deduction used in calculating the wellhead value of natural gas for royalty and severance tax purposes is "not appropriate" for the calculation of transportation charges against royalty gas taken in kind. We are not aware of any rationalization of this statement. It seems fairly clear, however, that the difference between this figure and the 20¢/Mcf (escalating at 6%) which they propose to charge is greater than can be justified by any rationale we can conceive. It is possible that neither figure represents a fair and reasonable transportation cost, but it is impossible that both can simultaneously be "fair and reasonable" in the context of the purposes for which they are being used. ✓

We do not assert that we can establish or even estimate what would be a "fair and reasonable" charge for transporting the royalty gas ashore, but we do concur with the sentiments expressed by Dr. Dave Knudson, petroleum economist with the Department of Revenue, who (writing as a private citizen) states that he can find "no justification that a pipeline costing \$10 to \$12 million perhaps nine years ago (which is most probably highly depreciated) should have a cost of service of 10¢ per Mcf". Mr. Knudson's letter, dated April 6, 1977, is a part of the royalty board's official file on this matter, and a copy of it is attached for your convenience. Although we believe fair and reasonable charges in this instance can only be determined by an appropriate regulatory proceeding, we do categorically assert that the calculations contained in "Table I" do not conform to any of the possible rate-making methodologies that are used by regulatory commissions in the United States.

GKE:jm  
Attachment

AGO 801205

STATE OF ALASKA  
THE LEGISLATURE

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

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 26, 1977

SUBJECT: North Cook Inlet Royalty Gas Sale (W.O. 4105)

TO: The Honorable John Rader

FROM: Elke Kallab *Ek*  
Research Analyst

This is in response to your request to look into matters relating to the proposed sale of state royalty gas from the North Cook Inlet gas field to Alaska Pipeline Company. You were particularly concerned with the gathering and compression charges Phillips Petroleum Company, the operator of the North Cook Inlet gas field, is planning to assess Alaska Pipeline Company for producing and transporting the royalty gas to Alaska Pipeline Company, and the question of whether Phillips Petroleum Company would come under the jurisdiction of the Alaska Public Utilities Commission or the Alaska Pipeline Commission as a result of transporting gas for Alaska Pipeline Company.

Summary

It would appear from the available records and all the information we have obtained that the added gathering and compression charges, negotiated between Phillips Petroleum Company and Alaska Pipeline Company will be allowed to be flowed through by virtue of Order No. 3, Docket U-75-68 issued by the Alaska Public Utilities Commission December 17, 1975, unless the APUC can be convinced to reopen the case in order to determine if the added charges are "reasonable and just". Furthermore, the Attorney General's office has issued legal opinions which exempt Phillips Petroleum Company from Alaska Public Utilities Commission or Alaska Pipeline Commission jurisdiction, since contracts, which have been submitted to the Legislature for approval, propose that Phillips Petroleum Company transport the royalty gas from the platform to a delivery point onshore for the State with Alaska Pipeline Company taking delivery onshore from the State and reimbursing the State for any costs incurred.

However, we believe sufficient grounds exist to question some of the propositions or assumptions which have been put forward to advance the argument that the royalty gas sale as presently proposed is in the best interests of the State and the public.

April 26, 1977

We submit the following information to provide you with an abbreviated history of what has transpired to date regarding the sale of royalty gas from the North Cook Inlet gas field to Alaska Pipeline Company, as well as to discuss in some detail the various issues which are involved in this matter.

After you have had an opportunity to read this memorandum, we would appreciate receiving your comments and instructions as to how you wish us to proceed. We would be happy to expand on any point or matter, or answer any questions you may have.

EK:mo  
Enclosures

ATTACHMENT TO MEMORANDUM OF APRIL 26, 1977  
CONCERNING NORTH COOK INLET ROYALTY GAS SALE

Background

In August of 1975 Alaska Pipeline Company (APC) first approached the State to purchase the State's royalty gas from the North Cook Inlet gas field. APC needs additional supplies of gas to assure continued service for its North Kenai Road customers, which includes the Bernice Lake power plant as the main customer, and some 285 other small customers. These customers are presently being supplied by gas APC has contracted for with Union-Marathon (U-M) from the Kenai gas field.\* The original contract was for ten years, expiring April 30, 1977, for a total of 10 Bcf of gas. Due to unexpected heavy usage, APC used up its committed supply in August 1976. The contract has been extended by U-M using "Anchorage" reserves from a second contract APC has with Union-Marathon for gas from the Kenai field.

In addition to the immediate need to replace the exhausted gas supply on the North Kenai Road, APC also needs to build up its diminishing dedicated gas reserves, particularly in the Anchorage area. (The need for added dedicated reserves was apparently the major consideration for allowing flow through of higher priced royalty gas in APUC's Order No. 3, according to former Commissioner Richard D. Edwards, who heard the case.)

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\* *A map showing location of the gas fields, pipelines and other pertinent information relating to this memorandum is enclosed for ready reference.*

The North Cook Inlet royalty gas for which APC made an offer is now being used by Phillips Petroleum Company, the producer/operator of the North Cook Inlet gas field, to meet 70 percent of its contractual requirements with Tokyo Gas and Tokyo Electric.

APC offered to pay the State the same price as the State is receiving from Phillips for royalty gas taken in value by the State from the North Cook Inlet field. At the time APC assumed this price to be 45¢/Mcf at the wellhead and 5.55¢/Mcf for transportation from the platform to Phillips' Kenai LNG plant. However, as discussions continued, it became quite clear that Phillips did not accept the 5.55¢/Mcf figure as an appropriate transportation cost. They indicated that the 5.55¢/Mcf charge was ". . . worked out and used as a deduction for computing wellhead value of the gas for purposes of paying royalty and taxes . . ." and that it was not the appropriate price differential for the kind of arrangement APC was contemplating.<sup>1</sup> As a result APC and Phillips entered into negotiations to arrive at a mutually agreeable charge for gathering and added compression costs. By negotiation the charges were agreed to be 10¢/Mcf for dehydration and delivery of the royalty gas to shore, and a 10¢/Mcf charge for added compression facilities required to deliver the State's royalty gas in-kind, to be increased by mutual agreement as further compression facilities were needed to maintain production. Table I and II, enclosed, were supplied by Phillips Petroleum Company at the request of the Alaska Royalty Oil and Gas

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<sup>1</sup> *Letter from Phillips Petroleum Company to Alaska Gas and Service Company, dated January 9, 1976.*

Development Advisory Board to "justify" the added gathering and compression charges.

The royalty gas which APC hopes to buy from the State is more expensive than gas APC receives and has under contract from other sources. APC expected that the Alaska Public Utilities Commission (APUC) would allow them to flow through the added costs entailed in purchasing the royalty gas, which then were thought to be 50.45¢/Mcf at the Kenai LNG plant gate, and also that the APUC would allow APC to "commingle" the higher priced royalty gas with lower priced gas APC purchases from other suppliers. (Apparently "commingling" is used by the parties involved to mean what is usually referred to as "rolled in" or average cost pricing).

The APUC did in fact permit the commingling of the higher priced royalty gas with lower priced gas available to APC in their Order No. 3, Docket U-75-68 issued December 17, 1975. The order provides that the differing costs would be averaged on a monthly basis to insure a "proper" price to consumers, since the North Cook Inlet royalty gas is available only as produced by Phillips in meeting their own needs, and thus a predictable and fixed daily volume cannot be assured. The APUC estimated that the commingling of royalty gas with lower priced gas would increase the costs to customers between 2¢-5¢/Mcf per month.

In addition, the APUC allowed APC to flow through the costs of royalty gas purchases from the North Cook Inlet gas field. In doing so they did

\* Conversation with Bill  
Hickman 4/14/77

not mention any cost figures on which the flow through provision was allowed.

(The royalty clause in the commission's December 1975 order states that it was imperative for APC to build up its reserves. However, it also provided that if the royalty clause was not used to reflect an average cost of gas on or before August 1, 1976, the APUC would commence an investigation to determine the reasons for the non-use and to determine whether the royalty clause should be deleted from APC's tariff. APC did provide the APUC with information why they could not take delivery of the North Cook Inlet royalty gas. There is no indication that the APUC took any action as a result of this.)<sup>2</sup>

APC also proposed to build a "royalty" pipeline from the onshore delivery point to its Anchorage line, a distance of approximately 30 miles and at a cost of approximately \$4,000,000, to absorb the excess gas over and above that required to meet the North Kenai Road demands, thereby hoping to reduce the rate at which the reserves dedicated to Anchorage in the Kenai field would decline. However, APC stressed that an "exchange" of gas using Union-Marathon's transmission line from the Kenai gas field to the North Kenai Road would be preferable to a literal transfer of excess North Cook Inlet royalty gas since such an "exchange" would reduce the need to construct the "royalty" line. Such an "exchange" agreement has not been worked out between the parties which would be affected.

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<sup>2</sup> Letter from Alaska Gas and Service Company to Alaska Public Utilities Commission, dated September 29, 1976.

Around December of 1975, Homer Electric Association (HEA) too made application for the North Cook Inlet royalty gas to provide electricity on the Kenai Peninsula. Much of the available royalty gas from the North Cook Inlet gas field would be used to supply the Bernice Lake power plant on the North Kenai Road, which HEA hopes to acquire from Chugach Electric Association, and which is now being supplied by APC with gas from the Kenai gas field. Additional generating facilities HEA is planning to construct would use up the remaining available royalty gas from the North Cook Inlet gas field. On March 30, 1976 HEA withdrew its application for the North Cook Inlet royalty gas since it had found another reliable supply source for its new generating facilities, and APC had assured HEA that they would supply the Bernice Lake power plant with gas.

Contract 76-1, selling the State's royalty gas from the North Cook Inlet gas field to APC, was executed June 4, 1976 and approved by the Legislature May 20, 1976. The records show that the House passed SCR 106 on voice vote, and the resolution passed the Senate 17-2. The major provisions of this contract were--

Quantity:	All royalty gas available from the North Cook Inlet gas field.
Delivery Point:	The wellhead. Phillips' platform.
Price:	55.5¢/Mcf to July 1, 1977 with subsequent annual price escalations based on the highest of three pricing alternatives.
Expiration Date:	July 1, 1984, the same time Phillips' contract with Tokyo Gas and Tokyo Electric expires.

Appendix "A", enclosed, sets out the key provisions of this contract together with those currently before the Legislature.

APC discovered that they could not take delivery of the gas under Contract 76-1 for a number of reasons, the most significant of which was that APC would have to take delivery of the gas at the platform, which would subject Phillips to regulatory jurisdiction of the APUC or Alaska Pipeline Commission as a utility. Phillips refuses to be subject to any regulatory jurisdiction. Their refusal to be regulated dates back to the very beginning of the negotiations when the State was first approached by APC to take its royalty gas in-kind rather than value, and has always presented a potential risk to the successful completion of negotiations. An attempt to exempt Phillips from regulatory jurisdiction by the APUC or Alaska Pipeline Commission by way of a waiver proved impossible since to do so Phillips would have had first to submit to the jurisdiction of the APUC or the Alaska Pipeline Commission to be granted the waiver, a condition unacceptable to Phillips.

Another difficulty arose as the result of APC not being able to take all of the royalty gas available as provided for in Contract 76-1. The average daily royalty gas production from the North Cook Inlet field amounts to between 15-17 MMcf based on previous years' production. APC's estimated average daily needs to service their North Kenai Road customers is approximately 8 MMcf. Since APC has not constructed a

"royalty" pipeline from the delivery point on the North Kenai Road to their "Anchorage" line, and since they have not been able to work out an "exchange" agreement with Union-Marathon, APC is unable to utilize the excess amount of gas. The contract does not allow APC to resell the excess royalty gas to Phillips (although Phillips was agreeable to such an arrangement) since this would violate the contract provision which required that all of the royalty gas sold to APC be used within the State. Since Phillips exports its gas to Japan, selling any excess royalty gas back to Phillips would be in violation of Contract 76-1.

In conjunction with the excess volume which would have been used if a "royalty" pipeline had been in existence, APC told the APUC in September of 1976 that the short life of the contract (July 1, 1984) was one of the reasons for them not constructing a connecting line. Such a line would have allowed for APC to slow the decline of reserves dedicated to Anchorage, the main reason the APUC allowed the flow through tariff for royalty gas. In addition, such a line would also assure a stand-by gas supply for North Kenai Road customers in case production or supply from the North Cook Inlet field were to be interrupted for any reason.

By the end of January, 1977 APC petitioned the State to "re-draft" Contract 76-1 in order to make the contract operational.

To accomplish this it was suggested that the State have the royalty gas transported to shore thus avoiding APUC jurisdiction over Phillips' pipeline, since the State is not a utility. APC would take delivery at

or near the Kenai LNG plant and reimburse the State for any costs incurred. A legal opinion from the Attorney General's office was secured, at the insistence of Phillips, which holds that Phillips is not a utility subject to APUC jurisdiction. Another legal opinion was issued exempting Phillips' pipeline from Alaska Pipeline Commission jurisdiction on the basis that the pipeline is not used as a common carrier by Phillips, and that it is not subject to the common carrier provision of the current law, since the pipeline was constructed prior to the enactment of that law. (Exemption of Phillips' pipeline from APUC jurisdiction had been supported by the Alaska Royalty Oil and Gas Development Advisory Board as early as December 1975 to facilitate the sale of royalty gas to APC.)

It was further suggested that APC would be required to take only such amounts of royalty gas as they had need for. Any gas APC was unable to take delivery of as it became available was to be sold to Phillips as if the State had continued to take its royalty gas in value.

These changes and other provisions were incorporated into agreements between Phillips and the State, and APC and the State. The contract between APC and the State is now awaiting legislative approval, with the agreement between Phillips and the State having been submitted to the Legislature as an exhibit to the APC contract. The key provisions of the two agreements are listed in Appendix "A", which is enclosed.

## Issues

### Gathering, Compression and other Charges or Costs

The amount charged APC by Phillips for dehydration and transportation is 10¢/Mcf. The amount charged APC by Phillips to add a compression unit to maintain capacity in the gathering system is set at 10¢/Mcf. (The agreement between Phillips and the State, and the contract between APC and the State provide that APC will make all payments for the State's account directly to Phillips.) Both of these charges increase at a compounded rate of 6 percent per year. As further compression facilities are installed in the future, additional charges are to be mutually agreed upon by the parties involved. In addition, APC must pay Phillips in proportion to its deliveries for any new or increased taxes and charges which are levied against Phillips with respect to the gathering of royalty gas.

Phillips has supplied data on the gathering and compression charges negotiated between themselves and APC for delivering the State's royalty gas. (See Table I and Table II enclosed.) These figures have not been scrutinized as to whether they are just and reasonable by the Alaska Royalty Oil and Gas Development Advisory Board or the APUC. However, it has been suggested that they are on the high side.

Perhaps one way to get a better handle on these charges would be to request the APUC to review the royalty gas clause of its December 1975 order as it applies to allowing flow through charges. At the time the

flow through provision was granted the transportation cost figures were thought to be considerably less than those proposed now. It is questionable whether the APUC would have allowed the currently proposed flow through charges, considering their comment in the order that the flow through provisions proposed by Alaska Gas and Service Company (AGAS), the distribution affiliate of APC, were ". . . so broad that nearly all increases in any . . . cost of purchased gas could be flowed through."<sup>3</sup> This tends to raise some doubts concerning APC's assertion that the APUC had intended to allow any and all flow through costs. The APUC order also states that the cost of royalty gas will be "somewhat higher" than the price of gas from other gas supplies now committed to APC. Other supplies are priced at 41.5¢/Mcf for gas from the Kenai gas field, compared to 84.65¢/Mcf for royalty gas from the North Cook Inlet field, i.e., 104% higher.

It is of particular interest to note that one of the reasons the APUC allowed the added costs was to provide APC with the opportunity to obtain additional gas to supplement their dwindling reserves, particularly in the Anchorage area. Since the "royalty" line to move North Cook Inlet gas to Anchorage has not been built, and APC is not required under the contract to deliver gas to Anchorage, the question arises as to whether the added flow through charges should be allowed by the APUC. It is difficult to ascertain from the written material we have reviewed how hard APC negotiated with Phillips for less than the agreed to

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<sup>3</sup> *Alaska Public Utilities Commission Docket U-75-68, Order No. 3, dated December 17, 1975, page 7.*

charges of 10¢/Mcf for transportation and 10¢/Mcf for compression. Records show that APC discouraged the APUC from developing " . . . 'a complete record' of the negotiations (between APC and Phillips) for the Commission's files . . ." <sup>4</sup>. The question arises as to what incentives, if any, existed for APC to negotiate for lower charges if APC assumes that any added costs can be passed on automatically to the consumer under U-75-68(3)?

The argument that the royalty gas from the North Cook Inlet gas field is cheaper, even with the added 20¢/Mcf cost for transportation and compression charged by Phillips, than any "new" gas available to APC in the Cook Inlet is debatable. APC cites a \$1.45 price for similar gas in Cook Inlet being offered by Pacific Alaska LNG to support its contention. (We understand the above to be a "spot sale".) However, since the contract with APC provides that the State will receive the highest of three pricing options on the annual anniversary of the contract, one of which is the highest price paid within a 100 km radius from the Phillips platform, and since we have been advised that the gas for which Pacific Alaska LNG is making an offer is within the 100 km radius, it is unlikely that APC can escape paying the \$1.45 (or even a higher) price within the next year. Therefore, the assertion that regardless of the added transportation and compression costs the royalty gas is still a bargain is not quite accurate, and APC is not entirely candid when using this argument to attempt to convince the Alaska Oil and Gas Development

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<sup>4</sup> *Letter from Alaska Gas and Service Company to Alaska Public Utilities Commission, dated September 29, 1976.*

Advisory Board, the APUC or the Legislature " . . . that it appears royalty gas will always be available . . . at less cost than any other likely 'new' gas."<sup>5</sup>

At the same time APC told us that the above situation could not happen since no comparable sale to that provided for in the current contract would occur, and they, therefore, would never be subject to the pricing provision which calls for the highest price to be paid

" . . . by any purchaser in the upper Cook Inlet area for gas of similar conditions of delivery; with due regard to appropriate factors including, but not limited to, differences of BTU content, delivery pressure, terms of the contract and connection charges." (Current Gas Purchase Contract, page 10, lines 3-8)

#### Royalty Line

One of the reasons APC cannot make Contract 76-1 of last year operational is that the contract provides that APC take all of the royalty gas available from the North Cook Inlet gas field. To have use for all royalty gas APC needs to ship approximately 50 percent to its Anchorage consumers, since only approximately 8 MMcf/day can be utilized on the North Kenai Road.

APC has been "flirting" with the idea of building a connecting "royalty" line from the North Kenai Road area to its "Anchorage" line, which delivers gas to Anchorage from the Kenai gas field from the beginning of the negotiations. However, they also have indicated that they would

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<sup>5</sup> *Letter from Alaska Pipeline Company to Alaska Oil and Gas Development Advisory Board, dated April 15, 1977.*

prefer to enter into an "exchange" agreement with U-M and Phillips to exchange royalty gas from North Cook Inlet with U-M gas from the Kenai gas field. This would be technically feasible, and cost far less than the proposed royalty line, since U-M runs a transmission line from the Kenai gas field to the North Kenai Road area, with APC running a line from the Kenai gas field to Anchorage. An exchange agreement would thus avoid a literal transfer of gas and eliminating<sup>e</sup> construction of a "royalty" line. (See enclosed map.)

When APC found it impossible to work out an "exchange", they decided to build their own line to connect with the Anchorage line. However, this decision brought with it the request for all of the State's royalty gas from the North Cook Inlet field for the life of production rather than for a limited term through June of 1984. This request was not accepted by the State and Contract 76-1 provides for a termination date of July 1, 1984.

The question as to whether APC would build a royalty line continued and as late as February 2, 1977 APC informed the Alaska Oil and Gas Development Advisory Board that they would take such quantities of royalty gas as they could readily resell to their North Kenai Road customers, and not be committed to installing a pipeline connecting to their existing pipeline to Anchorage, although they could do so at their option.<sup>6</sup> The

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<sup>6</sup> *Letter from Alaska Pipeline Company to Alaska Oil and Gas Development Advisory Board, dated February 2, 1977.*

most recent indications are that APC is inclined to build the connecting line upon approval of the contract by the Legislature, since " . . . it appears that there is sufficient benefit from the royalty line to justify the investment by APC."<sup>7</sup>

The physical absence of the royalty line not only prevents APC from providing Anchorage with much needed dedicated reserves, which was the APUC's reason for the royalty clause which allowed flow through of costs and commingling of lower priced Kenai field gas with North Cook Inlet royalty gas, but it also prevents APC from providing North Kenai Road customers with stand-by gas should the royalty gas ever be insufficient to meet demand.

APC has indicated that a royalty line would not be feasible if the present contract were not approved this year, because the contract only extends to June 1, 1984. We do not find this argument very persuasive. APC fully expects to get the royalty gas from the North Cook Inlet gas field for the life of production once the contract has been signed. Furthermore, it should be noted that the new contract provides that the contract can be extended prior to its termination, a provision absent from Contract 76-1.

The Legislature may wish to consider extracting a firm commitment from APC that they will build a royalty line immediately, making it a con-

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<sup>7</sup> *Letter from Alaska Pipeline Company to Alaska Oil and Gas Development Advisory Board, dated April 15, 1977.*

dition of contract approval. If this can be accomplished, then APC should be required to take all of the royalty gas which becomes available after completion of the line, and the 3 Bcf "best reasonable effort" provision should be deleted from and/or revised in the APC contract as well as the agreement between the State and Phillips to avoid delays in deliveries once the line is operational.

### Jurisdiction

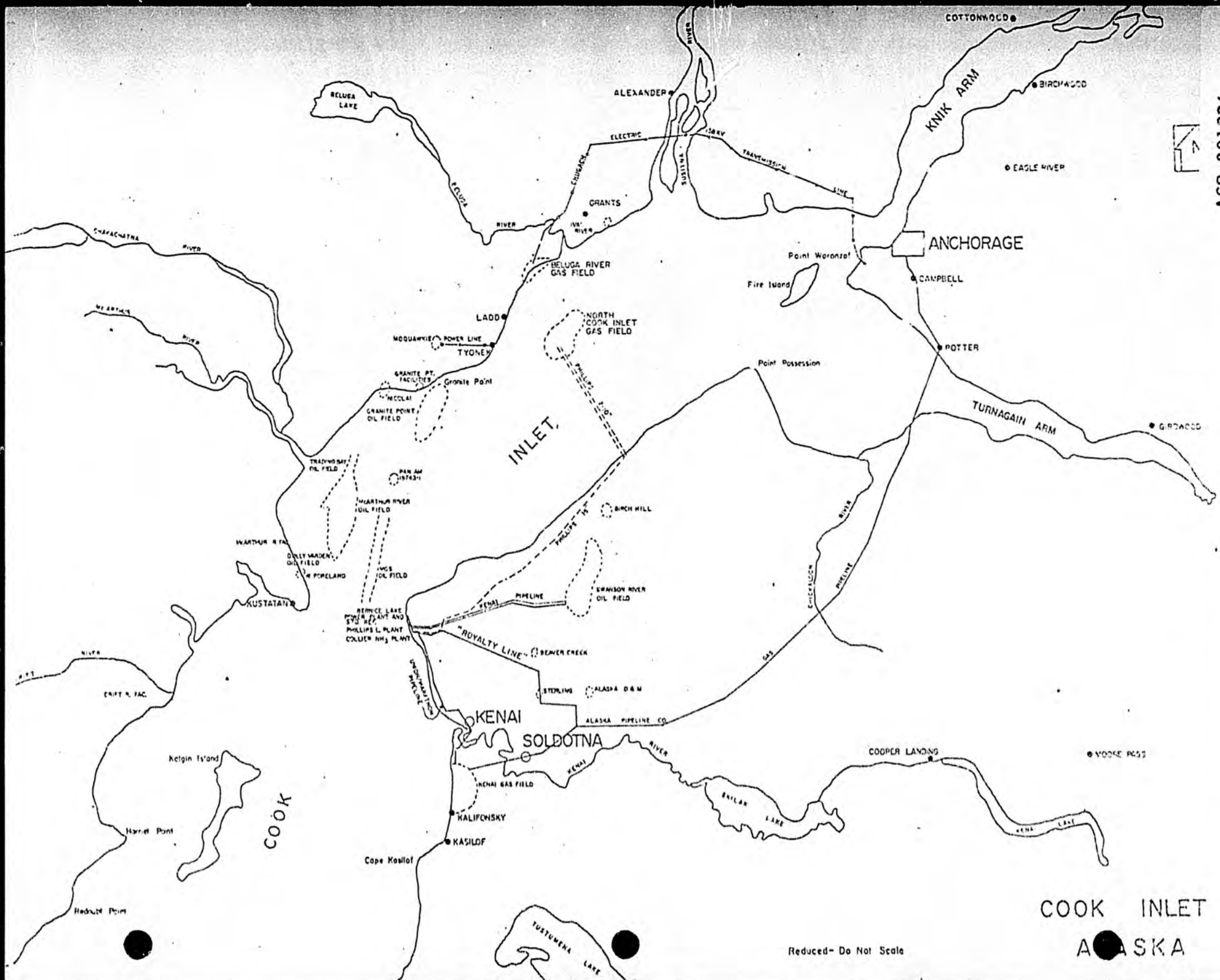
Present indications are that there is no possibility for APUC or APC jurisdiction over Phillips' pipeline, in as much as Phillips operates and maintains the line for its own purposes. Phillips has not violated any laws, and both agreements provide that should Phillips come under either FPC, APUC or Alaska Pipeline Commission jurisdiction, the agreements terminate. Short of revoking their right-of-way permit and substituting a right-of-way lease, which may be possible but almost certainly would entail litigation, there appears to be no way to make them submit to regulatory jurisdiction.

To avoid future problems, the Legislature may provide that

1. All pipelines not currently covered by our common carrier statute agree to common carrier status retroactively to retain their pipeline right-of-way permits (Right-of-Way Leasing Act-38.35.120).

2. Sec. 43.06.630(9) of the Alaska Pipeline Commission Act be amended so that gas processing plants are covered in the definition of what constitutes a pipeline or pipeline facility, and deleting the reference to transportation as a common carrier.
  
3. The possibility should be explored if producers/operators of oil and gas fields located in remote or inaccessible locations, such as a platform, should be required to enter into mandatory exchange agreements with more favorably located fields or transmission lines, which are regulated by the APUC, to avoid jurisdiction, while at the same time protecting the public interest.

These suggestions have not been thoroughly investigated nor checked with the Division of Legal Services, but are offered as a beginning to remedy the current jurisdictional problems with which the State is faced as it affects Phillips' pipeline.



COOK INLET  
ALASKA

Reduced- Do Not Scale

TABLE I

PIPELINE

Estimated Present-Day Replacement Cost .....at least \$25,000,000  
Estimated Present-Day Replacement Cost Depreciated to 1977 ..... 17,300,000

ESTIMATED COSTS

	<u>\$/Year</u>
Depreciation (20 Years) .....	\$1,100,000
Rate of Return 15% on Depreciated Investment .....	1,520,000
Income Tax @ 52.9% (State & Federal) .....	1,700,000
Operating Expense .....	2,750,000
	<hr/>
TOTAL .....	<u>\$7,070,000</u>

Cost/Mcf @ 43 Bcf/Year = 16.1%

Cost/Mcf @ 55 Bcf/Year = 12.9%

T A B L E I I

COMPRESSORS  
(FIRST UNIT)

To maintain capacity in the gathering system and compressors to handle the full 12.5% royalty gas volume, it will be necessary to install compressors at an earlier date. Also, it is estimated that to maintain this capacity it will be necessary to install an additional compressor unit over and above that required for maintaining deliveries without the State taking its royalty gas in kind. Estimated differential in compressor investment is \$5,000,000.

Cost of Compression

	<u>\$/Year</u>
Depreciation (10 Years) .....	\$ 500,000
Rate of Return 15% on Average Investment .....	375,000
Income Taxes @ 52.9% (State & Federal) .....	420,000
Operating Expense .....	715,000
	-----
TOTAL .....	\$2,010,000

Minimum Annual Payment	= \$2,010,000
Royalty Gas Volume @ 43 Bcf/Year	= 5.4 Bcf
Royalty Gas Volume @ 55 Bcf/Year	= 6.9 Bcf
Cost/Mcf @ 5.4 Bcf	= 37.2¢
Cost/Mcf @ 6.9 Bcf	= 29.1¢

Phillips agreed with Alaska Pipeline Company's request to a compressor charge of 10¢/Mcf on a space-available basis and no minimum annual charge.

APPENDIX "A"

KEY PROVISIONS

PROPOSED REVISED CONTRACT

CONTRACT 76-1

CONTRACT BETWEEN STATE AND PHILLIPS  
(with APC being a signatory)

CONTRACT BETWEEN STATE AND APC

Quantity: ARTICLE II  
All royalty gas available, when and as available.

ARTICLE IV  
1. Phillips shall use its "best reasonable efforts" to deliver not less than 3 Bcf of royalty gas annually (without requiring installation or operation of added pipeline and compression facilities), and subject to  
a. availability of capacity in Phillips' facilities to handle volumes in excess of Phillips' own requirements;  
b. availability of royalty gas at the platform;  
c. APC's requirements; and  
d. APC's ability to take the requirements.  
2. Over or under deliveries of royalty gas shall be carried in an over and short account. In the event the takes by the State (APC) shall ever be 60 MMcf less than the amount of royalty gas available, Phillips shall purchase the excess undelivered quantities of royalty gas over 60 MMcf from the State, and pay the State a price equal to that amount which Phillips would have otherwise paid the State had the State taken its royalty gas in value.

ARTICLE III  
1. Up to all royalty gas available, subject to  
a. APC's ability to take the entire amount of royalty gas available on any given day;  
b. APC's need and available delivery facilities.  
APC shall use its "best reasonable efforts" to take not less than 3 Bcf of royalty gas annually.

2. Over or under deliveries of royalty gas shall be carried in an over and short account. In the event the takes by APC shall ever be 60 Mmcf less than the amount of royalty gas available APC is not permitted to make up for any such underdelivery and the State may sell the undelivered quantity of royalty gas to Phillips.

Delivery Point: ARTICLE III  
Delivery point shall be the same for APC as it has been for State, which is Phillips' platform.

ARTICLE III & "  
Delivery point shall be at or near the existing pipeline tap being presently used to deliver gas from Phillips' pipeline to the Tesoro refinery, which is located in the general vicinity of Phillips' Kenai LNG plant on the North Kenai Road.

ARTICLE V  
APC's connection into Phillips' pipeline system at or near Phillips' pipeline tap serving the Tesoro refinery. It shall be the same delivery point as that of the State and Phillips.

Price: ARTICLE V  
1. To July 1, 1977 55.5¢/Mcf  
2. July 1, 1977-July 1, 1978  
the higher of  
a. 60.36¢/Mcf or  
b. price State would have received had it continued to take its royalty gas in value or  
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.  
3. July 1, 1978 and each succeeding 12 month period the higher of  
a. the previous year's price plus 2¢/Mcf or  
b. price State would have received had it continued to take its royalty gas in value or  
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.

ARTICLE VI  
1. To July 1, 1978 64.55¢/Mcf  
2. July 1, 1978-July 1, 1979  
the higher of  
a. 66.65¢/Mcf or  
b. price State would have received had it continued to take its royalty gas in value or  
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.  
3. July 1, 1979 and each succeeding 12 month period the higher of  
a. the previous year's price plus 2¢/Mcf or  
b. price State would have received had it continued to take its royalty gas in value or  
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.

CONTRACT 76-1

Gathering and  
Compression  
Charges and  
Taxes; Other  
Charges

CONTRACT BETWEEN STATE AND PHILLIPS

ARTICLE IX

1. 10¢/Mcf for gathering costs to delivery point to increase 6 percent per year compounded annually on the anniversary date of the contract.
2. 10¢/Mcf for added compression costs to delivery point to increase 6 percent per year compounded annually on the anniversary date when the facilities were first used.
3. Additional compression charges to be mutually agreed upon between the parties, which includes APC since they are signatories of this contract (see also 12.3). If no agreement is reached within 90 days after Phillips serves notice about such added costs, then this contract is terminated.
4. Additionally, the State must pay Phillips any new or increased fee, imposts, duty, charge, excise or tax in proportion to the amount of royalty gas delivered to the State as it relates to gathering and compression.

ARTICLE XIV

Effective: Upon approval by the Legislature of the contract between the State and APC.  
Expiration: June 1, 1984 unless terminated or extended prior to that date.

ARTICLE IX, XI & XIV

1. Will be terminated immediately if deliveries to State (APC) have not commenced by June 30, 1978.
2. If subjected to regulation as a utility (11.2).
3. If added compression cost cannot be agreed upon within 90 days (9.3).
4. If contract between State and APC is terminated.
5. If terminated the State's election to receive its royalty gas in-kind is revoked, and royalty gas available shall be sold to Phillips in value.
- 6.

CONTRACT BETWEEN STATE AND APC

ARTICLE VI & VII

1. 10¢/Mcf for gathering costs to delivery point to increase 6 percent per year compounded annually on the anniversary date of the contract.
2. 10¢/Mcf for added compression costs to delivery point to increase 6 percent per year compounded annually on the anniversary date when such compression facilities are ready for use. (This is different from State/Phillips agreement.) This does not obligate Phillips to install any compression facilities or to operate any compression facilities already installed.
3. Additional compression charges to be mutually agreed upon between the State and APC. If no agreement is reached within 90 days after the State serves notice about such added costs, then this contract is terminated (7.5).
4. APC must pay the State any amount for which the State is obligated to reimburse Phillips for a proportion of new or increased fees, imposts, duties, charges or taxes. (This leaves out excise.) (The language is somewhat different from State/Phillips contract, but the effect would seem to be the same.)
5. APC must pay the State any additional costs not covered in the contract and incurred by State in transporting the gas to shore.

ARTICLE VII

Effective: Upon approval by the Legislature.  
Expiration: June 1, 1984 unless terminated or extended prior to that date.

ARTICLE VII

1. Contract shall terminate immediately if deliveries to APC have not commenced by June 30, 1978.
2. Either State or APC may terminate this contract by giving 30 days notice to the other if Phillips comes under regulation as a utility.
3. Contract may be terminated if added compression cost cannot be agreed upon within 90 days.
4. Contract may be terminated if contract between State and Phillips is terminated.
- 5.
6. State may terminate upon 30 days notice to APC if the State cannot arrange for satisfactory transportation of royalty gas to shore.

Term: ARTICLE VI  
Effective: Upon approval by the Legislature 5/20/76  
Expiration: July 1, 1984

Termination Clause: ARTICLE VII  
Allows APC to terminate the contract within 30 days of written notice to State if APC is unable to make satisfactory arrangements to take delivery of the royalty gas. APC may not exercise this right after January 31, 1978.

CONTRACT 76-1

CONTRACT BETWEEN STATE AND PHILLIPS

CONTRACT BETWEEN STATE AND APC

Representation  
and Condition  
Precedent:

ARTICLE XI  
Phillips, by entering into this contract,  
shall not be subject to regulation by the  
FPC, APUC or APC.

ARTICLE VIII  
Neither this contract nor APC's use or  
disposition of the royalty gas will subject  
Phillips to FPC, APUC or APC regulation.

Should they become subject to regulation  
as a utility this contract may be termin-  
ated by either party upon 30 days' notice.

Payments:

ARTICLE XII  
APC to make all payments for State's account  
directly to Phillips.

Miscellaneous

ARTICLE IX  
1. Assignments of interest by APC may be made  
"...to conform with...(APC's) various  
financing documents or as may be desirable  
to...(APC) as to...(APC's) commonly owned  
affiliate or subsidiary."  
2. If APC does not receive or purchase all  
royalty gas available, then State can dis-  
pose of that portion not taken, provided no  
gathering and compression charges are incur-  
red by APC as a result.

AGO 801229

Prepared by:  
Legislative Affairs Agency  
Research Division  
April - 1977

## Background

Alaska Pipeline Company (APC) currently has a contract (dated May 1, 1967) with Union-Marathon (U-M) (often referred to as the "Nikiski" contract) for 10 Bcf of natural gas over a ten year period from the Kenai gas field. The contract expires May 1977. The contract has been "extended" to May 1978 "... (B)y using reserves out of... (APC's) Anchorage contract rather than new reserves... (APC has) been able to contract for...". (APC letter 3/22/76).

\*APC states that due to heavy unexpected usage of the Bernice Lake power plant its reserves under the Nikiski contract could be used up prior to the expiration date (May 1, 1977).

I do not know if this in fact happened or not, and if it has what APC has done to meet the needs of its customers on the North Kenai Road, which besides the Bernice Lake power plant (which consumes 90 percent of the total daily volume) involves some 285 other customers on the North Kenai Road.

The Bernice Lake power plant is owned by Chugach Electric, but Homer Electric Association is in the process of acquiring it.

The heavy unexpected usage referred to above occurred during the repair period of the Knik Arm submarine cable from the Beluga power plant to Anchorage. The Beluga power plant is also owned by Chugach Electric.

Among others, the Bernice Lake power plant provides power generation to the Phillips-Marathon LNG plant and the Collier ammonia plant.

The Bernice Lake power plant can and used to burn oil, and could do so again if gas supply was interrupted, albeit at a higher cost since oil today is higher priced than gas.

\*Informational material

In a letter, dated August 20, 1975, APC first applied/offered to purchase the State's royalty gas from the North Cook Inlet gas field (Phillips is the producer and operator of the North Cook Inlet field) in order to provide for a continuous supply of gas to their customers on the North Kenai Road.

\*However, a draft memo by Bill Fackler then Deputy Commissioner of DNR to Guy Martin, Commissioner, dated November 19, 1975, states that the royalty gas from the North Cook Inlet gas field desired by APC was being sought more to add to their reserves than to assure a continuous supply for their North Kenai Road customers. This was based on the assumption that APC wanted 75 Bcf over a 15 year period, which far exceeded the approximately 8MMcf/day used on the North Kenai Road. In subsequent communication (12/12/75) the amounts of gas desired and/or required by APC were revised to include up to 50 Bcf to June 1, 1984 with up to 15MMcf/day; take or pay at 10MMcf/day. North Cook Inlet royalty gas production amounts to approximately 15MMcf/day. The North Kenai Road requirements are 8MM cf/day. It is assumed that the rest would be <sup>used</sup> to build up APC's reserves.

The most current arrangements call for APC to purchase up to 100 percent of the State's royalty gas available from Phillips but only such amounts as APC can readily re-sell. The remaining royalty gas would be re-sold to Phillips as if it were royalty gas taken in value. (Revised contract with 2/2/77 cover letter from APC).

→ It appears from the above that when APC found it in their interest they did indeed attempt to do both--replace the diminished reserves of the Nikiski contract, while at the same time augmenting their gas reserves.

In their letter application of August 20, 1975 APC offered to pay the State the same price it received from Phillips for its royalty gas from the North Cook Inlet gas field, which then was the highest value for gas received by the State. (I do

<sup>know</sup> not if this is still the case). This <sup>price</sup> amounted to 45¢/Mcf at the wellhead. An additional 5.45¢/Mcf was charged for transportation from the platform to the LNG plant for a total price of 50.45¢/Mcf at the plant gate. The revised draft for a proposed North Cook Inlet royalty gas sales agreement, dated 12/12/75 indicates a wellhead price of 50.25¢/Mcf and a transportation cost of 5.55¢/Mcf for a total of 55.80¢/Mcf.

\*Fackler's November 19, 1975 memo indicates a 5.55¢ transportation charge; Tom Williams, Director of Petroleum Revenue Division uses a 5.5¢ charge according to Gregg Erickson (4/1/77); and APC correspondence of 12/12/75 shows a transportation charge of 5.55¢.

Phillips in a letter to APC, dated January 9, 1976, states that the 5.55¢/Mcf is not an appropriate "place differential"; that it "...is a number that has been worked out and used as a deduction for computing wellhead value of the gas for purposes of paying royalty and taxes...." and that it does not "...represent...the appropriate differential for the arrangement...contemplate(d)...." by APC.

The above compares to 41.5¢/Mcf and "deliverability" costs APC is paying to U-M for gas from the Kenai gas field. They did not disclose what the "deliverability" cost was, but Fackler's November 19, 1975 draft memo states that "(I)f price is similar to that of Anchorage contract gas, Bernice Lake indicated cost of 65.7¢ per MMBTU allows a healthy margin for ANG (same as APC) for the short distance involved." (The APUC would probably have the "deliverability" cost available).

Currently, the negotiated price between Phillips and APC is 10¢/Mcf for gathering costs, which includes dehydration, plus 10¢/Mcf for compression with the latter charge to be raised to 20¢/Mcf when Phillips has installed additional compression facilities to accommodate the State's in kind royalty gas production. Further necessary compression facilities which will need to be installed to maintain delivery

rates will be charged on a pro-rated basis. (I have no idea what happens to the royalty gas which would be re-sold to Phillips; <sup>ie,</sup> the gas APC was unable to accept. Would it be charged the 10¢/Mcf for transportation and 10¢/Mcf (20¢/Mcf) for compression, or would it be "charged" the lower 5.55¢/Mcf presently in effect while Phillips takes our royalty gas in value).<sup>2</sup>

APC expected that the Alaska Public Utility Commission (APUC) would allow them to "flow through" the increased cost of the royalty gas purchased from the North Cook Inlet field, as well as to "blend" the higher priced royalty gas from the North Cook Inlet gas field with the lower priced gas they have contract<sup>ed</sup> for from U-M. (Their letter of August 20, 1975). The commingling of North Cook Inlet royalty gas and Kenai field gas was approved by the APUC as was APC's request to flow through the increased cost of the North Cook Inlet royalty gas to APC customers (U-75-68 (3), dated 12/17/75). It was estimated by the APUC that the increased cost to customers would amount to between 2¢ and 5¢ per Mcf per month. (I don't know if this included the 10¢/Mcf/10¢/Mcf (20¢/Mcf) charges or the previously used 5.55¢/Mcf charge. It would probably make a difference in allowing them <sup>to</sup> flow through these higher costs. Need to get answer from APUC).

APC in a memorandum to Guy Martin, dated September 24, 1975 reconfirmed its intent to purchase North Cook Inlet royalty gas. In addition, APC indicated that a pipeline could be built from the Phillips-Marathon LNG plant to APC's Anchorage pipeline, a distance of approximately 30 miles, but that literal transfer was not necessary since existing interconnecting pipeline systems of Phillips and U-M could be used to move the gas by exchange and/or displacement (provided everyone concerned would be agreeable to such an arrangement. "Everybody" would be the State, APC and the producers involved--Union, Marathon and Phillips. Apparently APC never was able to work out an exchange agreement with Union, the operator of the

Kenai gas field and the gas transmission line on the North Kenai Road (12/7/75). As a result, APC planned to build a pipeline to tie in with their Anchorage line. (This brought with it the request for a commitment of all royalty gas for the life of production for the North Cook Inlet field rather than a term to June 1, 1984 as provided for). (Letters 12/12/75 and 2/3/76).

At this point APC will only take such quantities of North Cook Inlet royalty gas as it can readily re-sell to its North Kenai Road customers "...and thus not be committed to install a pipeline connecting to...(their) existing pipeline to Anchorage, although...(they) could do so at...(their) option." (Letter dated 2/2/77).

Since there is no exchange agreement, nor a connecting pipeline to their Anchorage line, APC will have to work out some means to provide for "standby gas" in the eventuality that royalty gas were not available. This could happen since APC has agreed to receive North Cook Inlet royalty gas from Phillips on a "space-available basis", which means when Phillips has surplus capacity in their gathering system and compressors. (This was part of the 10¢/Mcf (20¢/Mcf) provision negotiated between APC and Phillips).

If an exchange agreement could be worked out APC could receive royalty gas at its Kenai gas field connections. Such an arrangement would be advantageous to APC since it would minimize construction of a new pipeline as well as compression facilities APC might otherwise have to provide to avail itself to all the royalty gas they would contractually be entitled to.

APC's letter of September 30, 1975 reiterates that they wish to purchase the State's royalty gas from the North Cook Inlet gas field at or near the Phillips-

Marathon LNG plant on the North Kenai Road. In his November 19, 1975 draft memo Fackler recognizes that in the event the State contracts with APC for the royalty gas from the North Cook Inlet field the point of taking and the transportation charges would become key issues.

Famous "last" words!!!!!!!

Comment by Dale Teal in a Memo to File dated March 10, 1977--

"It thus is clear that the State places the State's interest above the interests of our ratepayers to the extent we have to pay more than would result from export of this gas. It does not follow that the Lessee who has made the investment required for production, gathering, and compression of royalty gas can be or should be held responsible to deliver the royalty gas at less cost than the Lessee determines to be necessary, fair, and reasonable."

Comment by Dale Teal in a Letter to Don Wold dated April 15, 1977--

"...(I)t would be no more logical to require Phillips to accept less than their required price than for the State to accept less than it deems to be necessary for this gas."

Comment by Dale Teal during Briefing in Governor's Office by Don Wold with interested legislators, April 22, 1977--

"These costs are reasonable" when queried what his analysis of the Phillips' proposed charges for transportation and compression was.

U-75-68(3) states that

p. 5  
“(The cost of gas purchased from the State <sup>(emphasis added)</sup> is greater than the cost of gas purchased from other suppliers.” This statement talks about the purchase price from the state, it does not deal with transportation and added compression charges, as proposed by Phillips, since they weren't even part of the picture then

p. 7  
“(The Commission has specifically allowed flow through of ... royalty gas purchases from the State....” (filed July 31, 1975)

p. 7  
The order states that the flow through provisions proposed by A&AS for added gas costs were “so broad that nearly all increases in any cost of purchased gas could be flowed through.” (emphasis added)  
This would indicate that the APUC was very much concerned with allowing automatic flow through

of all added costs

p8 The order states that if A&AS is able to purchase royalty gas from the State it will be "somewhat higher" than the price of gas from other gas supplies now committed to A&AS. Somewhat higher does not mean doubling the price !!! (41.5¢/Mcf v. 84.65¢/Mcf).

p9 The order requires that a quarterly report be filed by A&AS with APUC to allow <sup>the</sup> Commission to audit the fluctuations of rates charged which are the result of allowing the commingling of higher priced royalty gas with cheaper gas.

p10 The order states that the Commission estimates that the commingling of royalty gas with other gas will fall in the range of 2-5¢/Mcf/months. Does the

Commission still believe these increases to be accurate in light of the added 20¢? Where are the figures and computation to arrive at the 2-5¢/Mcf/month charge?

p 10  
The Order requires that if the royalty clause was not used to reflect an average cost on or before August 1, 1976 (as, of course, it wasn't), the Commission would commence an investigation to determine "... whether the (royalty) clause should be deleted from the tariff of AGAS." This apparently never happened. The APUC was apprised by AGAS of the "difficulties" they were having getting the gas to shore (Sept. 29, 1976) with Phillips asking that AGAS fund the first phase of a compressor station on Phillips' platform at a cost of \$5MM as a condition

to delivering the royalty gas to shore. AGAS countered with a pro-rated share of compression costs based on volume and a couple of other concessions (when and as available delivery, and "reselling" excess royalty gas back to Phillips). Since the APUC apparently did not pursue the matter it is not known to what an extent they were aware of the added costs which were required to get the gas to shore. AGAS discouraged the APUC "to develop 'a complete record' of the negotiations (between AGAS and Phillips) for the Commission's files...", but was agreeable to informal discussions with the APUC. In that same context AGAS does state that they "... (clearly ... need to preserve the flow through provision in order to continue ... negotiations (with Phillips)."

It looks as if APUC dropped the ball somewhere along the line

to stay on top of fluids it developed.

- 1 Phillips has a contract with Tokyo Gas and Tokyo Electric which expires 6/1/84 which is supplied from the North Cook Inlet gas field (including the State's 1/8 royalty share).
- 2 Fackler suggest in his November 19 draft memo that the contract term for the State should not exceed the Phillips contract terms above (which, I guess, means that the commitment of our royalty gas should not run beyond 6/1/84), and that contract terms for the State should also include a provision to protect the State if Phillips' production is terminated for any reason.
- 3 Fackler's memo of November 19 indicates that APC expected to pay its proportionate share of additional transportation or compression costs either in the form of contributing capital or paying higher transportation charges per Mcf or month (or terminating the taking of royalty gas within one year - draft of proposed sales agreement, dated 12/7/75).
- 4 November 19 memo mentions that Phillips had raised the issue of the APUC classifying their pipeline (from platform to LNG plant) as a utility (if it transports gas for a third party (APC), and that Phillips would not transport the gas if they came under APUC jurisdiction.
- 5 The draft for a proposed North Cook Inlet royalty gas sales agreement, dated 12/7/75, stipulates that neither Phillips (nor Union) shall come under APUC or any other regulatory authority as a result of the sale of royalty gas to APC. If regulatory jurisdiction were ever asserted or implemented the agreement would be terminated.
- 6 The "Memorandum of Understanding" draft (12/7/75) states that "APC will receive the State royalty gas only to the extent it may be available without additional investment for transmission (or compression) by Phillips..." This is subsequently qualified by providing that if any investments were necessary to allow for continued delivery of the State's royalty gas APC would have the option
  - a to participate equitably in such an investment, or
  - b to pay a mutually acceptable price per Mcf or per month, or

c. to terminate the agreement to take the State's royalty gas.

(See Fackler's November 19th memo which also covers this).

7 Phillips (John Horn) stated the following "complicating matters" in this letter of January 9, 1976 to APC.

a. That while a 5.55¢/Mcf figure has been used to establish the wellhead value for purposes of paying royalty and taxes, it did not represent the appropriate differential (transportation and compression<sup>s</sup>). They did not say what the appropriate figure was or should be.

b. That neither Phillips nor any of its facilities could be subjected to the possibility of being classified as a public utility by the APUC, and that without an assurance to that effect no agreement would be entered into.

c. That the "exchange" of gas from the North Cook Inlet field with gas from the Kenai gas field, suggested by APC, would have to be worked out between APC and Marathon, and Phillips would not be a party to such an arrangement.

8 APC advised Union, Marathon and Phillips on December 12, 1975 that the Royalty Board at their December 10 meeting had authorized the Commissioner of NR to negotiate the sale of North Cook Inlet gas field royalty gas to APC.

9 The December 10 Royalty Board vote on the above was unanimous, although Arlon Tussing raised the question whether APC had tried hard enough to get gas elsewhere. As a result APC then asked Union and Marathon (their December 12, 1975 letters) if they were willing to offer APC like "deals" as the royalty gas they were negotiating for; ie.,

50 Bcf to June 1, 1984

15 MMcf/day; take or pay at 10MMcf/day

55.8¢/Mcf (50.25¢/Mcf + 5.55¢/Mcf for transportation)

10 Marathon declined (December 19, 1975), but came up with a proposal for a short-term contract similar to their existing contract for an additional supply of gas (up to 5 Bcf) for one year/ <sup>or</sup> to May 1, 1978 whichever occurred first at a price

of 55.8¢/Mcf.

- 11 APC's letter of 2/3/76 indicates that they now felt that they would have to build their own pipeline from the LNG plant to their pipeline rather than to rely on "paper exchanges" as suggested earlier.
- 12 This they argued would required a longer term though (the Royalty Board had proposed a seven year period to June 1, 1984) since it would be impractical for APC to amortize a pipeline over such a short time. They asked to receive a contract for royalty gas for the life of production from the North Cook Inlet gas field. (2/3/76).
- 13 Homer Electric Association also applied for the North Cook Inlet gas field royalty gas (February 23 Royalty Board meeting - APC letter to Homer Electric Association of 2/25/76, letters from APC to Guy Martin of 2/27/76 and 3/9/76 - Also see Homer Electric File on this). Phillips also applied for the North Cook Inlet field royalty gas, as did Pacific Alaska LNG. (Letter of Guy Martin to APC dated 3/17/76).
- 14 Homer Electric Association was subsequently made an offer by K.U.S.Co for needed gas at a considerably lower price than the royalty gas price being then considered. 48.24¢/Mcf vs. 55.8¢/Mcf. However, HEA did re-enter the picture later. (See File).
- 15 An undated memo entitled "Commissioner's Proposal in Concept" states that APC would be responsible for measurement costs, and any compression or dehydration costs if or when necessary.
- 16 As of APC's letter dated 4/9/76 they intended to build a pipeline from the P-M LNG plant to their existing Anchorage line.
- 17 A contract (76-1) was executed between the Royalty Board and APC on 6/4/76 with provisions shown in Appendix "A".
- 18 Since under the above contract APC would have to take the royalty gas at the wellhead, a suggested gas gathering agreement between APC and Phillips provides that unless the contract between the State and APC is amended to accommodate Phillips, the "agreement" between APC and Phillips could be terminated. (Page 11 of the Gas

Gathering Agreement between APC and Phillips; last paragraph).

19 The Gas Gathering Agreement between APC and Phillips provides for and states among other things that

- a. APC will accept delivery of the royalty gas at or near the wellhead.
- b. Phillips is willing to gather the royalty gas for APC and deliver it at a mutually agreeable point near the Kenai LNG plant.
- c. Phillips will need to provide additional compression capacity to handle the added royalty gas in kind production through its gathering system.
- d. Since APC can't justify participation in the installation of additional compression capacity which is required to delivery the State's royalty gas, APC agrees to accept delivery of royalty gas as it becomes available from time to time.
- e. The added supply of royalty gas would be used to service existing and potential new customers in the vicinity of the Kenai LNG plant only for the above stated reason (amount of gas not sufficient to allow for participation in adding additional compression capacity).
- f. Point of delivery shall be at or near the existing pipeline tap now used to deliver gas from the Phillips pipeline to the Tesoro refinery in the general vicinity of the Kenai LNG plant on the North Kenai Road. (This would seem to indicate that Phillips sells gas to the Tesoro refinery from the North Cook Inlet field--I thought all that gas went to Japan--check this out). In a different portion of the "agreement" the point of delivery is to be "...at the juncture of APC's facilities and Phillips' facilities located near the pipeline tap service the Tesoro refinery..." (Check out if necessary. It is inconsistent it seems to me).
- g. Odorization of gas shall be APC's responsibility, and Phillips shall be held harmless.
- h. APC shall pay Phillips 10¢/Mcf for delivery from platform to delivery point

and for dehydration (what is involved in dehydration?). This 10¢ charge is to increase by 6 percent annually.

- i. APC shall pay Phillips in addition to the above gathering charge a compression charge of 10¢/Mcf. This, too, would increase by 6 percent annually.
- j. APC shall pay Phillips (in addition to the above) a mutually agreeable charge for added compression when and if it is necessary, based on APC's share of added volume.
- k. In addition, APC shall reimburse Phillips in the proportion of deliveries made to APC by Phillips for any new or increased fees, charges, taxes, etc. applicable to gathering of the gas (including compression) which would be imposed on Phillips prior to delivery of royalty gas to APC.
- l. Phillips by delivering royalty gas to APC does not "...render any service to or for the public;" ie., will not become a utility subject to regulation.

APC makes the material representation to Phillips that Phillips will not be subject to regulation by the FPC or APUC.

- 20 In a letter to Don Wold dated 2/2/77 APC first mentions the "desirability" to have the State take deliverability of its royalty gas onshore so as to avoid the necessity for APC to negotiate a separate agreement with Phillips.
- 21 The letter also indicates that they would not be committed to install a pipeline connecting to their Anchorage line; that they would accept only such gas as they can readily re-sell up to 100 percent of royalty gas which is available with the rest to be royalty gas in value to Phillips. (The reason for this is cited as the shortness of the contract; ie., July 1, 1984 vs. life of production, which is what APC wants).
- 22 The same letter also indicates that they would pay the proportionate share of additional compression facilities Phillips' were to install at a future time.

- 23 APC in a memo to file dated 3/10/77 made a very interesting point, I think, by stating that the 10¢ transportation/gathering charge Phillips would charge is still much cheaper than any alternative which exists to them or to the State for that matter, other than possibly bad publicity within the state for Phillips.
- 24 The APUC in its order No. 3, Docket U-75-68 (12/17/75) (p. 10) states that they believe the commingling of cheaper gas with more expensive North Cook Inlet royalty gas and averaging the cost will generally amount to 2 - 5¢/Mcf/month for the customers of APC.
- 25 The same order also states that if the provisions allowing flow through of costs was not used by August 1, 1976 the APUC would commence an investigation to determine the non-use and to determine whether the provision should be deleted from the tariff of APC. (See Sept. 29, 1976 letter to APUC).
- 26 A letter of APC to APUC dated September 29, 1976 states that the contract with the State (76-1) could not be carried out because --
- a. APC would have to pay State the highest price within a 100 km/radius <sup>(62 miles)</sup> (they had hoped no more than the price of gas liquefied for export).
  - b. APC would have to take 100 percent of royalty gas produced;  
They do not have sufficient sales on the North Kenai Road for the full amount;  
On the other hand, they do not have facilities to interconnect with their Anchorage line; and  
They have been unable to work out an agreement for an exchange with Kenai gas.
  - c. The contract expires July 1, 1984 (instead of the life of production as APC would desire) which APC claims is too short to invest in the facilities which are required.
- 27 The September 29, 1976 letter also indicates that Phillips wanted to have APC fund the first phase of a compressor station on the platform (approximately

\$5,000,000) in return for their delivering the royalty gas to shore. APC countered with an offer that they would

- a. Pay a pro-rata share for compression (volume) with a right to discontinue after a year's notice; and
- b. Resell any "excess" royalty gas back to Phillips for the same price they would have paid to the state; and
- c. Forego taking royalty gas if and when the pipeline capacity throughput was limited (a standby gas supply to make the above possible had not been found, and it was mentioned that APC might have to build a pipeline from their Anchorage line to the delivery point on shore to guarantee such standby volumes as are necessary).

(This should be looked at more closely because (1) having APC pay for the compression facilities necessary to deliver royalty gas is an interesting idea since it could reasonably be expected that certainly those costs would be subject to APUC scrutiny in setting a rate for the APC royalty gas, and (2) because now APC talks about building a pipeline from their Anchorage line to the delivery point to provide for standby volumes when in the past they had talked of building the pipeline from the delivery point to the Anchorage line to take such royalty gas as could not be consumed on the North Kenai Road. It would seem to me that since a pipeline is being considered between the two points, then APC could take all royalty gas instead of reselling any "excess" gas back to Phillips as proposed in b. above).

(As it stands now APC does not even pay a pro-rata share for the added compression, but 10¢ (20¢) or 20¢/Mcf (depending on which document one looks at--Appendix "B", the "New" contract or Phillips' letter to Don Wold dated 3/3/77). The pro-rated cost/ would be applicable only after the initial installation of the first compression unit).

*Pay  
supplies  
less*

28 The AG (Will Condon) in a memo to Guy Martin, dated 3/7/77, determined that the APUC would not have jurisdiction over Phillips pipeline because Phillips does not fall into the category of "...a 'utility' nor 'public utility' within the meaning of the Public Utilities statute, because it will not be furnishing transmission service to the 'public' or the 'Alaska public' Phillips would be furnishing transmission service to the State." *which is certainly not a utility*  
(That is not so, since the current contract provides for APC to take delivery at the platform. Check with Will Condon).

(Is language necessary to change the current law??)

29 The lease with the State provides that the royalty gas has to be taken in the field (Phillips March 3, 1977 letter to Don Wold).

30 The application for a right-of-way permit (2/15/68) to build two 10" gas pipelines and appurtenances from platform to shore could be "used" to demonstrate that the pipeline is for public use, since "public" was not crossed out in the application (although it could have been).

31 The Royalty Board authorized Commissioner of Natural Resources to negotiate a sale for the North Cook Inlet <sup>royalty</sup> gas on December 10, 1975.

32 Contract 76-1--ALL OF THE ROYALTY GAS AVAILABLE. The exact amount of royalty gas available each day cannot be determined since volume depends on production, over which the State has not control. However, the daily production averages approximately 15MMcf/day as determined by previous years' production.

33 The amount of royalty gas being contract for or being sought by APC to meet their requirements range all the way from life of production to 75Bcf - 50Bcf - 40Bcf (4/2/76 letter from APC to Guy Martin).

34 In the context of this issue Union-Marathon)

Union ) are the same

Marathon )

APC has contract with the above, and the above own transmission line from LNG plant to Nikiski. (see point 35).



needed gas from other sources since APC claims that the Bernice Lake power plant is in APC's certificated service area); and

2. APC's proposal to return that part of the royalty gas they cannot readily use to Phillips.

HEA's reasoning--quite logically--is that

1. They are essentially the only customer APC would supply with the royalty gas (ie., who needs APC??); and
2. That while they cannot use 100% of the royalty gas either they will negotiate a sale for the surplus so as to assure the State a market for all its royalty gas from the North Cook Inlet gas field instead of returning part of it to Phillips. The only trouble is that in the 2/16/76 letter they offer to take the royalty gas in the amounts outlined in their 2/11/77 letter (see point 40 above) which would not constitute 100% of the royalty gas.

42 HEA, too, is seeking APUC assurance that the state's royalty gas they would purchase would not come under APUC jurisdiction since their use of the gas "...will be for purposes of manufacturing electrical energy for resale under tariffs directly under the control of the Commission." (Their letter 12/9/76 to APUC).

43 HEA offers to pay the State 60¢/Mcf delivered to the Bernice Lake power plant (Their letter dated 2/16/77). (The power plant is a stone's throw away from the LNG plant, probably no more than a 1/4 mile).

44 In his letter to Guy Martin (dated 2/15/77) Don Wold states that if the "new" contract were accepted (and the APUC not exercise jurisdiction over the Phillips pipeline as per Will Condon's opinion dated 3/7/77) then "...it seems that the Department of Natural Resources will in fact assume a portion of the responsibilities of the APUC in determining whether or not the pipeline tariff and compression charges are in the interest of the State." What has the DNR decided about the charges? Are they fair? What is the justification over and above the costs furnished by Phillips in their 3/3/77 letter?

APPENDIX "A"

KEY PROVISIONS

CONTRACT 76-1

"NEW" CONTRACT

Quantity: All royalty gas available, when and as available.

APC would take UP TO all of the royalty gas available. This means APC would not be required to purchase all royalty gas.

How does this jive with their previous argument that they needed new reserves and supplies to service their existing customers: The the royalty gas amount (15MM - 17MMcf/day APC "Proposal" p. 4. and 5 and "Commissioner's Proposal in Concept") available from the North Cook Inlet field was just the right amount needed to supplant their loss of Kenai gas field supplies?

Delivery Point: Delivery point shall be the same for APC as it has been for State.

Delivery point would be on shore at or near Phillips' pipeline tap which delivers gas to the Tesoro refinery.

This appears to be the platform since a proposed gas gathering agreement between APC and Phillips states that the contract between the State and APC provides that "...APC will accept said royalty gas at or near wellhead in the North Cook Inlet Field...". Gregg's memo of May 8, 1976 to Fred Brown (p. 2) confirms this.

However, a memo from Don Wold to Guy Martin dated 2/14/77 states that APC "...must take delivery from Phillips near the terminus of the Phillips terminus of the Phillips pipeline located near the North Kenai Road..." according to the 76-1 contract. ( I don't think he is correct in light of the above).

Price: A. 1. To July 1, 1977 55.5¢/Mcf
2. July 1, 1977 - July 1, 1978 the higher of 60.36¢/Mcf or
a. price State would have received had it continued to take its royalty gas in value or
b. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery. or
3. July 1, 1978 and each succeeding 12 month period the higher of
a. the previous year's price plus 2¢/Mcf or
b. above or
c. above.

A. 1. To July 1, 1978 64.65¢/Mcf
2. July 1, 1978 - July 1, 1979 the higher of 66.65¢/Mcf or
a. price State would have received had it continued to take its royalty gas in value or
b. the highest price paid by any purchaser in the Upper Cook Inlet (within a 100 km radius of Phillips' platform) for gas of similar quality gas and similar conditions of delivery. or
3. July 1, 1979 and each succeeding 12 month period the higher of
a. the previous year's price plus 2¢/Mcf or
b. above or
c. above.

AGO 301252

- B. 1. 10¢/Mcf for gathering costs to point of delivery to increase 6 percent per year on the anniversary date.
2. An additional 20¢/Mcf after Phillips has the first unit of added compression facilities (approximately 3500 hp) to increase 6 percent per year on anniversary date.
3. Additional charges for future compression facilities which may be required and installed in proportion to gas received. (Interestingly, the proposed contract calls for such additional costs under 8. 3. to be verified by the State, which would seem to indicate that in this instance Phillips would agree to "jurisdiction" by the State). (To be consistent with Sec. 7.2 of the "new" contract should this be removed?)

Term: Effective: Upon approval by the Legislature  
Expiration: July 1, 1984

5/20/76

Effective: Upon approval by the Legislature  
Expiration: July 1, 1984

Termination Clause: Allows APC to terminate the contract within 30 days of written notice to State if APC is unable to make satisfactory arrangements to take delivery of the royalty gas.

Allows APC to terminate the contract within 30 days of written notice to State if APC is unable to make satisfactory arrangements to take delivery of the royalty gas.

Conditions Precedent: Not covered.

This seems absurd since APC would now take delivery on shore! What is meant by "...unable to make satisfactory arrangements to take delivery of the gas."?

Provision providing that Phillips would not come under the jurisdiction of the FPC or APUC or APC (Section 7.2 of Article VII).

Miscellaneous: Not covered.

Assignments of interest by APC may be made "...to conform with...(APC's) various financing documents or as may be desirable to...(APC) as to...(APC's) commonly owned affiliate or subsidiary." (Who are they?)

## QUESTIONS

1. What is "Rate PI"? (Power Interruptable--no longer in existence) (See letter 12/2/75 to APUC by ANG).
2. What was or where is a copy of the "special contract" with Chugach and ANG? No applicable to our inquiry according to Russ Staley of the APUC (See letter 12/2/75).
3. Was Section 708 of ANG's tariffs ever reinstated? No. If yes, what does the flow through provision provide for? Sec. 708 and 709 would have allowed AGAS to flow through--by means of a billing surcharge--any increase in its wellhead cost of gas above 41.5¢/Mcf occurring after July 1, 1975 as well as any new or increased taxes imposed by Federal, State, Borough, or local taxing authority upon production, etc.--reserves taxes--above the amounts established on January 1, 1975. (See Order No. 3, U-75-68. Also see Enclosure A and B to letter dated 4/2/76.
4. Who is Pacific Alaska LNG Company? Have they dropped out of the game trying to contract for the State's royalty share from the North Cook Inlet field? Yes. (See "Findings and Conclusions for Non-Competitive Sale", dated April 26, 1976, bottom p. 2).
5. What, if any dehydration or compression charges were assessed the State when it took its royalty gas in value? None. How can these be justified over and above the added compression necessary to produce additional quantities to make up for the royalty gas loss!?
6. The right-of-way permit application specifies two 10" pipelines; the "Gas Gathering Agreement" states one 16" pipeline. Which is correct? Does it make a difference? 2-10" from platform to shore; 1-16" on shore to LNG plant.
7. Did the APUC ever approve the flow through charges which would include the 10¢ for transportation and dehydration and the additional 10¢ (20¢) for added compression? and if so, how were these charges justified by APC to APUC? See Order No. 3, U-75-68, 12/75/75. Call APUC to see if it was applicable! Commissioner Zerbetz (4/18/77) informed me over the telephone that "it would appear that the flow through charges of 10¢ and 10¢ for gathering and compression are valid under U-75-68 (3). See Don Wold's letter to Guy Martin (p. 2 last paragraph) which suggests that APC does not have to justify these increased costs to the APUC.

Check with APUC if their Order No. 3, U-75-68 (12/17/75) ever intended to allow flow through of costs regarding gathering costs (transportation, dehydration, including compression) or whether they merely meant the price the State was receiving from its royalty gas. APC treat it as if these added costs were included in the order.

At the time the order was issued--12/17/75--the price APC was using was 45¢/Mcf price at wellhead and 5.45¢/Mcf delivery to LNG plant for a total

of 54.45¢/Mcf for the royalty gas. (It is not clear to me if the APUC is working with the 50.45¢/Mcf figure, or a figure of 74.65¢ (84.65¢) considering the added transportation (and compression charges) Phillips wants to charge for delivering the State's royalty gas to shore.

APUC was apparently apprised of some of the difficulties encountered by APC taking delivery of the royalty gas and the costs which would be involved by APC in their letter to the APUC dated September 29, 1976, but there is no indication that they ever acted or commented on these potential charges.

8. Why the difference in price of transportation and dehydration for the State and APC 5.55¢ (5.45¢) vs. 10¢/Mcf? Need a reasonable justification from Phillips, APUC, Don Wold--anyone? Don Wold explained that 5.55¢ charge is a charge Phillips assessed to arrive at the wellhead value of the gas for tax and royalty purposes (it is anyone's guess why they prefer to keep it at that rate\*-- depletion allowance was mentioned). The 10¢ which Phillips plans to charge APC for transporting the gas to shore is what Phillips decided it is worth to them as a business venture, earning a return.

See Memo to File by APC in which Dale Teel writes that it is not reasonable to expect that "...the Lessee who has made the investment required for production, gathering, and compression of royalty gas can or should be held responsible to deliver the royalty gas at less cost than the Lessee determines to be necessary, fair, and reasonable." In a later letter to Don Wold Teel says that "...it would be no more logical to require Phillips to accept less than their required price than for the State to accept less than it deems to be necessary for this gas." (4/15/77).

\*Why were they willing before to settle for less? Why would they give the State a break?

9. Why was the price for royalty gas raised from 60.36¢ (76-1) to 64.65¢ in the "new" contract, which is a 4.21¢ difference in less than a year? This is the new wellhead value established by Phillips. The current contract provide for 64.65¢ with various increase options annually, accepting that which is the higher of these options. Those options are favorable to the state, but not necessarily to APC, since one of them calls for APC to pay the highest price paid by any purchaser in the Upper Cook Inlet (within a 100 km radius of Phillips' platform) for gas of similar quality gas and similar conditions of delivery. In their April 15, 1977 letter to Don Wold APC mentions that Pacific Alaska LNG is paying \$1.45 in the Cook Inlet. I do not know if they would fall into the 100 km radius of Phillips' platform.
10. What led to the decision not to dispose of the North Cook Inlet royalty gas by competitive bid, but rather negotiate the sale with APC? Guy's letter of 3/17/76 states that "...the Commissioner must publish the specific findings and conclusions supporting that decision." (See Commissioner's Proposal in Concept and attachments).
11. Get deliverability cost to APC under the U-M contract for the North Kenai Road. Dale Teel advises in his 4/15/77 letter that U-M charged them 1.5¢ above the Anchorage contracts basic price (24¢), but that this did not constitute a deliverability charge! This is not the way I understood it from Bill Hickman of APC. According to Teel there is

no transportation charge charged APC by U-M on their transmission line from the Kenai gas field to the North Kenai Road.

12. What is Rate "SK-5" mentioned in APC's letter to HEA dated 11/16/76?

Rate Schedule of APC (according to Russ Staley of the APUC)

a	Schedule A	Residential
	AA	Residential with APC furnishing Equipment
	B	General Service (small commercial)
	BB	Gen. Serv. with APC furnishing Equipment
	C	Large General Service (Apartments & Industrial)
	CC	Lg. Gen. Serv. with APC furnishing Equipment
	I	Interruptible Rate
	SK	Soldotna/Kenai Rate

13. Is the Bernice Lake power plant in APC's certificated service area? Yes (Russ Staley-APUC) According to Russ Staley a certificated service area is not exclusive but normally the APUC do not allow more than one utility in one SA. This seems to be a bone of contention in the instance where HEA wants to secure gas for the Bernice Lake power plant which they hope to buy from Chugach from other sources in APC's SA if APC will not or cannot guarantee them a continuous supply of gas. See 11/30/76 letter.
14. Has any action been taken on HEA request for a waiver of jurisdiction by APUC over royalty gas? How sound is their reasoning that the gas ought to be exempted since it is used to manufacture electricity which is under APUC jurisdiction?
15. What has DNR done to ascertain whether the proposed transportation costs (10¢) and compression charges (10¢) are fair? Don Wold informed me that this was not the Royalty Board's responsibility.
16. What is "just and reasonable" in terms of a flow through provision? Commissioner Zerbetz advised me on 4/18/77 that under current statutes it would be very difficult to disallow flow through charges, which were bonafide costs incurred by the utility.
17. Under 9.1, 9.2 and 9.3 of the Phillips/State contract the state is a party to the gathering and compression charges. If we "allow" this what are the implications for setting a precedent for future similar situations?

How can the State "agree" to charges without being sure they are "just and reasonable"?

As written now State is agreeable to the 20¢ + for gathering and compression being charged by Phillips. How can we do this and be assured these charges are not excessive?

Don Wold suggested in a conversation with Gregg and myself 4/18/77 that he finally had determined why APC wanted to get the royalty gas so badly. He said it was for the purpose of setting a precedent for other situations similar to the current one; ie., where the gas is offshore, avoiding APUC or APC jurisdiction of gathering and compression costs).

18. Why should State/APC pay added taxes, fees, imposts, etc. (9.4 ( ) and 6.1(f) imposed on Phillips? This seems unreasonable! I was told that Phillips was adamant about this provision. It has been suggested that Phillips is using this to discourage oil and gas tax hikes.

Pete Froehlich suggested that if any taxes, etc. be paid by State/APC such taxes should only be on new facilities. However, he said his suggestion was not accepted.

Telephone conversation with

4/11/77

Russ Staley - Chief - Eng. Section - APUC

Answers to questions -

+ SK-5

- ✓ 1.) Rate PI probably refers to inter-  
Russ
- ✓ 15.) comparable power rate, but will check on it.
  
- 2.) He will furnish me with copy  
of special contract with Chugach  
Electric Association if it is applicable  
in any way to the business at  
hand, i.e., North Cook Inlet royalty  
gas to APC
  
- 3.) Yes. The "wellhead cost" referred to in  
Order No 3, U-75-68 applies to  
all of the Kawai gas field gas  
APC receives <sup>from U-M</sup> accdg to Russ  
Staley, since that is the  
only contract APC has for  
gas. He stated that he believed  
that the flow through provision  
would, however, also apply  
to the North Cook Inlet royalty

gas - that the APUC would consider this flow through tariff provision <sup>added</sup> for <sup>added</sup> head and reserves tax costs as a "multiple position"; i.e., not just applying to one case. However, he really did not know, and will check with Susan Knowles who was the commissioner who handled this order.

(An accurate answer to this is very important, it appears to me, since the intent of what <sup>added</sup> costs would be allowed to be flowed through has major significance now that Phillips wants to charge up to 30¢ for transportation and compression costs).

✓ 4.) Pacific Alaska LNG Co is a California based outfit which has been trying to build a liquefaction plant at Kenai. They are still seeking FPC approval to build the plant.

7. will get back to me. Does not know.

8. Does not really know. Believes that the APUC wasn't aware of the cost differentials. Will check and advise.

12. See 8. above

14. Russ Staley will send me a copy of contract between APC and U-M (which has deliverability cost in it).

The Kenai gas field is produced on shore

APUC waived jurisdiction on the "North Kenai Road" transmission line of Union's because only approx. 2% of the gas goes to the public. The rest goes to industry, mostly to Colliet (a wholly owned subsidiary of Union) and the Swanson River field. Russ Staley referred to it as "in-house" gas.

16.) Yes. The certificated service area, which Russ Staley called a "franchise" is not exclusive he said, but normally, APUC does not allow more than one utility in one SA.

17.) Does not know. Is only familiar with the AG's opinion which waives jurisdiction over Phillips; not aware of the apparent different reasoning applied by HEA.  
will need further info on this!!

18.) Does not know. Will attempt to find out.

General: The individuals most familiar with this matter, both among the staff and the Commissioners, are no longer here. Thus, nobody is really up on this. It may be necessary to go up to Anchorage and sit

down with Commission staff  
to get all the answers and  
an idea of their thinking,  
which we don't know what  
it is.

Russ Staley said he would  
call back 4/12 or 4/13 with  
answers to my questions.

My overall questions were

- 1.) How is the APUC viewing  
<sup>flow through of</sup>  
the AMP to 30¢/Mcf charges  
for transportation and compression  
of North Cook Inlet royalty  
gas to APC; and
- 2.) What attitude are they taking  
regarding jurisdiction over  
the Phillips line.

Meeting with Will Condon  
Fred Bowers +  
Pete Froehlich

① If the pipeline is not under 4/13/77  
APUC or APC jurisdiction (as proposed  
under the revised contract) how  
can the state "control" the  
high prices charged for  
transportation + compression

last year -  
~~12¢ - 65¢~~ range  
for taxes or  
regulations

Transportation / gathering chgs  
were previously assessed the state  
at 5.45¢ (5.55¢)

② - Do we have a def of  
common carrier? Yes!

- Does it subject itself  
to regulation by virtue  
of being a common  
carrier? Yes!

Subject  
to APC  
by regulation  
of cc states  
Held by AG's Dept.  
AGC to Will Condon

Fred Bowers said  
that the purchase of  
the North Lake Tule  
royalty gas by APC  
"buying less rapid  
depletion of reserves  
which is committed  
to exchange"

\* This could, of course, also  
be read that they are adding  
to their reserves for anchorage now  
at a more reasonable cost  
than would be available later.

Supposedly, APC is experiencing a  
shortage of dedicated reserves.  
accy to Fred Bress.

**Sec. 42.06.600. Regulation by municipality.** The commission's jurisdiction and authority extend to an oil or gas pipeline facility operating in a city or borough, whether home rule or otherwise. If a conflict between a certificate, order, decision or regulation of the commission and a charter, permit, franchise, ordinance, rule or regulation of such a local governmental entity occurs, the certificate, order, decision or regulation of the commission prevails. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.610. Expenses of investigation or hearing.** After completion of a hearing or investigation held under this chapter, the commission shall allocate the costs of the hearing or investigation among the parties, including the commission, as is just under the circumstances. The costs allocated may include the costs of any time devoted to the investigation or hearing by hired consultants, whether or not the consultants appear as witnesses or participants. The commission shall provide an opportunity for any person objecting to an allocation to be heard before the allocation becomes final. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.620. Classification.** The commission may by regulation provide for the classification of oil or gas pipeline facilities based upon differences in annual revenue, assets, nature of ownership and other appropriate distinctions and as between these classifications, by regulation, provide for different reporting, accounting and other regulatory requirements. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.630. Definitions.** In this chapter

- (1) "commission" means the Alaska Pipeline Commission;
- (2) "commissioner" means a member of the commission;
- (3) "duties" means duties, powers, obligations and functions;
- (4) "gas" includes all natural gas and hydrocarbons produced at the wellhead and not defined as oil;
- (5) "Interstate Commerce Act" means the Interstate Commerce Act of 1906, 34 Stat. 584, as amended;
- (6) "municipality" means an organized borough or incorporated city;
- (7) "Natural Gas Act" means the Natural Gas Act of 1938, 52 Stat. 821, as amended;
- (8) "oil" includes crude oil, and other hydrocarbons regardless of gravity which are produced at the wellhead in liquid form, its products and liquid hydrocarbons, including the liquid hydrocarbons known as distillate or condensate recovered or extracted from gas, other than gas produced in association with oil and commonly known as casinghead gas;
- (9) "pipeline" or "pipeline facility" means all the facilities of a total system of pipe (whether owned or operated by a pipeline carrier under a contract, agreement, or lease) in this state used by a pipeline carrier for transportation, for hire and as a common carrier, of oil or gas for delivery, storage, or further transportation, and including all pipe, pump and compressor stations, station equipment, and all other facilities used

See 38.35.120

or necessary for an integral line of pipe to effectuate the transportation from point to point, excluding, however, gas processing plants, treaters and separators;

(10) "pipeline carrier" means the owner, including corporations organized under the laws of the United States or of other states, of any pipeline, as the term is defined in this section, or any interest in it;

(11) "regulation" includes rules;

(12) "tariff" means a rate, charge, toll, rule or regulation of an oil or gas pipeline facility relating to services furnished by the facility to the general public or other users for compensation. (§ 1 ch 139 SLA 1972; am §§ 7, 8 ch 6 FSSLA 1973)

Effect of amendment. — The 1973 amendment rewrote paragraphs (4) and (8).

Sec. 42.06.640. Short title. This chapter may be cited as the Alaska Pipeline Commission Act. (§ 1 ch 139 SLA 1972)

## Chapter 07. Alaska Transportation Commission Act.

### Article

1. Establishment of Transportation Commission (§§ 42.07.011 — 42.07.111)
2. Powers and Duties of Commission (§§ 42.07.121 — 42.07.161)

Repeal of former chapter. — Section 1, ch. 104, SLA 1969, repealed former Chapter 07, entitled "Alaska Transportation Commission." The former chapter consisted of §§ 42.07.010 — 42.07.150, and derived from § 1, ch. 139, SLA 1966.

### Article 1. Establishment of Transportation Commission.

Section	Section
11. Creation and composition	81. Principal office and seal
21. Term of office; vacancy	91. Legal counsel
31. Quorum	101. Employment and compensation of personnel
41. Qualifications	111. Annual report
51. Oath of office	
61. Restrictions	
71. Compensation of members of the Alaska Transportation Commission	

Sec. 42.07.011. Creation and composition. (a) There is created the Alaska Transportation Commission within the Department of Commerce and Economic Development. The commission consists of three members appointed by the governor and confirmed by the legislature in joint session.

(b) The governor shall designate one member of the commission as chairman of the commission. This member shall serve as chairman for

to comply with its terms, conditions, and obligations. Only upon proper acceptance of offered lease by the applicant within 30 days after its having been presented is the grant of the application consummated. (§ 1 ch 72 SLA 1972; am § 9 ch 3 FSSLA 1973)

**Effect of amendment.** — The 1973 amendment rewrote this section.

**Sec. 38.35.110. Term of lease.** Each lease of state land for pipeline right-of-way purposes shall contain a provision that the lease shall run for a specified term of not greater than 30 years, and shall be renewable for additional periods of up to 10 years each, so long as the lessee is in commercial operation and is in full compliance with all state law, including but not limited to state law pertaining to regulation and taxation of the pipeline facility, and is in compliance with all terms of the lease. In making this determination he shall take into consideration the cost of the proposed pipeline, its useful life, and the probable financing requirement for the proposed pipeline. (§ 1 ch 72 SLA 1972; am § 10 ch 3 FSSLA 1973)

**Effect of amendment.** — The 1973 amendment substituted "30 years" for "25 years" and inserted "is in commercial operation and" in the first sentence and added the second sentence.

**Sec. 38.35.120. Covenants required to be included in lease.** (a) A noncompetitive lease of state land for a right-of-way for an oil or natural gas pipeline valued at \$1,000,000 or more may be granted only upon the condition that the lessee expressly covenants in the lease, in consideration of the rights acquired by it under the lease, that

(1) it assumes the status of and will perform all of its functions undertaken under the lease as a common carrier and will accept, convey, and transport without discrimination crude oil or natural gas, depending on the kind of pipeline involved, delivered to it for transportation from fields in the vicinity of the pipeline subject to the lease throughout its route both on state land obtained under the lease and on other land; however, a lessee who owns or operates a natural gas pipeline subject to regulation either (A) under the Natural Gas Act (15 U.S.C. 717 et seq.) of the United States, or (B) by the state or political subdivisions with respect to rates and charges for the sale of natural gas, is, to the extent of that regulation, exempt from the common carrier requirement in this paragraph; it will accept, convey, and transport crude oil or natural gas without unjust or unreasonable discrimination in favor of one producer or person, including itself, as against another but will take the crude oil or natural gas, depending on the kind of pipeline involved, delivered or offered, without unreasonable discrimination, that the Alaska Pipeline Commission shall, after a full hearing with due notice to the interested parties and a proper finding of facts, determine to be reasonable in the performance of its duties as a common carrier;

(4) restore and revegetate during the term and at termination of the lease; and

(5) protect the interests of individuals living in the general area of the right-of-way who rely on the fish, wildlife, and biotic resources of the area for subsistence purposes.

(e) In the event the commissioner proposes to offer a lease or leases to two or more lessees for the same pipeline, the commissioner may include terms in the lease or leases which establish the limit of the obligations and liabilities of each lessee arising under this chapter or under the lease or leases.

(f) The commissioner may, at his discretion, include any or all of the terms set out in this section in leases of state land for products pipeline, right-of-way purposes. (§ 1 ch 72 SLA 1972; am § 11 ch 3 FSSLA 1973)

**Effect of amendment.** — The 1973 amendment rewrote this section.

**Sec. 38.35.130. Right-of-way easements or leases acquired from others.** (a) The lessee may, if the commissioner delegates the function to it, condemn, by declaration of taking, under AS 09.55.420 — 09.55.450, real property and acquire leases of or easements or rights-of-way on lands in the state required for right-of-way purposes for a pipeline subject to the lease on behalf of and as agent for the state in which title to or interest in the land shall vest.

(b) The lease shall contain a covenant that the land, right-of-way, or easement acquired under this section is or will form part of the land leased to the lessee. (§ 1 ch 72 SLA 1972; am § 12 ch 3 FSSLA 1973)

**Effect of amendment.** — The 1973 amendment rewrote subsection (a), deleting the paragraph designations and deleting the provisions of former paragraphs (1) and (2). The amendment also, in subsection (b), substituted "The lease shall contain a covenant" for "The

lease covenant required by this section shall be accompanied by a provision" and deleted "carrier" following "lessee."

Quoted in *Arco Pipeline Co. v. 3.60 Acres, More or Less, Sup. Ct. Op. No. 1177* (File No. 2419), 539 P.2d 64 (1975).

**Sec. 38.35.140. Payment of rental and costs.** (a) The lease price for a right-of-way lease shall be the annual fair market rental of the state lands included in the right-of-way based on the appraised fair market value of the land. The lease price is payable annually in advance on or before the anniversary of the lease. The appraised fair market rental value shall be adjusted periodically under the provisions of AS 38.05.015. Rental may not be charged for any land acquired by the lessee under § 130(b) of this chapter and conveyed without cost to the state.

(b) The lessee shall reimburse the state for all reasonable costs incurred in monitoring the construction of the pipeline on the right-of-way. (§ 1 ch 72 SLA 1972; am § 13 ch 3 FSSLA 1973)

at least one absolute of  
Korean gas field? others  
contracts APC also for  
gas over + about the  
10 Bcf contract for  
North Korea.

④

✓ Copy of map to show

③

- File for memo benefit with  
APUC?  
write it in approval?

Price charged by Phillips for  
transportation + compression

②

Need for gas  
Korean area  
audience  
to contract conditions for auditing

①

Talk with Dale Tall and  
Paul Robinson  
4/14/77

Mr. [unclear]  
5 [unclear]

✓ (c) Customers - B L P P + 285 cost ?

Used up in 1976

~~10 Bcf~~ →

① 550 Bcf  
400

Jan 1 '72

Gas Field  
Kenai N U-M

Remaining presently

Committed to Anchorage

② 10 Bcf  
-0-

for 10 yrs.  
May 1, 1967 A Kenai gas field U-M

Used up committed  
Supply June/July 1976

Extended contract  
for 1 yr by being  
supplied out of  
Kenai Anchorage  
committed reserves.

4/14/77

Tel conversation with

Bill Hickman / Treasurer  
AGAS  
277-8551

- ① BH felt that if they don't get this royalty gas at the 75¢ (which is apparently the current price for gas to Tokyo) they would have to buy reserves at a higher price elsewhere
- ② The Bd of Directors of APC did approve the building of a "royalty line" but only after there was no chance that an "exchange" of Kenai / North Cook Inlet gas could be worked out.
- ③ Such a pipeline would apparently cost \$4,000,000
- ④ Union "charges" APC 1 1/2¢ / Mcf to carry APC's gas in its

transmission line from the Kenai gas field to the North Kenai Road area. APUC has waived jurisdiction, but to "make sure" that it continues to do so apparently Union charges the extremely low token transportation charge of APC as a public utility.

⑤ Bill Hickman states that it was apparently (at least he thought so) Phillips rather than Union which did not want to see the paper "exchange" of gas from the two fields as proposed by APC, since Phillips would stand to benefit from having APC sell back to it that portion of North Cook Inlet royalty gas they (APC) did not have a market for.

⑥ Said he would send me some or more maps tomorrow.

called Sue Knowles

4/14/77

at APUC. She was out!

talked to Gordon Zerbetz  
instead.

- ① He will look at Order 3, U-75-68 to re-familiarize himself with the matter.
- ② He will send me a complete copy of the Order
- ③ asked that I send him cost breakdowns for transportation and compression ~~tests~~ charges Phillips is assessing APC.
- ④ Gold-streaked Dull Teal's whole packet dated 3/10/77 this pm.
- ⑤ Will advise me tomorrow about initial reaction. Indicated they would <sup>very</sup> possibly like to comment on the charges; and

I asked that we need advice if APUC planned to allow flow through of 10¢ + 10¢ at the time Order No 3, U-75-68 was issued when everyone was still talking about 5.55¢/14¢ for transportation

Question | What is a just and reasonable in terms of a flow through provision

Board 4-5-76 OK

# 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 2, 1976

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

**RECEIVED RECEIVED**  
APR 05 1975 APR - 5 1976

ALASKA ROYALTY  
OIL & GAS BOARD

Department of  
Natural Resources

Dear Bill:

This is written to furnish you with some background information relating to our past and present "flow through" situations and why we feel that the APUC actions have served to "inhibit" our search for new and probably higher priced non-royalty reserves.

Enclosure A contains our previous "flow through" provision while Enclosure B contains the one presently in effect.

A brief description of the sequence of events leading to the change is as follows:

December 15, 1974 - AGAS agreed to a gas price increase (19.5¢/MCF) to become effective July 1, 1975 in order to obtain gas in the quantities required by its customers. The APUC and major customers were notified in advance of completion of negotiations.

December 20, 1974 - The APUC ordered an investigation and public hearing on the tariff flow through provisions.

March 21, 1975 - AGAS filed new rates giving effect to the increased cost.

April 24, 1975 - The APUC rejected AGAS newly filed rates.

May 2, 1975 - AGAS notified suppliers to not proceed with any investment in workover and/or new wells required to meet its contractual commitments.

May 6, 1975 - The APUC ordered an investigation of the anticipatory breach of contract indicating that it might for good cause shown revoke AGAS certificate of public convenience and necessity.



Mr. Bill Fackler, Executive Director  
April 2, 1976  
Page Two

May 8, 1975 - AGAS agreed to withdraw its tariff flow through provisions.

May 12, 1975 - The APUC accepted AGAS tariff filing of March 21, 1975 as an interim request for rate relief and set hearing date of June 19, 1975.

July 1, 1975 - The APUC granted an increase of 12.78¢/MCF.

July 9, 1975 - AGAS requested reconsideration of the July 1, 1975 order.

July 31, 1975 - The APUC denied AGAS request of July 9, 1975.

July 31, 1975 - AGAS filed proposed new cost of gas flow through tariff provisions to replace those withdrawn May 12, 1975.

August 28, 1975 - The APUC suspended the filing of July 31, 1975 and set hearing date of October 30, 1975.

December 17, 1975 - The APUC issued its order modifying the flow through provisions filed July 31, 1975.

AGAS subsequently petitioned for reconsideration of the order of December 17, 1975 and the APUC denied the petition. In addition to the above mentioned actions there have been a series of requests, hearings, and orders relating to AGAS further attempts to recoup its increased costs.

In concept, the idea that a full rate hearing for each fuel cost change is an appropriate means of consumer protection, appears valid. Our actual experience with the process indicates it is not. The following experiences have led us to this conclusion:

- (1) Rate cases are expensive and time consuming processes. We have devoted an inappropriate amount of internal time and talent in our year long battle that began with the negotiated gas cost increase. We have spent approximately \$320,000 on attorneys and other specialists in regulatory matters in attempting to recover costs incurred by us in good faith for the benefit of our customers. The benefit of hindsight indicates we made a timely and appropriate



Mr. Bill Fackler, Executive Director  
April 2, 1976  
Page Three

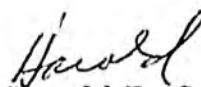
business decision, yet one that has been costly to the owners of the Company. Common sense tells us that a similar occurrence in the future could result in a new management team.

- (2) The uncertain outcome of hearings before an appointed regulatory agency with a recent history of rapid change in composition and philosophy makes long term commitments an extremely risky course of action.

A fuel cost flow through provision which would not require the company to assume the burden of proof in a full rate hearing for each fuel cost change would reduce the business risk to an acceptable level. Such provision would not prevent the Commission from ordering rate decreases in instances where the use of the provisions would result in an excessive profit to the utility.

Bill, I hope that this helps to explain our situation and to give you some insight into the constraints under which we labor as we strive to acquire additional reserves.

Very truly yours,

  
Harold F. Schmidt  
Senior Vice President

HF3:jdh

Enclosures

PURCHASED GAS COST ADJUSTMENT CLAUSE  
WITHDRAWN MAY 12, 1975

708 Purchased Gas Cost Adjustment - Company's rates are based on the current wellhead cost of a firm supply of natural gas at the gas field. In the event this price is increased or decreased, or taxes on such gas are increased or decreased, above the amount(s) payable on April 15, 1972, then the Company may, after appropriate notice to the Alaska Public Utilities Commission as required by AS 42.05.411, place into effect a like increase or decrease in the rate theretofore in effect. Such adjustment shall begin with bills rendered during the month subsequent to the effective date of the increase or decrease at wellhead.

PURCHASED GAS COST ADJUSTMENT CLAUSE  
CURRENTLY IN EFFECT

708 Purchased Gas Cost Adjustment - The gas supply contracts existing on December 1, 1975, contain escalation clauses which result in periodic increases or decreases in the cost of purchased gas. Any increase in the cost of purchased gas to the Company under the escalation clauses that the Company becomes responsible for after July 1, 1976, may be passed on to the customers of the Company. Such an increase may be reflected in the rates paid by the customers for gas used by the customer after the date the Company is responsible for paying the increase. The increase, however, may not be charged to the customers of the Company unless the Company meets the conditions specified in Order No. 3 in Docket U-75-68. The Company may not flow through to its customers any increases in the cost of gas resulting from alterations, changes, or amendments of any part of the escalation clauses existing on December 1, 1975. The Company also may not flow through to its customers any other increase in the cost of gas except as specified in this Section and the Royalty Gas Section of this tariff. The increases flowed through to the customers pursuant to this section may not exceed 5¢/MCF per calendar year.

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

Royalty Gas - The cost of gas purchased from the State is greater than the cost of gas purchased from other suppliers. The gas purchased from the State must be taken by the Company as produced. The Company must therefore distribute this gas to its customers when taken and it must be sold at a higher rate than the gas it now purchases from other suppliers. In order to insure a proper price of gas as a result of the commingling of the higher priced State gas and the lower priced gas from other suppliers the Company shall, month to month, increase or decrease the bills of customers to reflect the average cost per MCF of gas on an MCF basis which shall be computed as the product of the volume of gas purchased from the State each month multiplied by the price of that gas, plus the product of the volume of gas purchased from other suppliers during the month multiplied by the cost of this gas, and the sum of the products thus computed divided by the total volume of gas purchased. The flow through increases or decreases pursuant to this section of the tariff are subject to the conditions set forth in Order No. 3 of Docket U-75-68.

*Royalty*

# ALASKA PIPELINE COMPANY



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

March 9, 1977

Mr. Don Wold, Executive Director  
Royalty Oil & Gas Development  
Advisory Board  
Department of Natural Resources  
Pouch M  
Juneau, Alaska 99811

Dear Don:

As requested at the meeting of the Board on March 7, I enclose the pertinent extract (pages 1,8,9,10) from Order No. 3 in Docket U-75-68 dated 17 December, 1975.

You will note on page 10 that we were expected to be taking royalty gas prior to August 1, 1976. We explained the status of this matter by letter of September 29, in response to their inquiry. I surely hope that now, nearly 6 months later, we will be able soon to conclude the negotiations and proceed to begin taking royalty gas this year. Clearly, the Commission is convinced of our imperative need to obtain more reserves and has approved flow through of the cost. Copy of the complete order was mailed to the Attorney General, and to each legislator, by the Commission. I believe we will have no difficulty getting approval of the amended contract.

Very truly yours,

Dale Teel

dh

Enclosures: Pages 1,8,9,10 and Mailing List of Order No. 3,  
U-75-68  
Letter to APUC dated September 29, 1976

**RECEIVED**  
MARCH 12 1977

SUBSIDIARY OF ALASKA INTERSTATE COMPANY

ALASKA ROYALTY  
OIL & GAS BOARD

AGO 801281

*APUC  
1975 not speak  
to the matter  
of transportation  
for oil & gas  
the*

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

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

In the Matter of the Filing of a     )  
Tariff Revision, Designated as     )     U-75-68  
TA12-4, by ALASKA GAS AND SERVICE   )  
COMPANY to Adopt Purchased Gas and   )  
Tax Adjustment Clauses             )     ORDER NO. 3  
  )

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

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

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

U-75-68(3)  
Page 1

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

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

#### Royalty Gas

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

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

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

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

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

#### RESERVE TAX

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

*Has this been done?  
See Sept 29, 1976  
L.H. attached*

Zerbetz - 4/18/77

"It would appear that the flow through charges would be valid."

To develop a new rate case it would require an order of APUC based on a complaint by consumer

citizen

APUC

state agency

AS 42.05 - APUC

almost bound to pass on any bonafide expense/cost a utility incurred

Adverse ruling if it could be shown that APC could have been more "reasonable or prudent"

Zerbetz said it was

- a reasonable price
- difficult to disallow flow through of added costs under present statutes, so long as the charges were bonafide costs.
- public hearing to justify the flow

through cost. In order the put  
the burden of proof on  
AGAS APUC could not  
call the hearing.

mentioned that AGAS was "pretty smug"  
about the whole thing, but there  
was nothing improper <sup>for as</sup> as he could  
determine off hand.

He also mentioned that he thought  
the rate of return accordg to the  
figures submitted by Phillips  
seems a bit high compared  
to what APUC is allowing APC.

In response to question as to how  
something like this could be  
avoided in the future he mentioned  
that he had suggested to Dan Wold  
that Royalty gas Statutes might be  
revised to allow for a "molecule  
for molecule" exchange with fields  
which are more advantageously  
located to serve the public.

Zarbets called around

4/20/77

12:00

Suggested I call and talk to  
Richard (Dick) D. Edwards who  
was the author of U-75-68(3).

Zarbets said he was the "most honest  
and sincere person" he knew, and  
that he would be an "impartial  
source."

Said Ted Smith could provide a  
reference for Edwards.

AGO 801288

Called Dick Edwards  
276-5552

4/20/77

He stated that

- the royalty gas clause was written more to "force" Tel to get out and get committed reserves, rather than addressing itself to the flow through costs.
- The intent of the order with respect of the royalty prov. was to "keep up APC's reserves which are dwindling, particularly in Anchorage.
- For the public's good - get reserves committed

If we need a legal opinion from <sup>on this matter</sup> him we can retain him at \$80/hr (10-15 hr preparation time + time in Jeanan (8hrs) if nec + expenses -

Travel, hotel, parking, etc - probably a  
total of 25-30 hrs = \$2,500 + expenses -  
don't use these figures though. He  
would need a lead time of 2  
days

He felt he could give an impartial  
legal opinion on the matter as  
long as the Order was not  
reopened.

4/22/77

Briefing - Down W/ interested Legislators

- North Cook Inlet Field in the Gulf.
- Contract 76-1 did not become operational.
- Need to figure out a way to get gas delivered.
- Reasons contract does not work
  - 17MM/day - roughly production/day
  - Must be used within State totally, thus could not resell excess to Phillips
  - Must be taken at wellhead
- By delivering to a utility Ph would subject itself to PUC jurisdiction.
- ① Who did you talk to at the PUC regarding the above? GZ
- PUC is not involved which they should be (check and audit cost; whether they are proper; they did

AGO 801291

not have an opportunity to do so).

- Are the costs reasonable? They have not been looked at; they are negotiated numbers (10 + 10)

"Teel:  
These costs  
are reasonable"

Analysis of Teel's re these charges

- The charges have not received the scrutiny they would have normally.

- Best Efforts

{ cannot take all of the time (APC)  
{ cannot produce all of the time. (PA)

② What will happen when APC has its own royalty line?

③ Why is a 5 yr contract not feasible?

④ Where is the gas for \$1.45? Teel - Bering; not comparable to NCI royalty sale contract. World - Kenai; Spot sale.

⑤ what did you say was the  
"average" increase which you  
mentioned to Rick Union?

Tell - 1¢/gallon/oil for transportation (10¢)

~

$$1¢/\text{gallon/oil} = \underline{\underline{7.4¢/\text{Mcf/gas}}}$$

42 gallons = 1 bbl

1MM BTU/Mcf

58MM BTU/bbl

~

Hugh Malone - 2/3 available to BLPP - Tell  
cost to BLPP? 86¢ - filed tariff.

5/6/77

Senate Resources

SCR 56 - North Cook Inlet Royalty Sale

✓ ① Charges - APUC

✓ ② Highest Price Argument

✓ ③ Length of Contract - Royalty Area

5/7/77

Senate Resources

SCR 56 - NCI Royalty Sale

5/7/77

BRIEFLY,

APC NEEDS NEW SUPPLIES OF GAS TO CONTINUE SERVICE TO ITS NORTH KENAI ROAD CUSTOMERS AND TO OBTAIN ADDITIONAL RESERVES FOR ANCHORAGE.

APC MADE APPLICATION FOR ROYALTY GAS FROM THE NORTH COOK INLET FIELD IN AUGUST 1975, EXPECTING THAT THEY WOULD BE ALLOWED TO FLOW THROUGH THE HIGHER COST OF THE ROYALTY GAS FROM THE NORTH COOK INLET GAS FIELD VIS-À-VIS THEIR KENAI FIELD PRICE.

AT THAT TIME THE PRICE WAS THOUGHT TO BE 50.45¢--45¢ FOR THE GAS AND 5.45¢ FOR TRANSPORTING IT FROM THE PLATFORM TO PHILLIPS' LNG PLANT.

THE APUC ALLOWED FLOW THROUGH OF COST OF THIS HIGHER PRICE ROYALTY GAS IN DECEMBER 1975 WHEN THESE COSTS, TO THE BEST OF OUR KNOWLEDGE, WERE THOUGHT TO HAVE BEEN NO MORE THAN 55.80¢ (50.25¢ FOR THE GAS AND 5.55¢ FOR TRANSPORTATION). THIS COMPARES TO 41.5¢ FOR KENAI FIELD GAS APC HAS UNDER CONTRACT.

NOW WE ARE TALKING ABOUT 84.65¢ FOR THIS GAS. MOST OF THE ADDED INCREASE IS TAKEN UP BY THE 20¢ FOR TRANSPORTATION AND COMPRESSION. IT IS MAYBE WORTH NOTING THAT THE APUC HAD DENIED APC THEIR TAP'FF FLOW THROUGH REQUEST OF 19.5¢ IN APRIL OF 1975, BECAUSE IT WAS SO BROAD AS TO ALLOW ALL COSTS TO BE FLOWED THROUGH, A SITUATION NOT DESIRED BY THE APUC.

WE MENTION THIS ONLY TO POINT OUT THAT IT APPEARS THAT THE APUC WAS APPARENTLY THINKING OF MUCH LOWER COSTS WHEN THEY ALLOWED THESE FLOW THROUGH CHARGES THAN ARE BEING PROPOSED NOW.

MR. WOLD INDICATED ON FRIDAY THAT APC WOULD GO TO THE APUC TO SEEK APPROVAL OF THESE ADDED TRANSPORTATION AND COMPRESSION COSTS. THIS IS NOT SO!!!!!! APC ON TWO OCCASSIONS INDICATED TO ME THAT THEY FELT THE DEC. '75 ORDER ALLOWING FLOW THROUGH OF ROYALTY GAS COSTS DID NOT REQUIRE THEM TO SEEK ADDITIONAL APPROVAL FROM THE APUC TO JUSTIFY THE 20¢ TRANSPORTATION AND COMPRESSION CHARGES, AND THAT THEY DID NOT PLAN TO SUBMIT THEM FOR APPROVAL TO THE APUC.

COMMISSIONER ZERBETZ OF THE APUC TOLD ME THAT A CURSORY REVIEW OF THE DECEMBER '75 ORDER WOULD CONFIRM APC'S CONTENTION.

---

THE CONTRACT BEFORE THE LEGISLATURE NOW SEEKS TO ACCOMMODATE APC SO AS TO ALLOW THEM TO TAKE THE ROYALTY GAS.

THE MAJOR DEVIATIONS ARE --

- THE DELIVERY POINT
- THE AMOUNT OF GAS APC IS REQUIRED TO TAKE OF THE ROYALTY PRODUCTION.

APPENDIX "A" ATTACHED TO THE PACKET YOU HAVE COMPARES THE KEY PROVISION OF THE CONTRACTS, AND IF YOU WANT ME TO I CAN QUICKLY GO THROUGH THESE PROVISIONS??????????????

---

ANOTHER POINT WORTH MENTIONING, I THINK, IS THAT THE APUC ALLOWED THE FLOW THROUGH PROVISIONS TO PROVIDE APC THE OPPORTUNITY FOR SECURING ADDITIONAL GAS RESERVES, PARTICULARLY IN ANCHORAGE. WITH THE ABSENCE OF A ROYALTY LINE AND NO EXCHANGE AGREEMENT BETWEEN APC AND PHILLIPS AND U-M, THE ANCHORAGE DEDICATED RESERVES WILL CONTINUE TO DWINDLE SINCE NO ROYALTY GAS FROM THE NORTH COOK INLET FIELD WOULD REACH ANCHORAGE. THE QUESTION IS WOULD THE APUC HAVE APPROVED THE FLOW THROUGH PROVISIONS AS THEY DID IF THEY HAD KNOWN THAT NO NORTH COOK INLET ROYALTY GAS WOULD REACH ANCHORAGE??????????????

---

MR. WOLD ALSO INDICATED LAST FRIDAY THAT ONE OF THE REASONS THE SALE OF ROYALTY GAS FROM THE NORTH COOK INLET FIELD TO APC WAS IN THE BEST INTEREST OF THE STATE WAS THE PRICE OF THE ROYALTY GAS. THAT IF APC COULD NOT OBTAIN THIS GAS THEY WOULD HAVE TO PAY THE CURRENT GOING PRICE FOR COOK INLET GAS, WHICH IS SAID TO BE AS HIGH AS \$1.45. THOSE COSTS, OF COURSE, WOULD BE PASSED ON TO THE CONSUMER AND WOULD BE MUCH MORE THAN ANYTHING PROPOSED BY THE CONTRACT UNDER CONSIDERATION. WHAT MR. WOLD DID NOT SAY WAS THAT THE CONTRACT PROVIDES THAT THE CONTRACT PRICE IS RENEGOTIATED ANNUALLY, AND APC WILL HAVE TO PAY THE HIGHEST PRICE OF THREE PRICING OPTIONS. ONE OF THESE OPTIONS IS THE HIGHEST PRICE PAID BY ANY PURCHASER WITHIN A 100 KM RADIUS OF PHILLIPS' PLATFORM FOR SIMILAR QUALITY GAS AND UNDER SIMILAR CONDITIONS OF DELIVERY. THE \$1.45 FIGURE INCIDENTALLY IS WITHIN THAT 100 KM RADIUS, WE ARE TOLD.

THEREFORE, IT APPEARS THAT IF PRICES REMAIN WHERE THEY ARE AT NOW, OR RISE AS CAN BE EXPECTED, APC WOULD HAVE TO PAY THE HIGHEST PRICE PAID BY ANY PURCHASER WITHIN A YEAR, AND THUS ANY PRICE ADVANTAGE WOULD BE FOREGONE WITHIN ONE YEAR.

WHEN I RAISED THIS POINT WITH MR. TEEL OF APC HE INFORMED ME THAT THERE WOULD NEVER BE A SALE UNDER SIMILAR CONDITIONS AS THE ONE NOW BEING CONSIDERED, AND THUS THEY WOULD NEVER HAVE TO PAY THAT PRICE. IF THAT IS TRUE, I WONDER WHY THE PROVISION EXISTS IN THE CONTRACT?????????

Rep. Lisa Rudd: Question re the term of the contract

Rep. Hugh Malone: (Speaking from the floor of the House)

"...We have been informed by Mr. Wold, the executive director of the State Royalty Oil and Gas Board, that before such an extension goes into effect the normal course of action would be to ask for that to be ratified by the legislature and so in answer to Rep. Rudd's question (is) initially 1984; following that any extensions are approved by the Administration and, hopefully, by the Legislature."

HCR 58

SCR 56

HB 461 Senator Colletta moved and asked unanimous consent that the Rules be suspended and HOUSE BILL NO. 461 be advanced to third reading and placed on final passage. Without objection, it was so ordered.

HOUSE BILL NO. 461 was read the third time.

The question being: "Shall HOUSE BILL NO. 461 (Extending term of Bristol Bay Regional Development Council) pass the Senate?" The roll was taken with the following result:

Yeas:	18	Bradley, Butrovich, Colletta, Croft, Ferguson, Hackney, Hohman, Kerttula, Meland, Poland, Rader, Ray, Rodey, Sackett, Sumner, Tillion, Willis, Ziegler
-------	----	--

Nays:	1	Huber
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Excused:	1	Orsini
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and so HOUSE BILL NO. 461 passed the Senate.

Senator Colletta moved and asked unanimous consent that the roll call on the passage of the above bill be considered the roll call on the effective date clause. Without objection, it was so ordered.

HOUSE BILL NO. 461 was signed by the President and Secretary and returned to the House.

#### SECOND READING OF HOUSE RESOLUTIONS

HCR 58 HOUSE CONCURRENT RESOLUTION NO. 58 (Approving disposal to Alaska Pipeline Company of royalty gas taken in-kind) was read the second time.

Senator Sackett moved and asked unanimous consent that the Letter of Intent (Senate Supplement No. 49) be adopted as the Letter of Intent of the Senate. Senator Croft objected.

The question being: "Shall the Finance Committee Letter of Intent be adopted as the Letter of Intent of the Senate?" The roll was taken with the following result:

Yeas:	12	Bradley, Butrovich, Colletta, Hackney, Huber, Meland, Poland, Rader, Sackett, Sumner, Willis, Ziegler
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Nays:	4	Croft, Kerttula, Ray, Tillion
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Absent:	3	Ferguson, Hohman, Rodey
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Excused:	1	Orsini
----------	---	--------

and so, the Letter of Intent was adopted as the Letter of Intent of the Senate.

Letter of Intent of the Senate appears in Senate Supplement HCR  
No. 50 to today's journal. 58

Senator Colletta moved for the adoption of HOUSE CONCURRENT  
RESOLUTION NO. 58.

The question being: "Shall HOUSE CONCURRENT RESOLUTION  
NO. 58 (Approving disposal to Alaska Pipeline Company of  
royalty gas taken in-kind) pass the Senate?" The roll was  
taken with the following result:

Yeas:	12	Bradley, Butrovich, Colletta, Ferguson, Hackney, Meland, Rader, Sackett, Sumner, Tillion, Willis, Ziegler
Nays:	6	Croft, Huber, Kerttula, Poland, Ray, Rodey
Absent:	1	Hohman
Excused:	1	Orsini

and so, HOUSE CONCURRENT RESOLUTION NO. 58 passed the  
Senate was signed by the President and Secretary and  
returned to the House.

The President stated the Senate would recess to a call of  
the Chair. Without objection, the Senate recessed at  
3:16 p.m.

#### AFTER RECESS

The Senate reconvened at 4:35 p.m.

The President stated engrossment on SENATE COMMITTEE SUBSTI-SCS  
TUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 264 (Res) CSHB  
amended Senate be waived in order to transmit the bill to 264  
the House as soon as possible. Without objection, it was (Res)  
so ordered. am  
S

#### UNFINISHED BUSINESS

Senator Kerttula gave notice of reconsideration of SENATE  
COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE  
BILL NO. 264 (Res) amended Senate (Fisheries enhancement) and  
asked that it be taken up at this time.

HCS SB  
to third  
26, 1977

May 26, 1977

HOUSE JOURNAL

1529

Mr. Miller moved and asked unanimous consent that HCS SB 226 (2d Rules) be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered; the bill was read the third time.

The question being: "Shall HCS SB 226 (2d Rules) pass the House?" The roll was taken with the following result:

Yeas: 24 Bennett, Bradley, Brown, Buchholdt, Carpenter, Cotten, Cowper, Dankworth, Duncan, Eliason, Gruening, Kelly, Lethin, McKinnon, Malone, Meekins, Miles, Miller, Parr, Phillips, Rudd, Smith, Snider, Urion.

Nays: 16 Akers, Anderson, Beirne, Chatterton, Freeman, Gardiner, Guy, Haugen, Hayes, Lovseth, Nakak, Ose, Osterback, Rhode, Schaeffer, Swanson.

Excused: 0

And so, HCS SB 226 (2d Rules) passed the House.

Mr. Miller moved that the effective date clause be adopted.

The question being: "Shall the effective date clause be adopted?" The roll was taken with the following result:

Yeas: 36 Akers, Anderson, Beirne, Bennett, Bradley, Brown, Buchholdt, Carpenter, Chatterton, Cotten, Cowper, Dankworth, Duncan, Eliason, Gardiner, Gruening, Haugen, Hayes, Kelly, Lethin, Lovseth, McKinnon, Malone, Meekins, Miles, Miller, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Smith, Snider, Swanson, Urion.

Nays: 4 Freeman, Guy, Nakak, Schaeffer.

Excused: 0

And so, the effective date clause was adopted.

SECOND READING OF HOUSE RESOLUTIONS

HOUSE CONCURRENT RESOLUTION NO. 58 (approving the disposal of Alaska Pipeline Company of royalty gas taken in-kind) was read the second time with the Resources Committee report (p. 1052) and the Finance Committee report (p. 1304 of the Journal).

Speaker pro tempore Miller assumed the Chair.

Mr. Malone voted at Mr. Miller's desk and Mr. Miller voted at the Speaker's desk.

HCR 58 The question being: "Shall HCR 58 pass the House?" Roll call was requested and appears as follows:

Yeas: 33 Akers, Anderson, Beirne, Bennett, Carpenter, Chatterton, Cotten, Dankworth, Duncan, Eliason, Freeman, Gardiner, Guy, Hayes, Kelly, Lethin, Lovseth, Malone, Meekins, Miles, Miller, Nakak, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Schaeffer, Smith, Snider, Swanson, Urion.

Nays: 4 Bradley, Brown, Buchholdt, McKinnon.

Excused: 3 Cowper, Gruening, Haugen.

And so, HCR 58 passed the House.

Mr. Malone gave notice of reconsideration of his vote on HCR 58.

Mr. Malone moved and asked unanimous consent that the House adopt the letter of intent on HCR 58. (page 1526 of the journal)

Mr. Brown objected and withdrew his objection.

Mr. Bradley objected.

The question being: "Shall the letter of intent on HCR 58 be adopted?" Roll call was requested and appears as follows:

Yeas: 37 Akers, Anderson, Beirne, Bennett, Bradley, Brown, Buchholdt, Carpenter, Chatterton, Cotten, Dankworth, Duncan, Eliason, Freeman, Gardiner, Guy, Hayes, Kelly, Lethin, Lovseth, McKinnon, Malone, Meekins, Miles, Miller, Nakak, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Schaeffer, Smith, Snider, Swanson, Urion.

Nays: 0

Excused: 3 Cowper, Gruening, Haugen.

And so, the motion passed.

Mr. Malone asked to take up the reconsideration of his vote on HCR 58 at this time.

The question to be reconsidered is: "Shall HCR 58 pass the House?" The roll was taken with the following result:

Yeas: 31 Akers, Anderson, Beirne, Bennett, Chatterton, Cotten, Dankworth, Duncan, Eliason, Freeman, Gardiner, Guy, Hayes, Kelly, Lethin, Lovseth, Malone, Meekins, Miles, Miller, Nakak, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Schaeffer, Smith, Swanson, Urion.

Nays: 3 Bradley, Brown, McKinnon.

May 26, 1977

Excused: 6

And so, HCR 58 passed vote and was referred

Speaker Malone resumed

Mr. Chatterton gave on HCS GSSB 226 (2d

Mr. Nakak asked the

AL  
May 26, 1977  
"58 pass the House?" Roll  
as follows:  
erson, Beirne, Bennett,  
Chatterton, Cotten, Dankworth,  
ason, Freeman, Gardner, Guy,  
y, Lathin, Lovseth, Malone,  
ice, Miller, Na  
Parr, Phillips, de, Rudd,  
Smith, Snider, Swanson, Utom.

May 26, 1977 HOUSE JOURNAL 1531

Excused: 6 Buchholdt, Carpenter, Cowper, Gruening, HCR  
Haugen, Snider. 58

And so, HCR 58 passed the House on reconsideration of the vote and was referred to the Chief Clerk for engrossment.

Speaker Malone resumed the Chair.

Mr. Chatterton gave notice of reconsideration of his vote on HCS CSSB 226 (2d Rules). HCS  
CSSB  
226  
(2d  
Rls)

Mr. Nakak asked that the members of the Conference Committee on HCS CSSB 150 be excused for a meeting in Senator Bradley's office at this time.

HOUSE CONCURRENT RESOLUTION NO. 79 (cost analysis of keeping the capital in Juneau) was read the second time with the State Affairs Committee report (page 1513 of the journal). HCR  
79

A fiscal note on HCR 79 appears in House Supplement No. 70.

Mr. Anderson moved that HCR 79 be shown as sponsored by all members of the House.

Mr. Anderson withdrew his motion and moved that his name and other members desiring of having their names added, be added as co-sponsors of HCR 79. There being no objection, it was so ordered.

Mr. Miller moved and asked unanimous consent that the House recess for ten minutes. There being no objection, the House recessed at 2:55 p.m.

AFTER RECESS

The House was called to order at 3:27 p.m.

Mr. Parr moved and asked unanimous consent that the following letter of intent be concurred in by the members of the House and that it be printed in the journal. There being no objection, it was so ordered, and the letter of intent appears as follows:

Letter of Intent on HCR 79

It is the intent of the House that the fiscal note for HCR 79 be zero, and that the cost be absorbed in the authorized budget for the New Capital Site Planning Commission.

HCR 58 The letter of intent on HOUSE CONCURRENT RESOLUTION NO. 58 (approving the disposal to Alaska Pipeline Company of royalty gas taken in-kind) appears as follows:

RULES COMMITTEE

LETTER OF INTENT

The House of Representatives in approving the sale of state royalty gas from the North Cook Inlet field to Alaska Pipeline Company through HCR 58, does not intend to waive, in any way, jurisdiction or regulatory authority of the state over Phillips pipeline or pipelines of a similar nature, and that approval of HCR 58 not be considered as a precedent for any royalty oil or gas sales. The House is concerned by the lack of regulatory review of the tariff charges which would be applicable under the contract.

The House therefore respectfully requests that the Governor, before the state enters into any similar contracts, review the statutes relating to state regulatory authority over pipelines used to transport state royalty oil and gas, including the consideration whether such lines should be designated as common carriers, and to report his findings and recommendations to the Second Session of the Tenth Alaska Legislature within thirty days of convening.

In addition to this, there is a question as to whether all the consumers who will be receiving benefits of the royalty gas will fairly share in the costs. Therefore, the Alaska Public Utilities Commission is respectfully requested to review its 1975 decision relating to flow-through costs of royalty gas.

Finally, although an argument for approval of the contract is certainly to increase the reserves available to both the Kenai Peninsula and Anchorage, it appears that either construction of a new line or an exchange agreement with Union Marathon is necessary to make the reserves usable. Therefore, the Alaska Public Utilities Commission is respectfully requested to review its 1971 exemption from regulation of the Kenai-Nikiski gas pipeline.

*Samuel R. Cotten*

Rep. Sam Cotten, Chairman  
House Rules Committee

*Buchholdt*

Rep. Buchholdt, Vice Chmn

*W. D. Miller*

Rep. Miller

*U. R. Urion*

Rep. Urion

*Charles H. Parr*

Rep. Parr

*Tim Kelly*

Rep. Kelly

*John Nakak*

Rep. Nakak

May 26, 1977

CONSID.

The Speaker stated  
Mr. Miller moved ar  
rescind its previous  
No. 4.  
Mr. Fr

CSHB A message dated May 10, 1977 was read stating the Senate 342 has passed COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 342 am amended (management of the coastal resources of the state; effective date) with the following amendment:

SENATE COMMITTEE SUBSTITUTE FOR  
COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 342

and the same is transmitted for consideration.

REPORTS OF STANDING COMMITTEES

HCR 58 The Finance Committee has had HOUSE CONCURRENT RESOLUTION NO. 58 (approving the disposal to Alaska Pipeline Company of royalty gas taken in-kind) under consideration and five of the members recommend it do pass. Concurring: Freeman (Vice Chairman), Rhode, Haugen, Guy and Duncan. Not concurring: Gruening, Buchholdt and Meekins have no recommendation.

HCR 58 was referred to the Rules Committee for placement on the calendar.

HCR 59 The Finance Committee has had HOUSE CONCURRENT RESOLUTION NO. 59 (approving the disposal to Golden Valley Electric Association, Inc. of royalty oil taken in-kind) under consideration and a majority of the members recommends it do pass. Concurring: Freeman (Vice Chairman), Gruening, Duncan, Buchholdt, Guy, Haugen and Rhode. Not concurring: Meekins has no recommendation.

HCR 59 was referred to the Rules Committee for placement on the calendar.

CSHB A Finance Committee Chairman's letter of intent on CSHB 322 322 appears as follows: (The Finance Committee report appears on page 1284 of the journal.)

FINANCE COMMITTEE CHAIRMAN'S REPORT  
FOR  
COMMITTEE SUBSTITUTE  
FOR  
HOUSE BILL NO. 322

The House Finance Committee reports out CSHB 322, an oil and gas corporate franchise tax, which includes as additions to the original bill, HB 322, the following provisions:

1. A requirement that the tax be paid even though it be challenged before the department or under appeal in the courts (Sec. 43.21.060(1)); and

2. Relief for the taxpayer if the taxpayer can establish that it is being taxed on more than 100% of its net income (Sec. 43.21.065).

MESSAGES FROM THE SENATE

HCR 53 A message dated April 27, 1977 was read stating the Senate has passed HOUSE CONCURRENT RESOLUTION NO. 53 (Alaska Special Olympics), and it is returned.

HCR 53 was referred to the Chief Clerk for enrollment.

A message dated April 28, 1977 was read stating the Senate accepts the invitations to joint sessions April 28, 1977, Thursday at 1:30 p.m. for the purpose of confirmation of the Governor's appointments and for changes to the Uniform Rules; and April 29, Friday at 1:30 p.m. for the purpose of d-2 land discussions with the Honorable Ted Stevens, U.S. Senator, and the Governor of Alaska.

HCR 50 A message dated April 27, 1977 was read stating the Senate has passed HOUSE CONCURRENT RESOLUTION NO. 50 (commending the State Investment Advisory Committee) with the following amendment:

Page 1, line 23: After "Sterling" delete "S"

Page 2, line 2: After "Sterling" delete "S"

and so, HOUSE CONCURRENT RESOLUTION NO. 50 amended Senate is transmitted herewith for consideration.

REPORTS OF STANDING COMMITTEES

SCR 26 The Judiciary Committee has had SENATE CONCURRENT RESOLUTION NO. 26 (increase in the number of state troopers) under consideration and a majority of the members recommends it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 26 (same title) and that it do pass. Concurring: Gardiner (Chairman), Miles, Eliason and Brown.

SCR 26 was referred to the Finance Committee.

HCR 58 The Resources Committee has had HOUSE CONCURRENT RESOLUTION NO. 58 (approving the disposal to Alaska Pipeline Company of royalty gas taken in-kind) under consideration and a majority of the members recommends it do pass. Concurring: Osterback (Chairman), Eliason, Smith, Urion and Akers. Not concurring: Snider and Malone have no recommendation.

HCR 58 was referred to the Finance Committee.

Introduced: 4/22/77  
Referred: Resources

1 IN THE SENATE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2

SENATE CONCURRENT RESOLUTION NO. 56

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

TENTH LEGISLATURE - FIRST SESSION

5

Approving the disposal to Alaska

6

Pipeline Company of royalty gas

7

taken in-kind

8

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

9

WHEREAS, under AS 38.06.055(a), each house of the legislature must  
10 approve by concurrent resolution all sales of state-owned royalty natural  
11 gas before the sale may be consummated; and

12

WHEREAS the State of Alaska has the right under AS 38.05.180 and its  
13 oil and gas leases to receive royalty natural gas either in-kind or in-value  
14 from fields in the Cook Inlet area; and

15

WHEREAS the commissioner of natural resources has entered into a  
16 contract for the sale of state-owned royalty natural gas from the North  
17 Cook Inlet Field to Alaska Pipeline Company; and

18

WHEREAS the Alaska Royalty Oil & Gas Development Advisory Board  
19 approved the contract for the sale of royalty natural gas from the North  
20 Cook Inlet Field to Alaska Pipeline Company; and

21

WHEREAS the legislature has reviewed this contract and conducted  
22 hearings and otherwise received public input on this contract; and

23

WHEREAS the legislature finds this contract to be in the public  
24 interest of Alaska and its people, and further finds that this contract is  
25 in compliance with all requirements of law;

26

BE IT RESOLVED by the Alaska State Legislature that the "Gas Purchase  
27 Contract" dated April 11, 1977, with the Alaska Pipeline Company and the  
28 commissioner of natural resources for the sale and purchase of royalty  
29 natural gas from the North Cook Inlet Field is hereby approved.

Introduced: 4/22/77  
Referred: Resources and  
Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO. 58

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the disposal to Alaska  
6 Pipeline Company of royalty gas  
7 taken in-kind

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

9 WHEREAS, under AS 38.06.055(a), each house of the legislature must  
10 approve by concurrent resolution all sales of state-owned royalty natural  
11 gas before the sale may be consummated; and

12 WHEREAS the State of Alaska has the right under AS 38.05.180 and its  
13 oil and gas leases to receive royalty natural gas either in-kind or in-  
14 value from fields in the Cook Inlet area; and

15 WHEREAS the commissioner of natural resources has entered into a  
16 contract for the sale of state-owned royalty natural gas from the North  
17 Cook Inlet Field to Alaska Pipeline Company; and

18 WHEREAS the Alaska Royalty Oil & Gas Development Advisory Board  
19 approved the contract for the sale of royalty natural gas from the North  
20 Cook Inlet Field to Alaska Pipeline Company; and

21 WHEREAS the legislature has reviewed this contract and conducted  
22 hearings and otherwise received public input on this contract; and

23 WHEREAS the legislature finds this contract to be in the public  
24 interest of Alaska and its people, and further finds that this contract is  
25 in compliance with all requirements of law;

26 BE IT RESOLVED by the Alaska State Legislature that the "Gas Purchase  
27 Contract" dated April 11, 1977, with the Alaska Pipeline Company and the  
28 commissioner of natural resources for the sale and purchase of royalty  
29 natural gas from the North Cook Inlet Field is hereby approved.

#

CONTRACTS

APPENDIX "A"

KEY PROVISIONS

PROPOSED REVISED CONTRACT

CONTRACT 76-1

CONTRACT BETWEEN STATE AND PHILLIPS  
(with APC being a signatory)

CONTRACT BETWEEN STATE AND APC

Quantity: ARTICLE II  
All royalty gas available, when and as available.

ARTICLE IV  
1. Phillips shall use its "best reasonable efforts" to deliver not less than 3 Bcf of royalty gas annually (without requiring installation or operation of added pipeline and compression facilities), and subject to  
a. availability of capacity in Phillips' facilities to handle volumes in excess of Phillips' own requirements;  
b. availability of royalty gas at the platform;  
c. APC's requirements; and  
d. APC's ability to take the requirements.  
2. Over or under deliveries of royalty gas shall be carried in an over and short account. In the event the takes by the State (APC) shall ever be 60 MMcf less than the amount of royalty gas available, Phillips shall purchase the excess undelivered quantities of royalty gas over 60 MMcf from the State, and pay the State a price equal to that amount which Phillips would have otherwise paid the State had the State taken its royalty gas in value.

ARTICLE III  
1. Up to all royalty gas available, subject to  
a. APC's ability to take the entire amount of royalty gas available on any given day;  
b. APC's need and available delivery facilities.  
APC shall use its "best reasonable efforts" to take not less than 3 Bcf of royalty gas annually.  
2. Over or under deliveries of royalty gas shall be carried in an over and short account. In the event the takes by APC shall ever be 60 MMcf less than the amount of royalty gas available APC is not permitted to make up for any such underdelivery and the State may sell the undelivered quantity of royalty gas to Phillips.

Delivery Point: ARTICLE III  
Delivery point shall be the same for APC as it has been for State, which is Phillips' platform.

ARTICLE III & V  
Delivery point shall be at or near the existing pipeline tap being presently used to deliver gas from Phillips' pipeline to the Tesoro refinery, which is located in the general vicinity of Phillips' Kenai LNG plant on the North Kenai Road.

ARTICLE V  
APC's connection into Phillips' pipeline system at or near Phillips' pipeline tap serving the Tesoro refinery. It shall be the same delivery point as that of the State and Phillips.

Price: ARTICLE V  
1. To July 1, 1977 55.5¢/Mcf  
2. July 1, 1977-July 1, 1978 the higher of  
a. 60.36¢/Mcf or  
b. price State would have received had it continued to take its royalty gas in value or  
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.  
3. July 1, 1978 and each succeeding 12 month period the higher of  
a. the previous year's price plus 2¢/Mcf or  
b. price State would have received had it continued to take its royalty gas in value or  
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.

ARTICLE VI  
1. To July 1, 1978 64.65¢/Mcf  
2. July 1, 1978-July 1, 1979 the higher of  
a. 66.65¢/Mcf or  
b. price State would have received had it continued to take its royalty gas in value or  
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.  
3. July 1, 1979 and each succeeding 12 month period the higher of  
a. the previous year's price plus 2¢/Mcf or  
b. price State would have received had it continued to take its royalty gas in value or  
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.

AGD 801312

CONTRACT 76-1

Gathering and  
Compression  
Charges and  
Taxes; Other  
Charges

Term: ARTICLE VI  
Effective: Upon approval by the  
Legislature 5/20/76  
Expiration: July 1, 1984

Termination  
Clause: ARTICLE VII  
Allows APC to terminate the contract  
within 30 days of written notice to  
State if APC is unable to make satis-  
factory arrangements to take delivery  
of the royalty gas. APC may not ex-  
ercise this right after January 31,  
1978.

CONTRACT BETWEEN STATE AND PHILLIPS

ARTICLE IX

1. 10¢/Mcf for gathering costs to delivery point to increase 6 percent per year compounded annually on the anniversary date of the contract.
2. 10¢/Mcf for added compression costs to delivery point to increase 6 percent per year compounded annually on the anniversary date when the facilities were first used.
3. Additional compression charges to be mutually agreed upon between the parties, which includes APC since they are signatories of this contract (see also 12.3). If no agreement is reached within 90 days after Phillips serves notice about such added costs, then this contract is terminated.
4. Additionally, the State must pay Phillips any new or increased fee, imposts, duty, charge, excise or tax in proportion to the amount of royalty gas delivered to the State as it relates to gathering and compression.

ARTICLE XIV

Effective: Upon approval by the Legislature of the contract between the State and APC.  
Expiration: June 1, 1984 unless terminated or extended prior to that date.

ARTICLE IX, XI & XIV

1. Will be terminated immediately if deliveries to State (APC) have not commenced by June 30, 1978.
2. If subjected to regulation as a utility (11.2).
3. If added compression cost cannot be agreed upon within 90 days (9.3).
4. If contract between State and APC is terminated.
5. If terminated the State's election to receive its royalty gas in-kind is revoked, and royalty gas available shall be sold to Phillips in value.
- 6.

CONTRACT BETWEEN STATE AND APC

ARTICLE VI & VII

1. 10¢/Mcf for gathering costs to delivery point to increase 6 percent per year compounded annually on the anniversary date of the contract.
2. 10¢/Mcf for added compression costs to delivery point to increase 6 percent per year compounded annually on the anniversary date when such compression facilities are ready for use. (This is different from State/Phillips agreement.)  
This does not obligate Phillips to install any compression facilities or to operate any compression facilities already installed.
3. Additional compression charges to be mutually agreed upon between the State and APC. If no agreement is reached within 90 days after the State serves notice about such added costs, then this contract is terminated (7.5).
4. APC must pay the State any amount for which the State is obligated to reimburse Phillips for a proportion of new or increased fees, imposts, duties, charges or taxes. (This leaves out excise.) (The language is somewhat different from State/Phillips contract, but the effect would seem to be the same.)
5. APC must pay the State any additional costs not covered in the contract and incurred by State in transporting the gas to shore.

ARTICLE VII

Effective: Upon approval by the Legislature.  
Expiration: June 1, 1984 unless terminated or extended prior to that date.

ARTICLE VII

1. Contract shall terminate immediately if deliveries to APC have not commenced by June 30, 1978.
2. Either State or APC may terminate this contract by giving 30 days notice to the other if Phillips comes under regulation as a utility.
3. Contract may be terminated if added compression cost cannot be agreed upon within 90 days.
4. Contract may be terminated if contract between State and Phillips is terminated.
- 5.
6. State may terminate upon 30 days notice to APC if the State cannot arrange for satisfactory transportation of royalty gas to shore.

CONTRACT 76-1

Representation  
and Condition  
Precedent:

Payments:

Miscellaneous

CONTRACT BETWEEN STATE AND PHILLIPS

ARTICLE XI  
Phillips, by entering into this contract,  
shall not be subject to regulation by the  
FPC, APUC or APC.

Should they become subject to regulation  
as a utility this contract may be termin-  
ated by either party upon 30 days' notice.

ARTICLE XII  
APC to make all payments for State's account  
directly to Phillips.

CONTRACT BETWEEN STATE AND APC

ARTICLE VIII  
Neither this contract nor APC's use or  
disposition of the royalty gas will subject  
Phillips to FPC, APUC or APC regulation.

- ARTICLE IX
1. Assignments of interest by APC may be made  
"...to conform with...(APC's) various  
financing documents or as may be desirable  
to...(APC) as to...(APC's) commonly owned  
affiliate or subsidiary."
  2. If APC does not receive or purchase all  
royalty gas available, then State can dis-  
pose of that portion not taken, provided no  
gathering and compression charges are incur-  
red by APC as a result.

W.O. 4105  
Introduced: 4/22/77  
Referred: Resources and  
Finance

1 IN THE HOUSE

SCR No 58

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO. 58

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the disposal to Alaska  
6 Pipeline Company of royalty gas  
7 taken in-kind.

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

9 WHEREAS, under AS 38.06.055(a), each house of the legislature must  
10 approve by concurrent resolution all sales of state-owned royalty natural  
11 gas before the sale may be consummated; and

12 WHEREAS the State of Alaska has the right under AS 38.05.180 and its  
13 oil and gas leases to receive royalty natural gas either in-kind or in-  
14 value from fields in the Cook Inlet area; and

15 WHEREAS the commissioner of natural resources has entered into a  
16 contract for the sale of state-owned royalty natural gas from the North  
17 Cook Inlet Field to Alaska Pipeline Company; and

18 WHEREAS the Alaska Royalty Oil & Gas Development Advisory Board  
19 approved the contract for the sale of royalty natural gas from the North  
20 Cook Inlet Field to Alaska Pipeline Company; and

21 WHEREAS the legislature has reviewed this contract and conducted  
22 hearings and otherwise received public input on this contract; and

23 WHEREAS the legislature finds this contract to be in the public  
24 interest of Alaska and its people, and further finds that this contract is  
25 in compliance with all requirements of law;

26 BE IT RESOLVED by the Alaska State Legislature that the "Gas Purchase  
27 Contract" dated April 11, 1977, with the Alaska Pipeline Company and the  
28 commissioner of natural resources for the sale and purchase of royalty  
29 natural gas from the North Cook Inlet Field is hereby approved.

#

Introduced: 4/22/77  
Referred: Resources

1 IN THE SENATE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 SENATE CONCURRENT RESOLUTION NO. 56

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the disposal to Alaska  
6 Pipeline Company of royalty gas  
7 taken in-kind

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

9 WHEREAS, under AS 38.06.055(a), each house of the legislature must  
10 approve by concurrent resolution all sales of state-owned royalty natural  
11 gas before the sale may be consummated; and

12 WHEREAS the State of Alaska has the right under AS 38.05.180 and its  
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18 WHEREAS the Alaska Royalty Oil & Gas Development Advisory Board  
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20 Cook Inlet Field to Alaska Pipeline Company; and

21 WHEREAS the legislature has reviewed this contract and conducted  
22 hearings and otherwise received public input on this contract; and

23 WHEREAS the legislature finds this contract to be in the public  
24 interest of Alaska and its people, and further finds that this contract is  
25 in compliance with all requirements of law;

26 BE IT RESOLVED by the Alaska State Legislature that the "Gas Purchase  
27 Contract" dated April 11, 1977, with the Alaska Pipeline Company and the  
28 commissioner of natural resources for the sale and purchase of royalty  
29 natural gas from the North Cook Inlet Field is hereby approved.



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

April 22, 1977

The Honorable John L. Rader  
President of the Senate  
Alaska State Legislature  
Juneau, Alaska 99811

Dear Mr. President:

Under authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a resolution giving legislative approval to a sale of royalty natural gas from the North Cook Inlet Field to Alaska Pipeline Company. AS 38.06.055(a) provides that no sale of state-owned royalty oil may be made unless approved by concurrent resolution of the legislature.

The Alaska Royalty Oil and Gas Development Advisory Board reviewed the contract and granted its approval on April 6, 1977. The Board's declarations and findings are included in the material submitted to each legislator today. I would be pleased to assist you with any additional information which you request.

Last year the State of Alaska and the Alaska Pipeline Company entered into a contract for the sale of the same royalty gas to Alaska Pipeline Company. That contract was approved by the legislature last session. However, certain difficulties with volume flexibility and arranging for the transportation of the gas from the offshore platform to shore prevented Alaska Pipeline Company from receiving the gas under that contract. The current agreement has been executed to solve these problems and allow royalty gas to be delivered to Alaska Pipeline Company.

The problems with the previous agreement were:

1. Alaska Pipeline Company was unable to use all of the royalty gas at all times (as required in the contract) due to lack of an adequate market; and yet, because of limitations also included in the contract, is unable to sell the excess gas back to Phillips Petroleum Company for export from the State.

2. Alaska Pipeline Company was unable to enter into an agreement with Phillips Petroleum Company for transporting of the gas to shore from the production platform due to understandable reluctance of Phillips to expose themselves to the jurisdiction of the Public Utilities Commission or the Pipeline Commission. The new agreement I am submitting to the legislature today remedies these problems.

✓ This new agreement with Alaska Pipeline necessitated that the State itself also enter into an agreement with Phillips Petroleum Company for delivery of the royalty gas from the platform to shore. This agreement requires that the State pay the cost of gathering and compressing the royalty gas to the point of delivery; however, Alaska Pipeline Company in turn agrees to pay these costs to Phillips for the account of the State. The Royalty Board has neither responsibility nor authority to judge the appropriateness of the level of these charges, and has not done so.

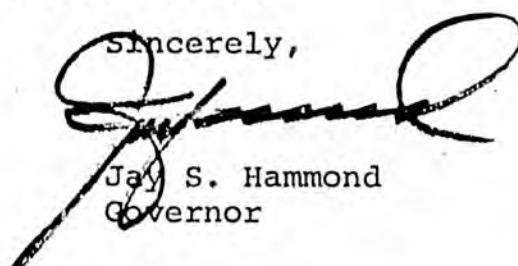
Phillips Petroleum Company has operational problems affecting their ability to deliver guaranteed volumes of royalty gas to shore, as does Alaska Pipeline Company affecting their ability to market the gas available. These companies, together with the State, have agreed to use their "best reasonable efforts" to accommodate the needs of one another to produce and market royalty gas.

The contract between the State and Phillips does not strictly require legislative approval since it does not involve a sale of royalty gas. Nevertheless, I have included it in the materials submitted to the legislature because it is an integral part of the sale of royalty gas to Alaska Pipeline Company.

✓ I believe your careful review of the enclosed materials will reveal many questions regarding this approach to resolving the many problems associated with the acquiring and delivery of this royalty gas. However, I also believe that these agreements are the best possible solution at this time, are in the best interest of the State, and are important to the long-term interest of Anchorage utility customers.

Thank you for your consideration.

Sincerely,

  
Jay S. Hammond  
Governor

AGO 801318

Materials for Legislature

Alaska Pipeline Company

List of materials submitted to each legislator.

✓ 1. Gas Purchase Contract dated April 11, 1977 between Alaska Pipeline Company and the State of Alaska.

✓ 2. Agreement dated April 11, 1977 between Phillips Petroleum Company and the State of Alaska.

✓ 3. Reasons for Sale and Purchase of State Royalty Gas to Alaska Pipeline Company and for Agreement with Phillips Petroleum Company.

✓ 4. Findings and Conclusions of the Commissioner Pursuant to Alaska Statute 38.01.113(c) (determination not to use competitive bid procedures.)

✓ 5. Approvals relating to above by Alaska Royalty Oil and Gas Development Advisory Board dated April 6, 1977.

✓ 6. Attorney General's opinions relating to jurisdiction of Public Utilities Commission and Pipeline Commission.

✓ 7. Memos relating to gathering and compression charges.

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AGREEMENT

This Contract, made and entered into this 11<sup>th</sup>  
day of April, 1977, by and between the State of Alaska,  
herein referred to as "State", and Phillips Petroleum Com-  
pany, herein referred to as "Lessee",

W I T N E S S E T H

WHEREAS, Lessee is the holder of certain mineral  
leases from the State in the North Cook Inlet area of Alaska,  
said leases identified in Exhibit "A" to this Agreement; and

WHEREAS, the State has the right under the terms  
of said leases to receive in value or in kind a 1/8 (one-  
eighth) royalty share of natural gas produced from said  
leases; and

WHEREAS, the State desires to receive its in kind  
royalty share of natural gas at a point other than at Lessee's  
production platform; and

WHEREAS, Lessee operates a gas pipeline to gather  
natural gas from the said leases to the LNG facility at  
Kenai, Alaska (hereinafter referred to as Kenai LNG Plant),  
which Lessee operates; and

WHEREAS, Lessee is willing to deliver to the State  
its in kind royalty share of the natural gas from said  
leases at a point near the Kenai LNG Plant; and

WHEREAS, the State desires to receive its royalty  
share of the natural gas from said leases at such a point

1 and has agreed with Alaska Pipeline Company to sell such gas  
2 to Alaska Pipeline Company (herein referred to as "APC") for  
3 resale and use within the State of Alaska according to the  
4 terms of that certain Gas Purchase Contract attached hereto  
5 as Exhibit "B".

6 NOW, THEREFORE, premises considered, the State and  
7 Lessee hereby mutually agree as follows:  
8

9 ARTICLE I

10 DEFINITIONS

11 The following terms when used in this Agreement  
12 shall have the following meanings:

13 1.1 The term "day" shall mean a period of twenty-  
14 four (24) consecutive hours beginning and ending at 7:00  
15 o'clock A.M. The reference date for any day shall be the  
16 date of the beginning of such day.

17 1.2 The term "month" shall mean a period begin-  
18 ning at 7:00 o'clock A.M. on the first day of a calendar  
19 month and ending at 7:00 o'clock A.M. on the first day of  
20 the next succeeding calendar month.

21 1.3 The term "Mcf" shall mean one thousand (1,000)  
22 cubic feet of natural gas measured as hereinafter provided.  
23

24 ARTICLE II

25 The State's Royalty Gas

26 2.1 Within 30 days after the execution and approval  
27 of this Agreement as required by the laws of the State of  
28 Alaska, the State shall notify the Lessee under the leases  
29

1 set forth at Exhibit A, the State's election to take its  
2 royalty gas in kind. Said notice will provide that the  
3 Lessee shall commence the delivery of said royalty gas to  
4 the State (or to the State's designee) upon a receipt of  
5 notice from the State that all facilities necessary to  
6 receive and market said gas are ready; provided, however, in  
7 no event shall Lessee be required to commence the delivery  
8 of royalty gas to the State (or its designee) prior to six  
9 (6) months following Lessee's receipt of notice of the  
10 State's election to take its royalty gas in kind.

11 2.2 In order that the State give Lessee as much  
12 advance notice as possible of the date it will start receiv-  
13 ing its royalty gas in kind, the State shall notify Lessee  
14 that all facilities necessary to receive and market said gas  
15 are ready, at least sixty (60) days prior to the date on which  
16 Lessee shall be required to commence delivery pursuant to  
17 this Agreement.

18 ARTICLE III

19 FACILITIES

20  
21 3.1 Lessee is presently operating and maintaining  
22 a natural gas gathering system between the North Cook Inlet  
23 Field and the Kenai LNG Plant.

24 3.2 The State or its designee shall install,  
25 maintain and operate all pipeline, pressure regulators, and  
26 related facilities necessary to receive gas hereunder at the  
27 point of delivery hereinafter specified. Said point of  
28 delivery shall be at or near the existing pipeline tap being  
29 presently used to deliver gas from Lessee's pipeline to the  
30

1 Tesoro refinery located in the general vicinity of the Kenai  
2 LNG Plant on the North Kenai Road.

3 3.3 The State or its designee shall install,  
4 operate and maintain all necessary equipment at the point of  
5 delivery and at the State's or its designee's measuring  
6 station(s) (hereinafter called the "point of measurement")  
7 to properly control, odorize, and measure the volumes of  
8 gas delivered hereunder.

9 3.4 Lessee hereby grants the State or its designee  
10 ingress and egress at the point of delivery without charge  
11 for all purposes necessary hereto, and the State and its  
12 designee hereby agree to assure Lessee ingress and egress at  
13 the point of measurement and between the point of delivery  
14 and the point of measurement without charge for all purposes  
15 necessary hereto.

16  
17 ARTICLE IV

18 QUANTITY OF GAS

19 4.1 Subject to the availability of capacity in  
20 its facilities to handle volumes in excess of its own  
21 needs and to the extent of such availability, and upon  
22 proper written notice from the State under Article II  
23 hereof, Lessee shall gather the royalty gas in the North  
24 Cook Inlet Field and deliver same to the State at the point  
25 of delivery specified herein. The State is entitled to  
26 receive at the wellhead 1/8 (one-eighth) of the natural gas  
27 produced from the leases listed in Exhibit "A", and to the  
28 extent that Lessee gathers and delivers more or less than  
29 the amount of royalty gas to which the State is entitled,  
30

1 that difference shall be carried in the over and short  
2 account described below or Lessee shall purchase same on the  
3 basis provided in Section 4.3 below.

4 It is recognized that it is impossible to deliver  
5 to the State or for the State or its designee to receive the  
6 exact amount of royalty gas produced from the leases listed  
7 in Exhibit "A". Lessee agrees that it will carry an over  
8 and short account with respect to the receipts of royalty  
9 gas and the delivery of same to the State, provided, however,  
10 that Lessee shall never be required to carry more than a  
11 total of 60,000 Mcf over or under delivery. In the event  
12 the takes by the State on a cumulative basis shall ever be  
13 more than 60,000 Mcf less than the amount of royalty gas  
14 available at the point of delivery, the State shall not be  
15 allowed to make up for any such underdelivery, and Lessee  
16 shall purchase the excess undelivered quantities of royalty  
17 gas over 60,000 Mcf from the State at the wellhead on the  
18 basis provided in section 4.3 below.

19 4.2 Subject to (i) the availability of royalty  
20 gas at the platform and (ii) to the State's or its designee's  
21 requirements, and (iii) the State's or its designee's ability  
22 to take such requirement, Lessee shall use its best reasonable  
23 efforts to deliver to the State or its designee at the  
24 delivery point specified herein on an annual basis not less  
25 than three (3) billion cubic feet of royalty gas; provided,  
26 however, that in using such best reasonable efforts, Lessee  
27 shall not be required to install or operate any pipeline,  
28 compression or other facilities which, when operating as a  
29 reasonably prudent operator, it would not otherwise install

1 and/or operate.

2 4.3 The parties recognize that the State contem-  
3 plates selling such royalty gas to Alaska Pipeline Company  
4 and that such purchaser may be unable from time to time to  
5 take and deliver to its customers the full volumes of gas  
6 attributable to the State's royalty interest although it is  
7 committed to purchase that volume from the State. In such  
8 event, Lessee agrees to purchase from the State from time to  
9 time those volumes which APC is unable to take. For such  
10 volumes which it purchases from the State, Lessee will pay  
11 the State a price equal to that amount which Lessee would  
12 have otherwise paid to the State as royalty if the State had  
13 not elected to receive its royalty gas in kind, and Lessee  
14 will not charge the State for gathering or compressing such  
15 volumes of gas or for other charges under this Agreement.

16 ARTICLE V

17 POINT OF DELIVERY AND OWNERSHIP

18  
19 5.1 The point of delivery to the State for all gas  
20 gathered and delivered hereunder by Lessee shall be at the  
21 juncture of APC's facilities and Lessee's facilities located  
22 near the pipeline tap serving the Tesoro refinery as mention-  
23 ed in Section 3.2 of this Agreement.

24 5.2 Lessee shall be deemed to be in control and  
25 possession of the gas deliverable hereunder and responsible  
26 for any damage or injury caused thereby until said gas shall  
27 have been delivered to the State or its designee at the  
28 point of delivery, after which delivery State or its designee  
29 shall be deemed to be in exclusive control and possession of

1 the gas and responsible for any injury or damage caused thereby.

2 5.3 Measurement of royalty gas shall be the responsi-  
3 bility of the State or its designee subject to Lessee's right  
4 to verify such measurement or to install and operate check  
5 metering equipment, and shall be done at a metering station(s)  
6 on the North Kenai Road, called the "point of measurement".  
7 The State or its designee shall be responsible for any gas  
8 lost between the point of delivery and the point of measurement.

9  
10 ARTICLE VI

11 QUALITY, PRESSURE, AND ODORIZATION

12 6.1 Lessee shall deliver gas hereunder at the  
13 pressure existing from time to time in its facilities at the  
14 point of delivery.

15 6.2 Lessee agrees that the quality of gas, when  
16 delivered at the point of delivery hereunder, shall be the  
17 quality of gas existing in its gathering system from time to  
18 time and the State agrees to accept such gas.

19 6.3 It is understood that the gas delivered  
20 hereunder will not be odorized by Lessee, and if the State  
21 or its purchaser so utilizes the gas delivered hereunder for  
22 purposes which require odorization of such gas, the full  
23 responsibility for such use is the State's. Lessee shall  
24 have no responsibility for odorizing such gas irrespective  
25 of the State's disposition of same.

26  
27 ARTICLE VII

28 STANDARDS OF MEASUREMENT AND TESTS

29 7.1 Except for the determination and computation  
30

1 of total heating value, the unit of volume of gas delivered  
2 hereunder shall be one (1) cubic foot at an absolute pres-  
3 sure of fourteen and sixty-five hundredths (14.65) pounds  
4 per square inch and at a base temperature of sixty (60)  
5 degrees Fahrenheit.

6 7.2 The volumes of gas delivered hereunder shall  
7 be measured and computed by the State or its designee in  
8 accordance with the methods prescribed in Gas Measurement  
9 Committee Report No. 3, Natural Gas Department, American Gas  
10 Association, including the Appendix thereto, dated April,  
11 1965, except that the atmospheric pressure shall be assumed  
12 to fourteen and seven-tenths (14.7) pounds per square inch.  
13 The method used for correcting such volumes for deviation  
14 from the Ideal Gas Laws shall be the procedure recommended  
15 in the most current Report of the American Gas Association  
16 or by any other method mutually agreeable to the parties  
17 hereto.

18 7.3 The specific gravity of the gas delivered  
19 hereunder shall be determined by Lessee's utilizing the  
20 method prescribed in American Petroleum Institute Code No.  
21 50-A at the beginning of delivery hereunder and once during  
22 each month thereafter. The results of each such determina-  
23 tion shall be used in computing the volume of gas delivered  
24 hereunder until the effective date of the next succeeding test.

25 7.4 The flowing temperature of the gas delivered  
26 hereunder shall be determined by means of a continuous  
27 recording thermometer installed by the State or its designee  
28 so that it will properly record the temperature of the gas  
29 flowing through the meter. The arithmetical average of the  
30

1 hourly temperatures recorded each day shall be used in  
2 computing the volumes of gas delivered during such day.

3 7.5 If the gas delivered hereunder is solely from  
4 the 16-inch pipeline serving the North Cook Inlet Field, the  
5 total heating value of the gas shall be the average of that  
6 recorded on the recording calorimeter for Lessee's gas at  
7 the inlet to Kenai LNG Plant during the billing period  
8 corrected to thirty (30) inches of Mercury and sixty (60)  
9 degrees Fahrenheit dry.

10 ARTICLE VIII

11 MEASUREMENT

12  
13 8.1 As agreed in Section 5.3 hereof, the State or  
14 its designee shall be obligated to and be responsible for  
15 all metering of gas hereunder.

16 8.2 The State or Lessee may, at their option and  
17 expense, install check meters upstream or downstream of the  
18 State's or its designee's meter station provided that such  
19 check meters will be installed so as not to interfere with  
20 the operation of the State's or its designee's facilities.  
21 The calibrating and adjusting of meters and the changing of  
22 charts and the reading of charts on meters shall be done by  
23 the party who installed the meters.

24 8.3 The State and Lessee shall have access at all  
25 times to the State's or its designee's metering equipment  
26 including all other instruments used by the State or its  
27 designee in determining the measurement and quality of the  
28 gas delivered hereunder, but the reading, calibrating and  
29 adjusting thereof, and the changing of charts shall be done  
30

1 only by the employees, agents, or representatives of the  
2 State or its designee. Upon request of Lessee, the State or  
3 its designee shall submit to Lessee records and charts from  
4 such equipment subject to return by Lessee within thirty  
5 (30) days after receipt thereof.

6 8.4 At least once a month the State or its des-  
7 ignee shall test its above-mentioned metering equipment or  
8 cause the same to be tested and shall give Lessee or its  
9 representative reasonable prior notice of the time all such  
10 tests are to be made so that Lessee may, if desired, have its  
11 representative present to observe such tests and any adjust-  
12 ments made upon such metering equipment. Following any  
13 test, any of the State's or its designee's metering equip-  
14 ment found to be inaccurate to any degree shall be adjusted  
15 immediately to measure accurately. If upon any test such  
16 metering equipment is found to be inaccurate by two percent  
17 (2%) or more, registration from said metering equipment and  
18 any payments based upon such registrations shall be corrected  
19 at the rate of such inaccuracy for any period of inaccuracy  
20 which is definitely known or agreed upon, but in case the  
21 period is not definitely known or agreed upon, then for a  
22 period extending back one-half (1/2) of the time elapsed since  
23 the last previous test, not exceeding, however, fifteen (15)  
24 days.

25 8.5 If for any reason the State's or its designee's  
26 meter is out of service or is found registering inaccurately  
27 and the error is not determinable by ordinary test such that  
28 the volume of gas delivered through such meter cannot be  
29 ascertained or computed from the readings thereof, the

1 volume of gas so delivered during the period the meter is  
2 out of service or registering inaccurately shall be estimated  
3 and agreed upon by the parties hereto upon the basis of the  
4 best available data, using the first of the following methods  
5 which is feasible:

6 (a) by correcting the error if the percentage of error  
7 is ascertainable by calibration, special test, or  
8 mathematical calculation;

9  
10 (b) By using the registration of any check measuring  
11 equipment of Lessee if installed and registering  
12 accurately;

13 (c) By estimating the volume by comparing it with de-  
14 liveries during preceding periods under similar  
15 conditions when the meter was registering accurately.  
16

17 ARTICLE IX

18 GATHERING AND COMPRESSION CHARGES AND TAXES

19  
20 9.1 For all gas delivered by Lessee to the State  
21 at the delivery point, the State or its designee shall pay  
22 to Lessee a gathering charge of ten cents (10.0¢) per Mcf  
23 from the date of first delivery hereunder. The above-stated  
24 charge shall increase by six percent (6%) compounded annually,  
25 on each anniversary date of the date this Agreement.

26 9.2 It is recognized by the parties hereto that  
27 it may be necessary for Lessee to install compression facil-  
28 ities during the term of this Agreement. At the time the  
29 first compressor unit is installed and first used, the State  
30

1 or its designee shall pay Lessee in addition to the gathering  
2 charge set forth in Section 9.1, a compression charge of ten  
3 cents (10.0¢) per Mcf for all gas delivered by Lessee to the  
4 State at the delivery point. Such charge shall increase by  
5 six percent (6%) per year, compounded annually, commencing on  
6 the first anniversary of the date such compression facilities  
7 are installed and first used.

8 9.3 In the event that Lessee installs or causes  
9 to be installed from time to time compression facilities  
10 in addition to the first compressor unit mentioned in  
11 Section 2, above, Lessee shall give the State and its desig-  
12 nee written notice at least six (6) months prior to the time  
13 Lessee anticipates placing any additional unit or units in  
14 operation in order to maintain capacity in its gathering  
15 system. Such notice shall also terminate this Agreement at  
16 the end of such six (6) months period. If, within ninety (90)  
17 days of the date of such notice the parties shall agree upon  
18 a new compression charge to be applicable when such additional  
19 compression facilities go into operation, then this Agreement  
20 shall not terminate but shall continue in full force and effect  
21 as amended to include the new compression charge.

22 9.4 Lessee shall pay all ad valorem taxes on its  
23 pipelines and facilities employed in delivering gas here-  
24 under. In addition to the price and payments hereinabove  
25 provided, the State shall reimburse Lessee in the proportion  
26 of deliveries made to the State by Lessee, an amount equal  
27 to the aggregate total of any new or increased fee, impost,  
28 duty, charge, excise or tax levied or imposed in addition to  
29 the rates at which those, if any, are levied, assessed, or

1 fixed as of the date hereof, with respect to the gathering  
2 of the royalty gas delivered hereunder (including compres-  
3 sion) prior to its delivery to the State that Lessee may be  
4 required to pay for directly or indirectly.

5  
6 ARTICLE X

7 BILLING AND PAYMENTS

8 10.1 On or before the 15th day of each month  
9 during the term hereof the State or its designee shall  
10 furnish Lessee with a full and complete statement reflecting  
11 all gas delivered by Lessee during the preceding month and  
12 the total amount due hereunder pursuant to Article IX hereof.  
13 Payment hereunder shall be made to Lessee at its office in  
14 Bartlesville, Oklahoma within ten (10) days after delivery  
15 of each such statement.

16 10.2 On or before the 30th day of each month  
17 during the term hereof Lessee shall furnish to the State or  
18 its designee a full and complete statement reflecting the  
19 total amount of royalty gas produced by Lessee during the  
20 preceding month. Deducting the quantity taken by the State  
21 for such month, Lessee shall determine the amount of royalty  
22 gas not taken by the State for such month and shall make  
23 payment therefor to the State together with said statement.

24 10.3 Each party hereto shall have, at its expense,  
25 the right to examine the books and records of the other  
26 party to the extent necessary to verify the accuracy of any  
27 statement or invoice made under or pursuant to this contract.  
28 Any statement shall be final as to both parties unless  
29 questioned in writing within two (2) years after payment  
30





1 payments required by Articles IX and X hereof. Lessee  
2 agrees to accept such payments by APC as satisfaction of the  
3 State's obligations under Articles IX and X hereof. In the  
4 event of default by APC in making such payments, Lessee  
5 shall promptly notify the State and if such default continues  
6 for a period of thirty (30) days after such notice, Lessee  
7 shall have the option of terminating this Agreement in its  
8 entirety.

9 12.2 Lessee agrees to accept the State's designa-  
10 tion of APC as the State's designee hereunder for the perform-  
11 ance of any other obligations which the provisions hereof  
12 place on the State.

13 12.3 By its execution hereof APC ratifies all of  
14 the terms, covenants, conditions, and representations hereof.

15 ARTICLE XIII

16 FORCE MAJEURE

17  
18 13.1 No liability shall result to either party  
19 from delay in performance or non-performance of any obliga-  
20 tion hereunder (except the State's obligation to make payment  
21 hereunder) caused by circumstances reasonably beyond the  
22 control of the party affected, including, but not limited  
23 to, acts of God, fire, flood, storm, war (declared or unde-  
24 clared), repair of facilities, breakage or accident to  
25 machinery or lines of pipe, repair, redrilling or reworking  
26 of wells, governmental regulation, requisition or direction,  
27 or labor strikes or lockouts.

28 13.2 The party claiming relief under this Article  
29 XIII shall advise the other party with reasonable promptness  
30

1 in writing giving full particulars of the cause or causes  
2 relied upon and shall also give prompt notice in writing of  
3 the cessation of any such cause or causes. The party claiming  
4 force majeure shall exercise due diligence in undertaking to  
5 remedy and overcome the cause of delay hereunder, but neither  
6 party shall be required to agree to any demand of labor to  
7 settle any strike or labor dispute except in the sole discre-  
8 tion of the party subject to such strike or labor dispute.

9  
10 ARTICLE XIV

11 TERM

12 14.1 This Agreement shall become effective upon  
13 the execution hereof and the execution and approval of the  
14 Alaska Royalty Oil and Gas Development Advisory Board and  
15 the State Legislature of the Contract attached as Exhibit  
16 "B" hereto and shall remain in effect until June 1, 1984,  
17 unless terminated or extended prior to such date by mutual  
18 agreement of the parties, or pursuant to this Article or  
19 Article XI or XIII.

20 14.2 In the event that the Agreement attached  
21 hereto as Exhibit "B" is terminated, this Agreement may be  
22 terminated by either party upon thirty (30) days notice.

23 14.3 If deliveries to the State or its designee  
24 hereunder have not commenced on or before June 30, 1978,  
25 then this Agreement shall terminate immediately.

26 14.4 In the event of termination of this Agree-  
27 ment or of deliveries of royalty gas hereunder, the parties  
28 agree that such termination shall have the effect of re-  
29 voking the State's election to receive its royalty gas in-kind  
30

1 as of the date of termination and Lessee shall immediately  
2 commence such royalty payment under the terms of the leases  
3 listed in Exhibit "A" to assure the state of its full royalty  
4 share on all gas produced from the leases.

5 ARTICLE XV

6 MISCELLANEOUS

7  
8 15.1 Except as herein otherwise provided, any  
9 notice, request, demand, statement or bill provided for in  
10 this Agreement, or any notice which either party may desire  
11 to give to the other, shall be in writing and shall be con-  
12 sidered as duly delivered when mailed by registered mail to  
13 either of the parties hereto as the case may be at the  
14 following address:

15 Commissioner of Natural Resources  
16 State of Alaska  
17 Pouch M  
18 Juneau, Alaska 99811

19 Phillips Petroleum Company  
20 Attn: Gas and Gas Liquids Division  
21 Bartlesville, Oklahoma 74004

22 Alaska Pipeline Company  
23 P. O. Box 6288  
24 Anchorage, Alaska 99502

25 or at such other address as either party shall designate  
26 from time to time by formal written notice. Routine com-  
27 munications, including monthly statements and payments,  
28 shall be considered as duly delivered when mailed by either  
29 registered or ordinary mail.

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

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STATE OF ALASKA

By *Robert L. ...*

ATTEST:

Assistant Secretary

PHILLIPS PETROLEUM COMPANY

By *R. L. ...*  
Vice President  
ATTORNEY IN FACT

ATTEST:

*Lee P. Vahlewood*  
Assistant Secretary

ALASKA PIPELINE COMPANY

By *Robert ...*  
President

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GAS PURCHASE CONTRACT

This Contract, made and entered into this 11<sup>th</sup> day of April 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 in Exhibit "A" to this Contract, to be paid by Lessee thereunder a royalty of twelve and one-half percent in-kind or in-value of the natural gas produced and saved or used off of the lands covered by each 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; and

WHEREAS, this Gas Purchase Contract when executed will supersede and extinguish that certain Gas Purchase Contract executed June 4, 1976 by the parties hereto;

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

1 The "Gas Purchase Contract" dated April 11, 1977,  
2 between Alaska Pipeline Company and the State of Alaska is  
3 hereby amended by adding this page 1(a) between pages 1 and  
4 2.

5 ARTICLE I

6 DEFINITIONS

7 The following terms when used in this contract  
8 shall have the following meanings:

9 1.1 The term "day" shall mean a period of twenty-  
10 four (24) consecutive hours beginning and ending at 7:00  
11 o'clock A.M. The reference date for any day shall be the  
12 date of the beginning of such day.

13 1.2 The term "month" shall mean a period begin-  
14 ning at 7:00 o'clock A.M. on the first day of a calendar  
15 month and ending at 7:00 o'clock A.M. on the first day of  
16 the next succeeding calendar month.

17 1.3 The term "Mcf" shall mean one thousand (1,000)  
18 cubic feet of natural gas measured as hereinafter provided.

19  
20  
21 Alaska Pipeline Company

State of Alaska

22 *Walter S. ...*

23 *Therescho*

24 Date: 4-20-77

Date: 4-19-77

Seller's Royalty Gas

1  
2  
3  
4  
5 2.1 Seller hereby agrees that within 30 days after the  
6 execution and approval of this agreement as required by the laws  
7 of the State of Alaska, Seller shall notify the Lessee under the  
8 leases set forth at Exhibit "A" of Seller's election to take  
9 its royalty gas in-kind. Said notice will provide that the  
10 Lessee shall commence the delivery of said royalty gas to Seller  
11 or to Seller's designee upon a receipt of notice from Seller  
12 that all facilities necessary to enable Buyer to receive and  
13 market said gas are ready; provided, however, in no event shall  
14 Lessee be required to commence the delivery of royalty gas to  
15 Seller or its designee prior to six (6) months following  
16 Lessee's receipt of notice of Seller's election to take its  
17 royalty gas in-kind.

18  
19 2.2 In order that Seller can give its Lessee as much  
20 advance notice as possible of the date it will start receiving  
21 its royalty gas in-kind, Buyer shall notify Seller, and Seller  
22 shall notify its Lessee, that all facilities necessary to receive  
23 and market said gas are ready, at least 60 days prior to the date  
24 Buyer will receive gas from Seller pursuant to this Contract.

25  
26 2.3 Buyer agrees that Seller's royalty gas which is  
27 purchased and received by Buyer will be used or resold for use  
28  
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32

1 within the State of Alaska.

2  
3 ARTICLE III

4 Quantity

5 3.1 It is understood and agreed by the parties that the  
6 volume of gas available to Seller from the leases covered by  
7 this Contract depends upon the production from the leases over  
8 which Seller has no control, and further depends upon the Lessee's  
9 gathering capacity installed and available, over which Seller  
10 likewise has no control. Buyer hereby agrees to purchase on  
11 each day commencing with the date of first delivery hereunder  
12 and continuing during the term of this contract up to all of  
13 Seller's royalty gas available at the point of delivery described  
14 in Section 5.1 hereof, it being understood that Buyer's require-  
15 ments for its markets may not allow Buyer to purchase the entire  
16 amount of Seller's royalty gas on each day it is available;  
17 and it being further understood that Buyer will take not less  
18 than the amount for which Buyer has demand and delivery facili-  
19 ties available. Buyer shall use its best reasonable efforts  
20 to take not less than three (3) billion cubic feet per year of  
21 royalty gas at the point of delivery.  
22

23 3.2 It is recognized that it is impossible to deliver to Buyer  
24 each day the exact amount of royalty gas produced from the leases  
25 listed in Exhibit "A". Seller agrees that Seller or Lessee  
26 will carry an over and short account with respect to the receipts  
27 of royalty gas and the delivery of same to Buyer; provided,  
28  
29  
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31

1 however, that the account shall never be required to carry more  
2 more than a total of 60,000 Mcf over or underdelivery. In the  
3 event the takes by Buyer on a cumulative basis shall ever be  
4 more than 60,000 Mcf less than the amount of royalty gas  
5 available to Buyer at the point of delivery, Buyer shall not  
6 be allowed to make up for any such underdelivery and Seller  
7 may sell the undelivered quantity of royalty gas to Lessee.  
8

9 ARTICLE IV

10 Quality, Pressure, and Odorization

11 4.1 The gas to be delivered by Seller to Buyer at the  
12 delivery point shall be gas of the same quality and pressure as  
13 delivered to Seller by the Lessee at the point of delivery.  
14 Seller shall have no obligation to improve the quality or  
15 pressure of gas beyond that quality and pressure at which  
16 Lessee delivers the gas to seller.  
17

18 4.2 Gas delivered hereunder will not be odorized and if  
19 Buyer so utilizes the gas delivered hereunder for purposes  
20 which require odorization of such gas, the full responsibility  
21 for such use is Buyer's and Buyer agrees to comply with all laws  
22 and regulations respecting the odorization of such gas and hereby  
23 indemnifies and holds Seller harmless from any and all claims,  
24 injuries, expenses, penalties and damages arising out of or  
25 connected with Buyer's failure to observe strictly and comply  
26 with all laws, rules and regulations with respect hereto.  
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ARTICLE V

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

5.1 Buyer shall install, maintain, and operate a connection into the Lessee's pipeline system at or near Lessee's pipeline tap which delivers gas from Lessee's pipeline 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"). The point of delivery of all gas delivered hereunder shall be at the same point of delivery that Seller receives its royalty gas from the Lessee.

5.2 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 metering station(s) also located in the general vicinity of the Kenai LNG plant on the North Kenai Road (hereinafter called "the point of measurement").

5.3 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.

5.4 Standards of Measurements and Tests

1           5.4.1 Except for the determination and computation  
2 of total heating value, the unit of volume of gas delivered here-  
3 under shall be one (1) cubic foot at an absolute pressure of  
4 fourteen and sixty-five hundredths (14.65) pounds per square  
5 inch and at a base temperature of sixty (60) degrees Fahrenheit.  
6

7           5.4.2 The volumes of gas delivered hereunder shall be  
8 measured and computed by Buyer in accordance with the methods  
9 prescribed in Gas Measurement Committee Report No. 3, Natural  
10 Gas Department, American Gas Association, including the Appendix  
11 thereto, dated April, 1955, except that the atmospheric pressure  
12 shall be assumed to be fourteen and seven-tenths (14.7) pounds  
13 per square inch. The method used for correcting such volumes  
14 for deviation from the Ideal Gas Laws shall be the procedure  
15 recommended in the most current Report of the American Gas Asso-  
16 ciation or by any other method mutually agreeable to the parties  
17 hereto.  
18

19           5.4.3 The specific gravity of the gas delivered hereunder  
20 shall be determined by Lessee utilizing the method prescribed  
21 in American Petroleum Institute Code No. 50-A at the beginning  
22 of delivery hereunder and once during each month thereafter. The  
23 results of each such determination shall be used in computing the  
24 volume of gas delivered hereunder until the effective date of  
25 the next succeeding test.  
26

27           5.4.4 The flowing temperature of the gas delivered here-  
28 under shall be determined by means of a continuous recording  
29 thermometer installed by Buyer so that it will properly record  
30  
31

1 the temperature of the gas flowing through the meter. The  
2 arithmetical average of the hourly temperatures recorded each day  
3 shall be used in computing the volumes of gas delivered during  
4 such day.

5  
6 5.4.5. If the gas delivered hereunder is solely from the  
7 16-inch pipeline serving the North Cook Inlet Field, the total  
8 heating value of the gas shall be the average of that recorded on  
9 the recording calorimeter for Lessee's gas at the inlet to  
10 Kenai LNG Plant during the billing period corrected to thirty  
11 (30) inches of Mercury and sixty (60) degrees Fahrenheit dry.

#### 12 13 5.5 Measurement

14  
15 5.5.1 Seller or Lessee may at their option and expense,  
16 install check meters upstream or downstream of Buyer's meter  
17 station provided that such check meters will be installed so  
18 as not to interfere with the operation of Buyer's facilities.  
19 The calibrating and adjusting of meters and the changing of  
20 charts and the reading of charts on meters shall be done by the  
21 party who installed the meters.

22  
23 5.5.2 Buyer, Lessee, and Seller shall have access at all  
24 times to Buyer's metering equipment including all other instru-  
25 ments used by Buyer in determining the measurement and quality  
26 of the gas delivered hereunder, but the reading, calibrating  
27 and adjusting thereof, and the changing of charts shall be done  
28 only by the employees, agents, or representatives of Buyer. Upon  
29  
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31

1 request of Lessee or Seller, Buyer shall submit to Lessee or  
2 Seller records and charts from such equipment subject to return  
3 by Lessee or Seller within thirty (30) days after receipt thereof.  
4 Buyer hereby agrees to assure Seller and Lessee ingress and egress  
5 at the point of measurement and between the point of delivery and  
6 the point of measurement without charge for all purposes necessary  
7 hereto.

8  
9 5.5.3 At least once a month Buyer shall test its above  
10 mentioned metering equipment or cause the same to be tested and  
11 shall give Lessee or ~~the~~<sup>its</sup> representative reasonable prior notice  
12 of the time all such tests are to be made so that Lessee may,  
13 if desired, have its representative present to observe such tests  
14 and any adjustments made upon such metering equipment. Following  
15 any test, any of Buyer's metering equipment found to be inac-  
16 curate to any degree shall be adjusted immediately to measure  
17 accurately. If upon any test such metering equipment is found  
18 to be inaccurate by two percent (2%) or more, registration from  
19 said metering equipment and any payments based upon such regis-  
20 trations shall be corrected at the rate of such inaccuracy for  
21 any period of inaccuracy which is definitely known or agreed  
22 upon, but in case the period is not definitely known or agreed  
23 upon, then for a period extending back one-half of the time  
24 elapsed since the last previous test, not exceeding however,  
25 fifteen (15) days.

26  
27 5.5.4 If for any reason Buyer's meter is out of service or  
28 is found registering inaccurately and the error is not determin-  
29 able by ordinary test such that the volume of gas delivered  
30  
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32

*File 4-20-77*  
*DL 4-19-77*

1 through such meter cannot be ascertained or computed from the  
2 readings thereof, the volume of gas so delivered during the  
3 period the meter is out of service or registering inaccurately  
4 shall be estimated and agreed upon by the parties hereto upon the  
5 basis of the best available data, using the first of the follow-  
6 ing methods which is feasible:

7 (a) By correcting the error if the percentage of  
8 error is ascertainable by calibration, special test,  
9 or mathematical calculation;

10 (b) By using the registration of any check measuring  
11 equipment of Lessee if installed and registering  
12 accurately;

13 (c) By estimating the volume by comparing it with  
14 deliveries during preceding periods under similar  
15 conditions when the meter was registering accurately.

16  
17 ARTICLE VI

18 Price and Billing

19 6.1 The price to be paid by Buyer to Seller for gas deliver-  
20 ies shall be as follows:

21 (a) Commencing on the date of first deliveries here-  
22 under assuming that this date occurs prior to July 1,  
23 1978 and continuing until the first day of July, 1978,  
24 the price shall be 64.65 cents per MCF.

25  
26 (b) Commencing on the first day of July, 1978 and  
27 continuing until the first day of July, 1979 the  
28 price shall be the higher of (i) 66.65 cents per  
29  
30  
31

1 MCF, (ii) the price Seller would have received from  
2 Lessee had it not elected to receive its royalty gas  
3 in kind, (iii) the highest price paid by any purchaser  
4 in the upper Cook Inlet area for gas of similar quality  
5 and similar conditions of delivery; with due regard  
6 to appropriate factors including, but not limited to,  
7 difference of BTU content, delivery pressure, term of  
8 the contract and connection charges.

9  
10 (c) For each succeeding 12 month period commencing  
11 July 1, 1979 the price shall be increased to the higher  
12 of (i) the previous year's price plus 2 cents per Mcf,  
13 (ii) the price Seller would have received had it not  
14 elected to take its royalty in-kind, (iii) the highest  
15 price paid by any purchaser in the upper Cook Inlet  
16 area for gas of similar quality and conditions of delivery;  
17 with due regard to appropriate factors including, but  
18 not limited to, difference of BTU content, delivery  
19 pressure, term of contract and connection charges.

20  
21 (d) In addition to the price otherwise payable herein-  
22 above, for gas delivered to Buyer at the delivery point  
23 Buyer shall pay to Lessee, for the account of Seller,  
24 a gathering charge of ten cents (10.0¢) per Mcf from the  
25 date of first delivery hereunder. The above stated  
26 charge shall increase six percent (6%) compounded annually  
27 on each anniversary of the date of this contract.

28  
29 (e) It is recognized by the parties hereto that it will  
30 be necessary for Lessee to install compression facilities  
31

1 during the term of this Agreement. At the time the  
2 first compressor unit is installed and first used, Buyer  
3 shall pay to Lessee, for the account of Seller, in addition  
4 to the price and gathering charge otherwise payable  
5 hereinabove, a compression charge of ten cents (10.0¢)  
6 per Mcf for all gas delivered to Buyer at the delivery  
7 point. Such charge shall increase by six percent (6%)  
8 per year compounded annually, commencing on the  
9 first anniversary of the date such compression facilities  
10 are installed and ready for operation. Nothing  
11 herein shall be construed by either party as an  
12 obligation on Lessee to install any compression  
13 facilities whatever or to operate any compression  
14 facilities already installed.

15  
16 (f) In addition to the price provisions stated herein,  
17 Buyer hereby agrees to pay Seller as part of the total  
18 purchase price of the royalty gas any costs not other-  
19 wise stated herein incurred by Seller in transporting  
20 that gas to the point of delivery specified in section 5.1  
21 of this agreement including but not limited to any  
22 amount which Seller is obligated to reimburse Lessee  
23 for a proportion of new or increased fees, imposts,  
24 duties, charges, <sup>excises</sup> or taxes. RL 4-19-77  
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RL 4-19-77  
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4-20-77

6.2 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

1 gas in-kind and the highest price being paid for gas of similar  
2 quality and similar conditions of delivery; with due regard  
3 to appropriate factors including, but not limited to, difference  
4 of BTU content, delivery pressure, term of the contract and  
5 connection charges in the upper Cook Inlet area and submit  
6 the same to Buyer along with suitable supporting evidence as  
7 to such prices. Buyer shall have the right to submit other  
8 evidence within the 30 day period.

9  
10 6.3 On or before the 15th day of each month after the  
11 delivery of gas hereunder has commenced Buyer shall furnish  
12 Seller and Lessee with a full and complete statement reflecting  
13 the quantity of gas delivered at the delivery point during  
14 the preceding month and the total amounts due hereunder. Payment  
15 under sections 6.1(d), 6.1(e) and 6.1(f) of this Contract shall  
16 be made to Lessee on account of Seller at Lessee's office in  
17 Bartlesville, Oklahoma within ten (10) days after delivery  
18 of each such statement. Payment under sections 6.1(a), 6.1(b)  
19 and 6.1(c) of this Contract shall be made to Seller on the  
20 day of delivery of each such statement by direct wire transfer  
21 of federal reserve funds through the Federal Reserve Bank wire  
22 transfer system to the following address:

23 BANK OF AMERICA, NA + SA  
24 San Francisco, California  
25 Securities Department 3255  
26 Attention: ~~Mr. Jeff Boyer~~

27 Credit to: State of Alaska Investment Account

28 *a to send the address to the Commission of Revenue*

29 6.4 Each party hereto shall have, at its expense, the  
30 right to examine the books and records of the other party to  
31 the extent

32 AGO 801351

1 necessary to verify the accuracy of any statement, charge, com-  
2 putation, or demand made under or pursuant to this contract. Any  
3 statement shall be final as to both parties unless questioned in  
4 writing within two (2) years after payment thereof has been made.  
5

6 6.5 The terms "upper Cook Inlet area" as used herein  
7 shall mean the area encompassed in a radius of 100 kilometers  
8 from the Lessee's North Cook Inlet platform.  
9

10 ARTICLE VII

11 Termination

12 7.1 This contract shall become effective upon the execution  
13 hereof and the approval of the Alaska Royalty Oil and Gas Devel-  
14 opment Advisory Board and the State Legislature and shall continue  
15 and remain in effect until June 1, 1984 unless terminated or  
16 extended prior to such date by mutual agreement of the parties, or  
17 pursuant to this Article or Article VIII.  
18

19 7.2 Seller's obligations hereunder are contingent upon  
20 Seller arranging with Lessee for satisfactory transportation of  
21 royalty gas sold hereunder to the point of delivery specified in  
22 section <sup>5</sup> 7.1 of this agreement. If, after exercising Seller's  
23 best efforts, Seller is unable to arrange such transportation on  
24 terms satisfactory to Seller, Seller shall give notice to Buyer  
25 and this agreement shall terminate 30 days after said notice.  
26

27 7.3 The parties hereby agree that in the event that any  
28 governmental agency declares that Lessee's activities hereunder  
29 subject Lessee to regulation as a utility, then either party shall  
30 have the option to give notice to the other and this agreement shall  
31 terminate 30 days after said notice.  
32

AGO 801352

*Adel*  
*4-21-77*  
*DL*  
*4-19-77*

1           7.4 In the event of default by Buyer in making the payments  
2 required by this Contract, Seller shall give notice to Buyer  
3 and if the default continues for a period of 30 days after such  
4 notice, Seller shall have the option of terminating this Contract.  
5

6           7.5 In the event that Lessee installs or causes to be  
7 installed compression facilities in addition to the first  
8 compressor unit mentioned in section 6.1(e) of this contract,  
9 Seller shall give Buyer written notice at least six (6) months  
10 prior to the time Lessee anticipates placing such additional  
11 facilities in operation to maintain capacity in its gathering  
12 system. Such notice shall also terminate this agreement at the  
13 end of the six (6) month period unless within ninety (90) days  
14 of the date of such notice a new compression charge is agreed  
15 upon by the two parties to be applicable when the additional  
16 facilities go into operation. If a new compression charge  
17 is agreed upon, this agreement shall not terminate but shall  
18 continue in full force and effect as amended to include the  
19 new compression charge.  
20

21           7.6 If the agreement between Seller and Lessee attached  
22 hereto as Exhibit "B" is terminated for any reason, this  
23 agreement may be terminated by either party upon thirty (30)  
24 days notice.  
25

26           7.7 If deliveries to Buyer hereunder have not commenced  
27 on or before June 30, 1978, then this Contract shall immediately  
28 terminate.  
29  
30  
31

ARTICLE VIII

Representation, Condition Precedent and Force Majeure

8.1 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.

8.2 Force Majeure

8.2.1 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), repair of facilities, breakage or accident to machinery or lines of pipe, repair, redrilling or reworking of wells, governmental regulation, requisition or direction, labor strikes or lockouts or breach of contract by Lessee.

8.2.2 The party claiming relief under this Article VIII shall advise the other party with reasonable promptness in writing

1 giving full particulars of the cause or causes relied upon  
2 and shall also give prompt notice in writing of the cessation  
3 of any such cause or causes. The party claiming force majeure  
4 shall exercise due diligence in undertaking to remedy and  
5 overcome the cause of delay hereunder, but neither party shall  
6 be required to agree to any demand of labor to settle any  
7 strike or labor dispute except in the sole discretion of the  
8 party subject to such strike or labor dispute.  
9

10 ARTICLE IX

11 Miscellaneous

12 9.1 The terms and provisions of this Agreement shall  
13 extend to and be binding upon the parties hereto, their assigns  
14 and successors in interest. It is understood, however, that  
15 Buyer may not assign its rights and interest in this Agreement  
16 without the written consent of Seller, except as may be necessary  
17 to Buyer to conform with its various financing documents or  
18 as may be desirable to Buyer as to its commonly owned affiliate  
19 or subsidiary. No assignment shall relieve any assignor of  
20 this Agreement of its obligations hereunder without the written  
21 consent of Seller.  
22

23 9.2 In the event Buyer does not receive or purchase  
24 all of said royalty gas which is available to Buyer, then  
25 Seller may receive and dispose of that portion not taken by  
26 Buyer provided Seller does not burden Buyer with any cost  
27 therefor including Lessee's charges for gathering and compression  
28 on the gas not taken by Buyer.  
29  
30  
31  
32

AGD 801355

1 ARTICLE X

2 Notices

3 10.1 Except as herein otherwise provided, any notice,  
4 request, demand, statement or bill provided for in this Contract,  
5 or any notice which either party may desire to give to the  
6 other, shall be in writing and shall be considered as duly  
7 delivered when mailed by registered mail to either of the  
8 parties hereto as the case may be at the following address:

9 Commissioner of Natural Resources  
10 State of Alaska  
11 Pouch M  
12 Juneau, Alaska 99811

13 Alaska Pipeline Company  
14 P. O. Box 6288  
15 Anchorage, Alaska 99502

16 or at such other address as either party shall designate from  
17 time to time by formal written notice. Routine communications,  
18 including monthly statements and payments, shall be considered  
19 as duly delivered when mailed by either registered or ordinary  
20 mail except payments for royalty gas from Buyer to Seller  
21 which must be made by wire transfer under section 6.3 of this  
22 Contract.

23 IN WITNESS WHEREOF, the parties hereto have caused this  
24 Contract to be executed in two (2) original counterparts on  
25 this day and year first above written.

26 BUYER

*[Handwritten signature]*

STATE OF ALASKA

*[Handwritten signature]*

27 ATTEST:

28 *[Handwritten signature]*

ATTEST:

\_\_\_\_\_

EXHIBIT "A"

Attached to and Made a Part of a Gas Purchase and Sales Agreement dated April 11, 1977, Between ALASKA PIPELINE COMPANY "Buyer" and THE STATE OF ALASKA "Seller",

With Respect to Certain Royalty Gas Owned and Taken in Kind by SELLER

Under the Leases Described Herein Covering Lands in the State of Alaska.

Each of the Following described Leases reserves to the State of Alaska a one-eighth royalty interest.

<u>Lease Serial No.</u>	<u>Legal Description</u>	<u>Gross Acres</u>
ADL-17589 2/1/62	T.12N., R.9W., S.M. Sec. 31: All; Sec. 32: All.	4,375.50
	T.11N., R.9W., S.M. Sec. 5: All; Sec. 6: All; Sec. 7: All; Sec. 18: N 1/2.	
	T.11N., R.10W., S.M. Sec. 12: All; Sec. 13: N 1/2.	
ADL-17590 3/1/62	T.12N., R.9W., S.M. Sec. 21: W 1/2; Sec. 28: W 1/2.	640.00
ADL-18740 9/1/62	T.12N., R.10W., S.M. Sec. 35: SE 1/4. T.11N., R.10W., S.M. Sec. 2: E 1/2; Sec. 11: E 1/2.	800.00
ADL-18741 9/1/62	T.11N., R.9W., S.M. Sec. 9: N 1/2, SW 1/4. T.12N., R.9W., S.M. Sec. 33: NW 1/4.	640.00

1 ADL-37831  
2 9/1/62

T.12N., R.9W., S.M.

3,326.00

Sec. 29: All;

Sec. 30: All;

Sec. 19: SE 1/4;

Sec. 20: NE 1/4, S 1/2.

T.12N., R.10W., S.M.

Sec. 36: All;

Sec. 25: SE 1/4.

T.11N., R.10W., S.M.

Sec. 1: All.

Summary and Background for Sale and  
Purchase of State Royalty Gas to Alaska  
Pipeline Company and for related  
Agreement with Phillips Petroleum Company

This contract entitled "Gas Purchase Contract", dated April 11, 1977, between Alaska Pipeline Company (Buyer) and the State of Alaska (Seller) is regarding the sale and purchase of State royalty gas. To accomodate delivery of gas under the above contract it was necessary to enter into an agreement dated April 11, 1977 between Phillips Petroleum Company (Lessee) and the State of Alaska. The above contracts will supercede the contract entitled "Gas Purchase Contract", dated June 4, 1976 between Alaska Pipeline Company and the State of Alaska and was approved by the legislature. The new agreements are necessary because certain of the provisions of the old agreement have proven unworkable.

The following exhibits are submitted in support of these agreements:

1. Gas Purchase Contract dated June 4, 1976 between APC and the State.
2. North Cook Inlet Field Royalty Gas, Commissioner's Proposal in Concept.
3. House Concurrent Resolution No. 142, introduced May 4, 1976.
4. Letter dated April 30, 1976 to the Speaker of the House from the Governor.
5. Findings and Conclusions for Non-Competive Sale.

The reasons that the Contract entered into last year could not become operational are as follows:

1. Article 2.1 of that agreement required that Buyer was to purchase all royalty gas available at the point of delivery (wellhead). Buyer does not have adequate demand to take all of the gas all of the time. Buyer agreed that all gas purchased under the contract will be used to meet the requirements of its customers within the State of Alaska. One solution to Buyer's inability to use all of the royalty gas might have been for Buyer to sell its surplus gas back to Phillips Petroleum. Had Buyer done that it may have been in breach of last year's contract because Buyer agreed to use the gas for its customers and the sale was for in-state use. Phillips, however, sells the gas out-of-state.

2. The point of delivery of the gas was at the wellhead on the Lessee's offshore platform in the North Cook Inlet Field. Buyer was required, at its own expense, to arrange to accept the gas at the point of delivery. However, Buyer has been unable to do so because it is not economically feasible to construct a pipeline to the point of delivery and because Buyer has been unable to reach agreement with the Lessee to use Lessee's existing pipeline to deliver the gas to a point on the North Kenai Road where Buyer could receive the gas. Lessee has been unwilling to transport the gas for Buyer

because to do so would place Lessee under the jurisdiction of the Alaska Public Utilities Commission and Lessee does not wish to become a public utility.

Current agreements provide for several provisions which deserve special consideration. They are as follows:

Quantity

The Buyer presently does not have markets for all royalty gas produced nor does the Lessee have the production capacity to produce enough gas to maintain required production at his LNG plant, in addition to producing all royalty gas. The Buyer and Lessee have therefore agreed that they will both use their "best reasonable efforts" to accomodate the other and that Lessee will produce and Buyer will sell that gas which is available.

If this agreement is not completed, the Buyer's market will have to be satisfied from reserves in the Kenai gas field which would be unnecessarily depleted, and royalty gas produced from Lessee's field would be delivered to his market outside the State of Alaska.

The Lessee will be installing compressors to maintain current production rates and to accomodate production of royalty gas. However, as the field well pressure continues to decline, the ability to produce the total required gas will correspondingly decline. Since the Lessee is required to maintain production for the LNG plant, the Buyer has agreed to allow any production shortfall to be taken from that quantity of gas dedicated to Buyer.

?  
How does  
this say  
about the  
contract?

However, it is also reasonable to expect that productivity in the field will be sufficient to accomodate the needs of the Buyer for most of the life of these agreements.

Delivery - Compression

The Lessee has agreed to deliver the gas purchased by Buyer, by utilizing Lessee's pipeline facilities, to a point near the North Kenai road. The compression facilities necessary to increase field production will be installed by Lessee to accomodate this increased demand.

The Buyer previously agreed with Lessee that the cost of delivery shall be 10¢ per MCF and that the cost of compression shall be an additional 10¢ per MCF. These costs are paid directly from Buyer to Lessee for the account of the State. Should additional compressors be required during the life of these agreements the new charges must be agreed to or the contracts will terminate. It is further understood that Buyer's alternative source of gas would cost the same as royalty gas delivered to the same point.

Price

The State will at all times during the life of the agreements receive at least as much and perhaps more for its royalty gas as it would have received if it had taken its royalty in-value.

Public Utilities Commission/Alaska Pipeline Commission

A major reason the previous agreement failed was because Lessee would be subject to the jurisdiction of the above

*Condition of U-11 agreement to extend the U-11 contract*

mentioned regulatory agencies. The current agreements have been designed to avoid this problem as the only way that the producer would agree to transport the gas. The legal opinions relating to this matter were requested from the Attorney General and are enclosed to support these agreements.

The regulatory agencies would normally audit such costs as the delivery and compression charges to be paid by the Buyer to Lessee. However, in this case the Buyer and Lessee had agreed to these charges prior to the development of the current agreements. It is evident that had the previous agreement become operational, these same charges would have been applied to this gas.

E X H I B I T

1.

Gas Purchase Contract  
dated June 4, 1976 between  
Alaska Pipeline Company  
and  
State of Alaska

Gas Purchase Contract

This Contract, made and entered into this 4<sup>th</sup> 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

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

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"

Harold B. Schmidt

STATE OF ALASKA

Greg R. Martin

ATTEST:

Richard F. Barner

ATTEST:

William J. Fiedler

E X H I B I T

2.

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.

\*  
see Hammond's  
letter  
attached

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.

E X H I B I T

3.

RECEIVED  
MAY 05 1976

ALASKA ROYALTY  
OIL & GAS BOARD

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

1 IN THE HOUSE

SCR106

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

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.

E X H I B I T

4.

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 38.96 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.

AGO 801379

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 7 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

ALASKA PIPELINE COMPANY

Contract to Purchase State Royalty Gas

Findings and Conclusions of the Commissioner  
Pursuant to Alaska Statute 38.05.183(c)

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Alaska Statute, AS 38.05.183(c), requires that the Commissioner of Natural Resources make public, in writing, the specific findings and conclusions upon which a determination not to use competitive bid procedures is based for a sale of Alaska royalty oil or gas. Publication is to follow approval of the determination by the Alaska Royalty Oil and Gas Development Advisory Board. On April 6, 1977, the Royalty Board did approve the Commissioner's determination to waive the competitive bidding requirement for sale of royalty gas to the Alaska Pipeline Company by approving the contract entitled "Gas Purchase Contract" for gas, dated April 11, 1977, between the State of Alaska and Alaska Pipeline Company. Accordingly, these written findings and conclusions are submitted in fulfillment of the requirements of AS 38.05.183(c).

The Contract entitled "Gas Purchase Contract" dated April 11, 1977, between the Alaska Pipeline Company and the State of Alaska, as well as the agreement between the Phillips Petroleum Company and the State of Alaska, have been entered into because the Contract entitled "Gas Purchase Contract" dated June 4, 1976 could not become implemented.

The Findings and Conclusions for Non-Competitive Sale for the previous Contract is appended to support the current Findings and Conclusions of the Commissioner not to use competitive bid procedures for these contracts.

*IS HEA'S  
offer not  
competitive?*

*ti*

The current agreements have been executed solely to solve these problems and allow royalty gas to be delivered to the Buyer.

The reasons for this determination not to use competitive bid are the same as the previous determination.

## 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.

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.
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.
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 OF REQUEST OF COMMISSIONER  
OF NATURAL RESOURCES  
TO REJECT APPLICATIONS

WHEREAS, Alaska Statute 38.06.050(b) prohibits the rejection of applications for the purchase of royalty oil or gas by the Commissioner of Natural Resources ("Commissioner") without the approval of the Alaska Royalty Oil and Gas Development Advisory Board ("Board"), and

WHEREAS, the Commissioner in conjunction with his request for the sale of royalty gas to Alaska Pipeline Company requests that he be allowed to reject applications in conflict with the proposed sale, and

WHEREAS, this Board has reviewed all other applications for the purchase of royalty gas and heard public comment thereon,

NOW THEREFORE, this Board hereby grants its approval to reject applications to the extent such applications are rendered infeasible or impossible by the contracts for the sale of royalty gas approved by this Board on this date.

This approval relates to that certain agreement entitled "Gas Purchase Contract" between Alaska Pipeline Company and the State of Alaska dated this day of April 11 1977.

Approve

Disapprove

W. M. Taylor  
Barrett  
P. Pasche

James A. Wright

Date: April 6, 1977

APPROVAL OF THE AGREEMENT FOR THE TAKING  
AND GATHERING OF STATE ROYALTY GAS BETWEEN  
THE STATE OF ALASKA AND PHILLIPS PETROLEUM  
COMPANY

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WHEREAS, Alaska Statutes 38.06.050(a) and 38.05.183 require that the Alaska Royalty Oil and Gas Development Advisory Board ("Board") grant to the Commissioner of Natural Resources ("Commissioner") written approval for the sale, exchange, or other disposition of royalty oil or gas, and

WHEREAS, Alaska Statute 38.05.182 requires that the Board grant its consent to the taking of royalty oil or gas in-kind, and

WHEREAS, the Board has been advised by the Commissioner of the progress of negotiations and has heard testimony, both in public sessions and working sessions, from the Lessee, and

WHEREAS, the Commissioner has now concluded his negotiations with the Lessee and has presented to this Board for its approval an Agreement for the sale of royalty gas from the North Cook Inlet (which gas is identified more specifically in the Agreement), and

WHEREAS, This Board has carefully reviewed the proposed agreement and has received public comment on the agreement, and

WHEREAS, This Board finds that the taking of royalty gas in-kind to meet the obligations under the agreement will serve an important public purpose and be of general benefit to the public interest,

NOW THEREFORE, the Alaska Royalty Oil and Gas Development Advisory Board hereby grants its approval of the Agreement between the State of Alaska and Phillips Petroleum Company and further approves the taking in-kind of the royalty gas dedicated to this agreement.

This approval relates to that certain "Agreement" to take in-kind royalty gas from the North Cook Inlet between the State of Alaska and Phillips Petroleum Company. Dated April 11, 1977.

Approve

Disapprove

Don M. Taylor  
[Signature]  
[Signature]

Vernon D. Wright  
\_\_\_\_\_  
\_\_\_\_\_

Date: April 6, 1977

APPROVAL OF THE AGREEMENT FOR THE PURCHASE  
AND SALE OF STATE ROYALTY GAS FROM THE NORTH  
COOK INLET FIELD BETWEEN THE STATE AND  
ALASKA PIPELINE COMPANY

WHEREAS, Alaska Statutes 38.06.050(a) and 38.05.183 require that the Alaska Royalty Oil and Gas Development Advisory Board ("Board") grant to the Commissioner of Natural Resources ("Commissioner") written approval for the sale, exchange or other disposition of royalty oil or gas, and

WHEREAS, Alaska Statute 38.05.182 requires that the Board grant its consent to the taking of royalty oil or gas in-kind, and

WHEREAS, the Board has been advised by the Commissioner of the progress of negotiations and has heard testimony, both in public sessions and working sessions, from the purchaser, and

WHEREAS, the Commissioner has now concluded his negotiations with the purchaser and has presented to this Board for its approval an agreement for the sale of royalty gas from the North Cook Inlet field (which gas is identified more specifically in the Contract), and

WHEREAS, This Board has carefully reviewed the proposed agreement and has received public comment on the agreement, and

WHEREAS, This Board finds that the taking of royalty gas in-kind to meet the obligations under the agreement will serve an important public purpose and be of general benefit to the public interest,

NOW THEREFORE, the Alaska Royalty Oil and Gas Development Advisory Board hereby grants its approval of the "Gas Purchase Contract" between the State of Alaska and Alaska Pipeline Company and further approves the taking in-kind of the royalty gas dedicated to this agreement.

This approval relates to that certain agreement entitled "Gas Purchase Contract" between the Alaska Pipeline Company and the State of Alaska dated this day of April 11 1977.

Approve

Disapprove

Jim M. Templeton  
Paul G. B.  
P. Lesche

Wm. F. D. Wright

Date:

April 6, 1977

APPROVAL OF REQUEST OF COMMISSIONER OF NATURAL RESOURCES  
TO WAIVE REQUIREMENT OF COMPETITIVE BIDDING

WHEREAS, Alaska Statutes 38.06.050(c) and 38.05.183 (a) and (c) require the Alaska Royalty Oil and Gas Development Advisory Board ("Board") grant written approval to the Commissioner of Natural Resources ("Commissioner") to waive the requirement that royalty oil or gas be sold by competitive bid, and

WHEREAS, the Commissioner has submitted to this Board a request to waive the requirement of public bidding with respect to royalty gas from the North Cook Inlet Field, and

WHEREAS, the Board has considered the request of the Commissioner and finds the Commissioner's reasons sufficient to justify a waiver of the requirement for public bidding in the public interest;

NOW THEREFORE, the Alaska Royalty Oil and Gas Development Advisory Board hereby grants to the Commissioner of Natural Resources its approval of his request to waive public bidding.

This waiver relates to that certain agreement entitled "Gas Purchase Contract" between Alaska Pipeline Company and the State of Alaska dated this day of April 11 1977.

Approve

Disapprove

B. M. Templeton  
[Signature]  
[Signature]

[Signature]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Date: April 6, 1977

MEMORANDUM

*File: APUC  
Phillips  
AK Pipe Co.*

TO: [

Gay Martin, Commissioner  
Dept. of Natural Resources

DATE: March 7, 1977

FILE NO:

FROM:

Wilson Condon  
Deputy Attorney General

TELEPHONE NO:

SUBJECT:

Jurisdiction of the APUC  
over Phillips Petroleum  
Pipeline

This is in response to your memorandum of February 24, 1977, in which you ask if the Alaska Public Utilities Commission would have jurisdiction over a pipeline operated by Phillips Petroleum if State-owned royalty gas is transported over that pipeline to North Kenai Road, where it would be sold by the State to Alaska Pipeline Company, a wholly owned subsidiary of Alaska Gas and Service. My conclusion is that the APUC would not have jurisdiction over the Phillips Petroleum Company pipeline.

The Alaska Public Utilities Commission has jurisdiction over "public utilities" which are defined by AS 42.05.70(2) as follows:

"public utility" or "utility" includes every corporation (whether public, cooperative, or otherwise), company, individual, or association of individuals, their lessees, trustees, or receivers appointed by a court, that owns, operates, manages or controls any plant, pipeline or system for

\* \* \*

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

\* \* \*

"Public" is defined by AS 42.05.701(5) as follows:

"public" or "general public" means

(A) any group of 10 or more customers that purchase the service or commodity furnished by a public utility as defined in (2) of this section; and

(B) any utility purchasing the product or service or paying for the transmission of electric energy, natural or manufactured gas, or petroleum products which are re-sold to a group included in (A) of this paragraph or which are used to produce the service or commodity sold to the public by the utility.

If Phillips delivers royalty natural gas to the State at the wellhead, and the State contracts with Phillips for transportation of that gas to North Kenai Road, Phillips will be rendering a utility-type service because it will be engaged in the transmission of natural gas. Phillips, however, will be neither a "utility" nor "public utility" within the meaning of the Public Utilities statute because it will not be furnishing transmission service to the "public" or the "Alaska public." Phillips would be furnishing transmission service to the State. This would make it a public utility if 1) the State is the 10th customer to purchase transmission service (our assumption is there are less than 10 purchasers of transmission service), or 2) if the State is a "utility. . . paying for the transmission of. . . natural. . . gas. . . which is resold to [any group of 10 or more customers that purchase the service or commodity furnished by a public utility. . . ]." The State would not be a utility (because it does not fit within the definition of AS 42.05.701(2)), thus Phillips could not be a public utility subject to the jurisdiction of the APUC when it furnishes transmission service to the State.

WLC:FHB:bvd

cc: Frederick H. Boness  
Assistant Attorney General

Robert E. Stoller  
Assistant Attorney General

MEMORANDUM

TO: [ Don Wold  
Executive Director  
Alaska Royalty Oil and Gas  
Development Advisory Board

DATE: March 29, 1977

FILE NO:

TELEPHONE NO:

FROM: Wilson Condon  
Deputy Attorney General

SUBJECT: Jurisdiction of the  
Alaska Pipeline Commission  
Over Phillips East Cook  
Inlet Gas Line

This is in response to your memorandum of March 11, 1977 in which you ask if the Alaska Pipeline Commission (APC) would have jurisdiction over a pipeline operated by Phillips Petroleum if State-owned royalty gas is transported over that pipeline to North Kenai Road, where it would be sold by the State to Alaska Pipeline Company, a wholly owned subsidiary of Alaska Gas and Service. My conclusion is that the APC would not have jurisdiction over the Phillips Petroleum Company pipeline.

The Alaska Pipeline Commission has jurisdiction over "pipelines", "pipeline facilities" and "pipeline carriers". AS 42.06.630(10) defines "pipeline carrier" as:

. . . the owner, including corporations . . ., of any pipeline, as the term is defined in this section, or any interest in it;

AS 42.06.630(9) defines "pipeline" or "pipeline facility" as:

. . . all the facilities of a total system of pipe . . . in this state used by a pipeline carrier for transportation, for hire and as a common carrier, of oil or gas for delivery, storage, or further transportation, and including all pipe, pump and compressor stations, station equipment, and all other facilities used or necessary for an integral line of pipe to effectuate the transportation from point to point, excluding, however, gas processing plant, heaters and separators;

The salient portion of the above definition is written in the conjunctive, i.e., to be a "pipeline" or "pipeline facility" under the Alaska Pipeline Commission Act, AS 42.06 et seq., a pipeline facility must be used ". . . for transportation, for hire and as a common carrier . . ." (emphasis added).

Of course Phillips, in the arrangement described at the outset of this memorandum, will be using its pipeline for "transportation" of gas. However, since the subject pipeline is neither operated by Phillips "as a common carrier" nor is it subject to the "common carrier" covenant requirement of AS 38.35.120 due to the fact that the lease of state lands for the subject pipeline pre-dates the enactment of that statute, the subject pipeline would not fall within the jurisdiction of the APC were the proposed arrangement to be entered into by Phillips.

WLC:RMB:jec



# 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 15, 1977

Mr. Don Wold, Executive Director  
Alaska Oil and Gas Development Advisory Board  
Department of Natural Resources  
State Office Building  
Juneau, AK 99811

Dear Don:

In response to your requests this week, we are writing to summarize and describe the essence and the effect of the contract(s) executed by the State and Phillips and Alaska Pipeline Company (APC) regarding the taking in kind of the State's royalty gas (1/8th) from the North Cook Inlet Gas Field.

By way of background, APC's supply until now has come entirely from the Kenai gas field, which is owned by Union and Marathon. We have had two supply contracts: one for Anchorage, in which delivery to us is at the Kenai gas field; and one for the North Kenai Road ("Nikiski") area, in which delivery to us is at or near the Kenai LNG plant.

The "Anchorage" contract is for a total of 550 BCF (billions of cubic feet) to be taken (take or pay for) at 26 BCF/year (which is 72,000 MCFD--72,000 thousand cubic feet per day) by December 31, 1992, but with deliverability of 160,000 MCFD on any day through December 31, 1985. The basic price for this gas is 24¢ per MCF until January 1, 1981, then 27¢ until January 1, 1986, and then the defined "area price" for the remainder of the contract term. In addition to this basic price we pay 19.5¢ per MCF for the extra deliverability described above, and the

# ALASKA PIPELINE COMPANY



General Offices Located at 3000 Spenard Road  
P.O. Box 6288 / Anchorage, Alaska 99502

Mr. Wold

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April 15, 1977

19.5¢ is adjusted each January 1 by the ratio of the published Wholesale Price Index (WPI) of the preceding November to the WPI of November, 1974. At present, the total cost for gas under this "Anchorage" contract is 45.1¢ per MCF.

The "Nikiski" contract was for 10 BCF to be delivered from May 1, 1967 to April 30, 1977, with deliverability of 10,000 MCFD, no take or pay, and priced at 1.5¢ higher than the basic price for "Anchorage" reserves as described above. We used the last of the 10 BCF under this contract in August of 1976, and thereafter we began taking "Anchorage" reserves at Nikiski, priced at the total price of "Anchorage" reserves plus 1.5¢ per MCF, temporarily (one year was agreed) pending resolution of a longer term supply. We had expected to be using North Cook Inlet royalty gas as the replacement for "Anchorage" reserves at Nikiski, and still expect to be doing so upon the implementation of the royalty gas contracts as revised this year.

We selected North Cook Inlet royalty gas because we believed, and still believe, this gas will be available to us and our customers at a lower price than any other "new" reserves. This gas is under contract (as LNG) to June 1, 1984 for export to Tokyo and its cost to us is approximately 75¢ per Mcf immediately, rising to 85¢ when compressors are installed, with certain escalation as described in the revised contracts. In comparison, Pacific Alaska LNG is offering \$1.45 for similar gas from Cook Inlet (without the same deliverability of our "Anchorage" reserves), with escalations. We do not have proof of the \$1.45 pricing, but it can be verified by the State. Thus, we see, the royalty gas to be available

AGU 801396



# ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road  
P.O. Box 6288 / Anchorage, Alaska 99502

Mr. Wold

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April 15, 1977

to us at less than half the going price of "new" gas in the Cook Inlet area, delivered on the North Kenai Road.

Our alternative to competing at the \$1.45 price level is to continue to utilize "Anchorage" reserves at Nikiski, as we are now doing, but to pay the same price we would have paid for royalty gas. We have verbal assurance that we can operate on this basis at Nikiski while we install the facilities necessary to shift to royalty gas, and we are proceeding with preparations to do so at the earliest possible date following legislative approval of the royalty contracts as revised. We hope to begin taking royalty gas as early as June, 1977.

Several questions arose over the two years it has taken to reach agreement of the several parties as to our use of royalty gas, and I will try to comment as information for those who review the actions taken. First, the royalty gas contract signed last year, and approved by the legislature, was contingent on APC working out an arrangement with Phillips to obtain delivery of the royalty gas through their pipeline from the platform to the Kenai LNG plant, and it required "take or pay" of 100% of the royalty gas. These elements led to problems which had to be resolved as has been done in the revised contracts which were executed last week. The differences are (1) that the delivery to shore will be made by Phillips for the State, with APC paying Phillips for the account of the State, at prices negotiated by APC with Phillips, and (2) that there will be no "take or pay": Phillips will make a best effort to deliver at least 3 BCF per year (roughly 55% of the total royalty), and APC will make a best effort to take all of the royalty which Phillips

AGO 801397



# ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road  
P.O. Box 6288 / Anchorage, Alaska 99502

Mr. Wold

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April 15, 1977

can deliver, but neither party will be obligated to make extra investment or incur unreasonable extra operating cost.

Without obligation, APC expects Phillips to deliver essentially all the royalty and expects to take all the royalty, but only experience will tell the outcome of this expectation. Phillips may install one or more units of compression, and APC may install a pipeline to connect the royalty gas into its pipeline to Anchorage. Various factors outside the respective control of Phillips and APC have made it necessary to develop a best-efforts arrangement rather than the original "take or pay" of 100% of the royalty.

APC's royalty pipeline, if built, would provide several advantages:

1. It would essentially assure APC's ability to take all of the available royalty, all of the time, and gain the maximum benefit from royalty gas.
2. It would provide "back-up" for APC's North Road customers while royalty gas may not be available due to downtime of the LNG plant, the platform, or the Phillips pipeline or compressors.
3. It would provide APC with access to other than royalty gas in the vicinity of the Kenai LNG plant, which is at the center of several streams of natural gas--supplies to Swanson River for repressurizing, ammonia/urea manufacture, Pacific Alaska LNG, etc. Thus, the pipeline could give APC additional options on "new" gas from various sources.

# ALASKA PIPELINE COMPANY



General Offices Located at 3000 Spenard Road  
P.O. Box 6288 / Anchorage, Alaska 99502

Mr. Wold

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April 15, 1977

4. It would provide an independent supply of gas to APC for emergency in the event of catastrophic failure of the Kenai gas field--well operations, dehydration, or compression--or of APC's pipeline from the field to Mile 16 of APC's pipeline to Anchorage.

Feasibility of the royalty pipeline depends on the possibility of exchanging royalty gas with Union-Marathon, final rate decisions of the Alaska Public Utilities Commission (APUC), final quantification of the amount of royalty gas to be delivered, flow through of the extra cost of royalty gas, and other factors including availability and cost of right of way. At present it appears that there is sufficient benefit from the royalty line to justify the investment by APC.

APC's experience with the APUC is such that royalty gas is particularly attractive: the flow through of its extra cost to end users has been authorized by the APUC, whereas no other purchase by APC can be made with flow through except by further hearings. This fact, plus the fact that it appears royalty gas will always be available (for the contract term) at less cost than any other likely "new" gas, make the royalty most advantageous to APC and its customers. Further, the precedent of this purchase of this royalty gas by APC should be helpful at a future date when other royalty gas may become available and feasible for purchase by APC.

It is clear that APC's action to purchase royalty gas is in the public interest. The price is the lowest available to APC and its



# ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road  
P.O. Box 6288 / Anchorage, Alaska 99502

Mr. Wold

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April 15, 1977

customers; the price is qualified to be not less than the State would have received by its continued export to Japan or by any comparable sale during the contract term within 100 kilometers of the Phillips platform; and a relatively modest investment is required by APC even including the royalty pipeline. Other "new" gas could involve meeting the currently competitive price of Cook Inlet gas (\$1.45) and could involve pipeline costs or take or pay costs many times that for royalty gas. The quantity of this royalty gas is rather ideal for APC's present requirements. In 1976, APC's total purchases were 28.6 BCF compared to the required take or pay quantity of 26 BCF per year at the Kenai gas field. As structured, the royalty gas contracts would allow APC (and Phillips) to match their investment to market developments and thus provide the optimum conditions for such investment.

Clearly, Phillips has been a reluctant party in these contracts but has acted responsibly and reasonably and consistent with the public interest. Phillips preference has always been to retain the royalty gas and increase its value by liquefaction for export to Japan. That contract was originally 52¢ FOB Tokyo, but now is \$1.95. Clearly the increase (\$1.43) contains a substantial increase of profit (which is shared by the State through its royalty price). Clearly the 20¢ revenue which Phillips will realize by bringing the royalty gas on shore does not compare with the revenue and income Phillips would realize by its export.



# ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road  
P.O. Box 6288 / Anchorage, Alaska 99502

Mr. Wold

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April 15, 1977

The 20¢ delivery/compression charge is obviously the most Phillips could charge, because it is the most APC would pay. The State is realizing the most it can from the royalty gas, because APC will not pay more for this gas. To suggestions, if any, that APC should not have accepted the delivery charge as contracted, APC would respond that it would be no more logical to require Phillips to accept less than their required price than for the State to accept less than it deems to be necessary for this gas.

APC will not increase its income by purchasing this royalty gas--it will simply recover most (not all) of its costs, by flow through. APC's objective in making this purchase is to prolong the life of its gas reserves and thus the availability of its "old" gas at "old gas pricing" for its customers.

APC firmly believes that the merit of its purchase of royalty gas has been established already in various arenas.

1. The APUC considered the subject in extensive hearings in 1975 and its order clearly contemplates the purchase and in fact, deemed the matter to be of urgent importance.
2. The Royalty Board and the Commissioner of Natural Resources have reviewed this matter at great length and have approved and authorized its present form.
3. The Attorney General has reviewed jurisdictional aspects and agreed it is not contrary to the public interest or the laws of Alaska.

AGO 801401



# ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road  
P.O. Box 6288 / Anchorage, Alaska 99502

Mr. Wold

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April 15, 1977

4. The legislature, in its prior approval, has endorsed the concept and pricing of this purchase by APC.

Previously, support for this purchase by APC was given by the City of Anchorage, Chugach Electric Association, and Homer Electric Association. APC is not aware of any opposition to its purchase of this royalty gas (opposition by Pacific Alaska LNG was withdrawn in 1976, at the insistence of APC). When these various governmental and business approvals are considered, and when the alternative can only be that this gas would continue to be exported to Japan, APC believes that ample justification for the contracts has been made.

At present, APC has about 415 BCF of gas remaining under contract at the Kenai gas field. At 30 BCF per year, there would be 14 years of reserves now remaining. The royalty gas potentially available to June, 1984 is about 40 BCF, which is less than a 10% increase. APC is and has been attempting to reduce the growth rate of its gas sales through conservation measures such as waste heat recovery by power plants, and by opposing and reducing the use of gas-generated electric heat. However, it is very likely that unavoidable growth will shorten APC's reserve life to 10 years or less. APC must look to the long term aspects of its gas supply in order to avoid future shortages and problems with the long-term (20 year) financing APC requires. Purchase of the royalty gas is a step, but only a step, in this direction. Royalty gas at 75¢ or 85¢ will be helpful to APC in its negotiations for additional "new" gas reserves, viewed in the context of competitive offerings at \$1.45 or possibly a price equivalent to oil in future years.

AGO 801402

# ALASKA PIPELINE COMPANY



General Offices Located at 3000 Spenard Road  
P.O. Box 6288 / Anchorage, Alaska 99502

Mr. Wold

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April 15, 1977

Delays in obtaining royalty gas can only diminish its benefit to APC and its customers because of the quantity available as well as the timing and impact of the purchase.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Dale Teel".

Dale Teel  
President

DT/pm

AGO 801403

~~RECORDED~~  
Phillips

February 25, 1977

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

Dear Mr. Horn:

As you know, the State of Alaska entered into an agreement with the Alaska Pipeline Company on June 4, 1976 for the sale of the State's royalty gas produced from your company's North Cook Inlet Gas Field. The Alaska Pipeline Company and Phillips have been unable to work out a mutually satisfactory arrangement for delivery of the gas. The State of Alaska, through the Department of Natural Resources, is continuing to explore various ways this can be accomplished in the interest of all parties.

The Alaska Pipeline Company has proposed that the State enter into an agreement with your company to take delivery of royalty gas from your pipeline at a mutually agreeable point near the North Kenai Road. The State is presently exploring this possibility and your cooperation has been greatly appreciated. Several questions have been raised regarding this procedure. They are:

1. Will the Alaska Public Utilities Commission have jurisdiction over the Phillips pipeline if the State takes delivery at this point? The State's Attorney General has been asked for an opinion.
2. What charges would be made by Phillips for delivery of the gas to this point? What is the detailed justification of these charges?
3. We understand that as the field pressure declines, compressors will be installed to maintain production rate. What costs will be incurred by the State and what is the detailed justification of these costs?
4. What is your best forecast of the dates of installation of the first and future compressors and how will the cost to the State change with installation of additional compressors?

Page Two  
Mr. John Horn  
February 25, 1977

5. What is your best forecast of future production from this field? Will you share with the State your future production plans so that the State may plan accordingly to utilize its royalty gas? Company -  
Purchase Contract 76-1.

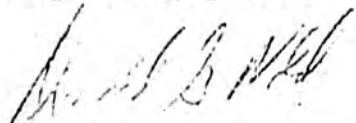
6. The State understands your need to maintain production of your LNG plant and that your ability to deliver royalty gas to the State will change as the field pressure changes. Would you please explain this procedure and give us your best forecast of your ability to make delivery in the future?

Your response to the above would be greatly appreciated together with any further information that you may feel to be pertinent to the solution of this problem.

Would you please review the draft agreement prepared by Alaska Pipeline Company between Phillips and the State and recommend changes that may be of interest to your company?

Thank you for your cooperation. Your early response to the above will be greatly appreciated.

Very truly yours,

  
Donald G. Wold  
Executive Director

DGW/jl



PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA 74004 918 661 6600

NATURAL RESOURCES GROUP  
Gas and Gas Liquids Division

March 3, 1977

Royalty Gas  
North Cook Inlet Field

File: 1-Ho-115-77-G&GL

Mr. Donald G. Wold, Executive Director  
Royalty Oil & Gas Development Advisory Board  
Department of Natural Resources  
Pouch M  
Juneau, Alaska 99811

Dear Sir:

In your letter of February 25, 1977, you have requested certain information regarding whether Phillips could make the royalty gas from the North Cook Inlet Field available at an onshore location on the North Kenai Road, rather than in the field as provided in our lease with the State of Alaska. Information is listed by the numbers used in your letter:

2. Q. What charges would be made by Phillips for delivery of the gas to this point? What is the detailed justification of these charges?

A. Since we had previously negotiated a place differential of 10¢ per Mcf starting with the calendar year of 1977 and increasing 6% per year thereafter with Alaska Pipeline Co., Phillips would be willing to utilize this approach with the State. Although this is a negotiated figure, the data supporting same is shown on Table I.

3. Q. We understand that as the field pressure declines, compressors will be installed to maintain production rate. What cost will be incurred by the State and what is the detailed justification of these costs?

A. For the first compressor unit (approximately 3800hp) installed, compression charge would be 10¢ per Mcf increasing 6% per year from the year of installation. As later units are added, the compression charge will be agreed upon at that time. The above charge is the result of negotiations with Alaska Pipeline Company and is on the condition that Royalty gas would be handled only when there is surplus capacity in our gathering system and compressors. The above charge would be substantially higher if based on adding sufficient additional compressor capacity to assure the availability of capacity and would also entail a substantial minimum annual payment to cover these additional costs. Our calculations are attached as Table II.

4. Q. What is your best forecast of the dates of installation of the first and future compressors and how will the cost to the State change with installation of additional compressors?

March 3, 1977

4. Continued.

A. This is dependent on the amount of royalty gas taken by the State and also on other factors, such as, whether LNG in addition to current deliveries to Japan is sold to the south 48 states. Based on present information, we estimate that the first unit would be installed in 1978 or 1979.

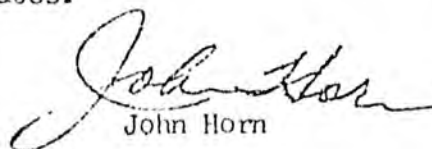
5. Q. What is your best forecast of future production from this field? Will you share with the State your future production plans so that the State may plan accordingly to utilize its royalty gas?

A. Production has averaged 43 to 45 Bcf annually over the last several years. We visualize that production could increase to 55 Bcf or more per year including royalty gas taken in kind.

6. Q. The State understands your need to maintain production of your LNG plant and that your ability to deliver royalty gas to the State will change as the field pressure changes. Would you please explain this procedure and give us your best forecast of your ability to make delivery in the future?

A. Without compression, the volume available from North Cook Inlet Field will decline rather rapidly commencing in 1979. Producing at the 43 to 45 Bcf per year rate and with the installation of compressors, these rates are estimated to continue until 1986, after which the volume declines approximately 10% per year. If the higher rate of 55 Bcf per year is maintained, the volume will commence declining in 1984 at the rate of approximately 10% per year.

You will appreciate that, due to the number of unknown factors, the information provided above is based on our best estimates of the situation as it now exists. New developments could change these estimates.

  
John Horn

JH:jaw

cc: R. I. Swetnam

T A B L E I

PIPELINE

Estimated Present-Day Replacement Cost .....	at least	\$25,000,000
Estimated Present-Day Replacement Cost Depreciated to 1977 .....		17,300,000

ESTIMATED COSTS

	<u>\$/Year</u>
Depreciation (20 Years) .....	\$1,100,000
Rate of Return 15% on Depreciated Investment .....	1,520,000
Income Tax @ 52.9% (State & Federal) .....	1,700,000
Operating Expense .....	2,750,000
	<hr/>
TOTAL .....	<u>\$7,070,000</u>

Cost/Mcf @ 43 Bcf/Year = 16.4¢

Cost/Mcf @ 55 Bcf/Year = 12.9¢

TABLE II

COMPRESSORS  
(FIRST UNIT)

To maintain capacity in the gathering system and compressors to handle the full 12.5% royalty gas volume, it will be necessary to install compressors at an earlier date. Also, it is estimated that to maintain this capacity it will be necessary to install an additional compressor unit over and above that required for maintaining deliveries without the State taking its royalty gas in kind. Estimated differential in compressor investment is \$5,000,000.

Cost of Compression

	<u>\$/Year</u>
Depreciation (10 Years) .....	\$ 500,000
Rate of Return 15% on Average Investment .....	375,000
Income Taxes @ 52.9% (State & Federal) .....	420,000
Operating Expense .....	715,000
	-----
TOTAL .....	\$2,010,000

Minimum Annual Payment	= \$2,010,000
Royalty Gas Volume @ 43 Bcf/Year	= 5.4 Bcf
Royalty Gas Volume @ 55 Bcf/Year	= 6.9 Bcf
Cost/Mcf @ 5.4 Bcf	= 37.2¢
Cost/Mcf @ 6.9 Bcf	= 29.1¢

Phillips agreed with Alaska Pipeline Company's request to a compressor charge of 10¢/Mcf on a space-available basis and no minimum annual charge.

March 10, 1977

Memo to: File

Subject: Rationale for Accepting Gathering and Compression  
Charges Proposed on North Cook Inlet Royalty Gas

By telephone March 10, 1977 Mr. Don Wold asked us to rationalize the acceptance of a 10¢/MCF charge for "gathering" and a 10¢/MCF charge for compressing royalty gas we have negotiated to purchase from the State of Alaska.

The State will escalate the price we pay for royalty gas to the highest price paid by other purchasers within 100 kilometers for similar quality and similar delivery conditions. We had offered to pay no more than the price the State would otherwise have received through the continued export of the royalty gas to Japan as LNG.

It thus is clear that the State places the State's interest above the interests of our ratepayers to the extent we have to pay more than would result from export of this gas. It does not follow that the Lessee who has made the investment required for production, gathering, and compression of royalty gas can be or should be held responsible to deliver the royalty gas at less cost than the Lessee determines to be necessary, fair, and reasonable. In fact, efforts by the State to do so will simply result in there being no agreement and no delivery of royalty gas by the Lessee.

The Lessee cannot be treated as a regulated operator under Alaska law, and the Lessee has the right to determine whether or not, and at what price, it is willing to share its facilities and install new facilities for the benefit of our ratepayers rather than for its shareholders. Clearly, the Lessee prefers not to share these facilities and will not do so if effort is made to assert that delivery of royalty gas onshore could have equal or greater priority than its contractual duty to delivery LNG to Tokyo, regardless of the revenue (price) received by Lessee.

The Lessee has provided (letter of 3-3-77) some cost estimates, reluctantly, to show the reasonableness of the prices accepted by us:

Table I: Pipeline (Gathering)

Annual cost is reported to be \$7,070,000. Assuming all this cost is carried by 43 BCF or 55 BCF, the average cost is 16.4¢ or 12.9¢. The selection of 10¢ as being appropriate for gathering

-2-

royalty gas is less than these average costs, but clearly more than the incremental cost, as it must be. There is no way for a third party to impose a different price on the Lessee, and the price of 10¢ is far below any alternative available to us. In fact, there is no such alternative except not to take royalty gas, and we are not obliged to do so. We bear all the risk that the cost of this gas will remain competitive and will be recoverable through our revenues.

Table II: Compressors (first unit)

Annual cost is reported to be \$2,010,000. Assuming all this cost is carried by 43 BCF or 55 BCF, the average cost is 4.67¢ or 3.65¢. While the compression is not required except to deliver royalty gas (but all the gas must be compressed), the incremental cost here would be 37.2¢ or 29.1¢. However, the Lessee recognizes that during the contract term compression will be required even if royalty gas is not being delivered to us. The selection of 10¢ as being appropriate for the compression is less than the short term incremental cost but well more than the average cost. Again, there is no way for a third party to impose a different price on the Lessee, and we bear all risk that the cost of this gas will remain competitive and will be recoverable through our revenues.

If the two components are combined, the results are:

\$9,080,000 annual cost @ 43 bcfy

21.12¢ average cost

versus 20.00¢ price requested

The price requested is below the reported average cost. Assuming no incremental cost for gathering (pipeline) however, the price requested is well above the incremental cost. In fact, there is an incremental cost for gathering (as to dehydration), and other down-hole expenses which are a function of production rate. We are not equipped to quantify these costs and there is no reason to do so. The essence of this matter is that the Lessee has offered us a price below average cost and above incremental cost which is acceptable to us and that we are the only party at risk.

General Offices Located at 3000 Spenard Road  
P O Box 6233 / Anchorage, Alaska 99502

-3-

There are only two beneficiaries of this contract. We do not benefit, since we will simply recover our added costs from our rate payers. We believe Phillips will not benefit since they are reluctant and clearly prefer to process and ship the gas to Japan. We believe their profits in processing and selling the royalty gas to Japan would be much greater than the amount of income from the proposed compression and transmission charges net of incremental expenses. The State takes no risks and may benefit from a higher wellhead price. Our ratepayers benefit from the increased life of our committed reserves. If the transaction is not consummated then, the losers are the State and our ratepayers, which (through power distribution) include more than half of the State's population, from Homer and Seward to Talkeetna.

There is no way to require the Lessee to deliver royalty gas (at any price) and no way to disagree with the price(s) now offered. Clearly the end objective -- obtaining of royalty gas -- is in the public interest, and the State should place that interest foremost.



dh

AGG 801412

4/20/77

Notes

— Contracts can be extended—that an added and new provision from the original 76-1 Contract.

Since this never was an item which prevented APC from taking delivery of the gas, why was it added? (14.1, line 17 and 7.1, line 16)

Pete Froehlich, Asst. AG, could not provide a satisfactory answer other than that it is a standard and non-controversial provision and that any extensions would have to be approved by legislature—so why get right?

My concern is that a contract with this provision in it is a lot easier to get extended and kept going (as A&AS certainly would wish— they want the royalty gas over the life of production) than if you had to renegotiate it. I may be all wet.

about that and needlessly concerned!

— If the contract between the State and Phillips gets terminated or deliveries of royalty gas (to APC) are not effectuated, the State's election to take its royalty gas in-kind is revoked (14.4, lines 26-29)

Pete Froehlich assured me that we are not giving up our right to take in-kind at some future date.

— The Phillips contract with the State is not being submitted for legislative approval, although it is being submitted as an exhibit to the APC/State contract.

Pete F clarified that there was no statutory authority to require leg. apprc, and every thing was up front by virtue of it being part of the APC/State contract.

Exhibit "B"

AGREEMENT

This Contract, made and entered into this 11<sup>th</sup> day of April, 1977, by and between the State of Alaska, herein referred to as "State", and Phillips Petroleum Company, herein referred to as "Lessee",

W I T N E S S E T H

WHEREAS, Lessee is the holder of certain mineral leases from the State in the North Cook Inlet area of Alaska, said leases identified in Exhibit "A" to this Agreement; and

WHEREAS, the State has the right under the terms of said leases to receive in value or in kind a 1/8 (one-eighth) royalty share of natural gas produced from said leases; and

WHEREAS, the State desires to receive its in kind royalty share of natural gas at a point other than at Lessee's production platform; and

WHEREAS, Lessee operates a gas pipeline to gather natural gas from the said leases to the LNG facility at Kenai, Alaska (hereinafter referred to as Kenai LNG Plant), which Lessee operates; and

WHEREAS, Lessee is willing to deliver to the State its in kind royalty share of the natural gas from said leases at a point near the Kenai LNG Plant; and

WHEREAS, the State desires to receive its royalty share of the natural gas from said leases at such a point

1 and has agreed with Alaska Pipeline Company to sell such gas  
2 to Alaska Pipeline Company (herein referred to as "APC") for  
3 resale and use within the State of Alaska according to the  
4 terms of that certain Gas Purchase Contract attached hereto  
5 as Exhibit "B".

6 NOW, THEREFORE, premises considered, the State and  
7 Lessee hereby mutually agree as follows:  
8

9 ARTICLE I

10 DEFINITIONS

11 The following terms when used in this Agreement  
12 shall have the following meanings:

13 1.1. The term "~~day~~" shall mean a period of twenty-  
14 four (24) consecutive hours beginning and ending at 7:00  
15 o'clock A.M. The reference date for any day shall be the  
16 date of the beginning of such day.

17 1.2 The term "month" shall mean a period begin-  
18 ning at 7:00 o'clock A.M. on the first day of a calendar  
19 month and ending at 7:00 o'clock A.M. on the first day of  
20 the next succeeding calendar month.

21 1.3 The term "Mcf" shall mean one thousand (1,000)  
22 cubic feet of natural gas measured as hereinafter provided.  
23

24 ARTICLE II

25 The State's Royalty Gas

26  
27 2.1 Within 30 days after the execution and approval  
28 of this Agreement as required by the laws of the State of  
29 Alaska, the State shall notify the Lessee under the leases  
30

1 set forth at Exhibit A, the State's election to take its  
2 royalty gas in kind. Said notice will provide that the  
3 Lessee shall commence the delivery of said royalty gas to  
4 the State (or to the State's designee) upon a receipt of  
5 notice from the State that all facilities necessary to  
6 receive and market said gas are ready; provided, however, in  
7 no event shall Lessee be required to commence the delivery  
8 of royalty gas to the State (or its designee) prior to six  
9 (6) months following Lessee's receipt of notice of the  
10 State's election to take its royalty gas in kind.

11 2.2 In order that the State give Lessee as much  
12 advance notice as possible of the date it will start receiv-  
13 ing its royalty gas in kind, the State shall notify Lessee  
14 that all facilities necessary to receive and market said gas  
15 are ready, at least sixty (60) days prior to the date on which  
16 Lessee shall be required to commence delivery pursuant to  
17 this Agreement.

18 ARTICLE III

19 FACILITIES

20  
21 3.1 Lessee is presently operating and maintaining  
22 a natural gas gathering system between the North Cook Inlet  
23 Field and the Kenai LNG Plant.

24 3.2 The State or its designee shall install,  
25 maintain and operate all pipeline, pressure regulators, and  
26 related facilities necessary to receive gas hereunder at the  
27 point of delivery hereinafter specified. Said point of  
28 delivery shall be at or near the existing pipeline tap being  
29 presently used to deliver gas from Lessee's pipeline to the

1 Tesoro refinery located in the general vicinity of the Kenai  
2 LNG Plant on the North Kenai Road.

3 3.3 The State or its designee shall install,  
4 operate and maintain all necessary equipment at the point of  
5 delivery and at the State's or its designee's measuring  
6 station(s) (hereinafter called the "point of measurement")  
7 to properly control, odorize, and measure the volumes of  
8 gas delivered hereunder.

9 3.4 Lessee hereby grants the State or its designee  
10 ingress and egress at the point of delivery without charge  
11 for all purposes necessary hereto, and the State and its  
12 designee hereby agree to assure Lessee ingress and egress at  
13 the point of measurement and between the point of delivery  
14 and the point of measurement without charge for all purposes  
15 necessary hereto.

16 ARTICLE IV

17 QUANTITY OF GAS

18  
19 4.1 Subject to the availability of capacity in  
20 its facilities to handle volumes in excess of its own  
21 needs and to the extent of such availability, and upon  
22 proper written notice from the State under Article II  
23 hereof, Lessee shall gather the royalty gas in the North  
24 Cook Inlet Field and deliver same to the State at the point  
25 of delivery specified herein. The State is entitled to  
26 receive at the wellhead 1/8 (one-eighth) of the natural gas  
27 produced from the leases listed in Exhibit "A", and to the  
28 extent that Lessee gathers and delivers more or less than  
29 the amount of royalty gas to which the State is entitled,  
30

1 that difference shall be carried in the over and short  
2 account described below or Lessee shall purchase same on the  
3 basis provided in Section 4.3 below.

4 It is recognized that it is impossible to deliver  
5 to the State or for the State or its designee to receive the  
6 exact amount of royalty gas produced from the leases listed  
7 in Exhibit "A". Lessee agrees that it will carry an over  
8 and short account with respect to the receipts of royalty  
9 gas and the delivery of same to the State, provided, however,  
10 that Lessee shall never be required to carry more than a  
11 total of 60,000 Mcf over or under delivery. In the event  
12 the takes by the State on a cumulative basis shall ever be  
13 more than 60,000 Mcf less than the amount of royalty gas  
14 available at the point of delivery, the State shall not be  
15 allowed to make up for any such underdelivery, and Lessee  
16 shall purchase the excess undelivered quantities of royalty  
17 gas over 60,000 Mcf from the State at the wellhead on the  
18 basis provided in section 4.3 below.

19 4.2 Subject to (i) the availability of royalty  
20 gas at the platform and (ii) to the State's or its designee's  
21 requirements, and (iii) the State's or its designee's ability  
22 to take such requirement, Lessee shall use its best reasonable  
23 efforts to deliver to the State or its designee at the  
24 delivery point specified herein on an annual basis not less  
25 than three (3) billion cubic feet of royalty gas; provided,  
26 however, that in using such best reasonable efforts, Lessee  
27 shall not be required to install or operate any pipeline,  
28 compression or other facilities which, when operating as a  
29 reasonably prudent operator, it would not otherwise install

1 and/or operate.

2 4.3 The parties recognize that the State contem-  
3 plates selling such royalty gas to Alaska Pipeline Company  
4 and that such purchaser may be unable from time to time to  
5 take and deliver to its customers the full volumes of gas  
6 attributable to the State's royalty interest although it is  
7 committed to purchase that volume from the State. In such  
8 event, Lessee agrees to purchase from the State from time to  
9 time those volumes which APC is unable to take. For such  
10 volumes which it purchases from the State, Lessee will pay  
11 the State a price equal to that amount which Lessee would  
12 have otherwise paid to the State as royalty if the State had  
13 not elected to receive its royalty gas in kind, and Lessee  
14 will not charge the State for gathering or compressing such  
15 volumes of gas or for other charges under this Agreement.

not so  
the way  
I read  
the contract.  
check  
against  
APC contract

16 ARTICLE V

17 POINT OF DELIVERY AND OWNERSHIP

18  
19 5.1 The point of delivery to the State for all gas  
20 gathered and delivered hereunder by Lessee shall be at the  
21 junction of APC's facilities and Lessee's facilities located  
22 near the pipeline tap serving the Tesoro refinery as mention-  
23 ed in Section 3.2 of this Agreement.

24 5.2 Lessee shall be deemed to be in control and  
25 possession of the gas deliverable hereunder and responsible  
26 for any damage or injury caused thereby until said gas shall  
27 have been delivered to the State or its designee at the  
28 point of delivery, after which delivery State or its designee  
29 shall be deemed to be in exclusive control and possession of

1 the gas and responsible for any injury or damage caused thereby.

2 5.3 Measurement of royalty gas shall be the responsi-  
3 bility of the State or its designee subject to Lessee's right  
4 to verify such measurement or to install and operate check  
5 metering equipment, and shall be done at a metering station(s)  
6 on the North Kenai Road, called the "point of measurement".  
7 The State or its designee shall be responsible for any gas  
8 lost between the point of delivery and the point of measurement.

9  
10 ARTICLE VI

11 QUALITY, PRESSURE, AND ODORIZATION

12 6.1 Lessee shall deliver gas hereunder at the  
13 pressure existing from time to time in its facilities at the  
14 point of delivery.

15 6.2 Lessee agrees that the quality of gas, when  
16 delivered at the point of delivery hereunder, shall be the  
17 quality of gas existing in its gathering system from time to  
18 time and the State agrees to accept such gas.

19 6.3 It is understood that the gas delivered  
20 hereunder will not be odorized by Lessee, and if the State  
21 or its purchaser so utilizes the gas delivered hereunder for  
22 purposes which require odorization of such gas, the full  
23 responsibility for such use is the State's. Lessee shall  
24 have no responsibility for odorizing such gas irrespective  
25 of the State's disposition of same.

26  
27 ARTICLE VII

28 STANDARDS OF MEASUREMENT AND TESTS

29 7.1 Except for the determination and computation  
30

1 of total heating value, the unit of volume of gas delivered  
2 hereunder shall be one (1) cubic foot at an absolute pres-  
3 sure of fourteen and sixty-five hundredths (14.65) pounds  
4 per square inch and at a base temperature of sixty (60)  
5 degrees Fahrenheit.

6 7.2 The volumes of gas delivered hereunder shall  
7 be measured and computed by the State or its designee in  
8 accordance with the methods prescribed in Gas Measurement  
9 Committee Report No. 3, Natural Gas Department, American Gas  
10 Association, including the Appendix thereto, dated April,  
11 1965, except that the atmospheric pressure shall be assumed  
12 to fourteen and seven-tenths (14.7) pounds per square inch.  
13 The method used for correcting such volumes for deviation  
14 from the Ideal Gas Laws shall be the procedure recommended  
15 in the most current Report of the American Gas Association  
16 or by any other method mutually agreeable to the parties  
17 hereto.

18 7.3 The specific gravity of the gas delivered  
19 hereunder shall be determined by Lessee's utilizing the  
20 method prescribed in American Petroleum Institute Code No.  
21 50-A at the beginning of delivery hereunder and once during  
22 each month thereafter. The results of each such determina-  
23 tion shall be used in computing the volume of gas delivered  
24 hereunder until the effective date of the next succeeding test.

25 7.4 The flowing temperature of the gas delivered  
26 hereunder shall be determined by means of a continuous  
27 recording thermometer installed by the State or its designee  
28 so that it will properly record the temperature of the gas  
29 flowing through the meter. The arithmetical average of the  
30

1 hourly temperatures recorded each day shall be used in  
2 computing the volumes of gas delivered during such day.

3 7.5 If the gas delivered hereunder is solely from  
4 the 16-inch pipeline serving the North Cook Inlet Field, the  
5 total heating value of the gas shall be the average of that  
6 recorded on the recording calorimeter for Lessee's gas at  
7 the inlet to Kenai LNG Plant during the billing period  
8 corrected to thirty (30) inches of Mercury and sixty (60)  
9 degrees Fahrenheit dry.

10 ARTICLE VIII

11 MEASUREMENT

12  
13 8.1 As agreed in Section 5.3 hereof, the State or  
14 its designee shall be obligated to and be responsible for  
15 all metering of gas hereunder.

16 8.2 The State or Lessee may, at their option and  
17 expense, install check meters upstream or downstream of the  
18 State's or its designee's meter station provided that such  
19 check meters will be installed so as not to interfere with  
20 the operation of the State's or its designee's facilities.  
21 The calibrating and adjusting of meters and the changing of  
22 charts and the reading of charts on meters shall be done by  
23 the party who installed the meters.

24 8.3 The State and Lessee shall have access at all  
25 times to the State's or its designee's metering equipment  
26 including all other instruments used by the State or its  
27 designee in determining the measurement and quality of the  
28 gas delivered hereunder, but the reading, calibrating and  
29 adjusting thereof, and the changing of charts shall be done  
30

1 only by the employees, agents, or representatives of the  
2 State or its designee. Upon request of Lessee, the State or  
3 its designee shall submit to Lessee records and charts from  
4 such equipment subject to return by Lessee within thirty  
5 (30) days after receipt thereof.

6 8.4 At least once a month the State or its des-  
7 ignee shall test its above-mentioned metering equipment or  
8 cause the same to be tested and shall give Lessee or its  
9 representative reasonable prior notice of the time all such  
10 tests are to be made so that Lessee may, if desired, have its  
11 representative present to observe such tests and any adjust-  
12 ments made upon such metering equipment. Following any  
13 test, any of the State's or its designee's metering equip-  
14 ment found to be inaccurate to any degree shall be adjusted  
15 immediately to measure accurately. If upon any test such  
16 metering equipment is found to be inaccurate by two percent  
17 (2%) or more, registration from said metering equipment and  
18 any payments based upon such registrations shall be corrected  
19 at the rate of such inaccuracy for any period of inaccuracy  
20 which is definitely known or agreed upon, but in case the  
21 period is not definitely known or agreed upon, then for a  
22 period extending back one-half (1/2) of the time elapsed since  
23 the last previous test, not exceeding, however, fifteen (15)  
24 days.

25 8.5 If for any reason the State's or its designee's  
26 meter is out of service or is found registering inaccurately  
27 and the error is not determinable by ordinary test such that  
28 the volume of gas delivered through such meter cannot be  
29 ascertained or computed from the readings thereof, the  
30

1 volume of gas so delivered during the period the meter is  
2 out of service or registering inaccurately shall be estimated  
3 and agreed upon by the parties hereto upon the basis of the  
4 best available data, using the first of the following methods  
5 which is feasible:

- 6 (a) by correcting the error if the percentage of error  
7 is ascertainable by calibration, special test, or  
8 mathematical calculation;  
9  
10 (b) By using the registration of any check measuring  
11 equipment of Lessee if installed and registering  
12 accurately;  
13  
14 (c) By estimating the volume by comparing it with de-  
15 liveries during preceding periods under similar  
16 conditions when the meter was registering accurately.

17 ARTICLE IX

18 GATHERING AND COMPRESSION CHARGES AND TAXES

19  
20 9.1 For all gas delivered by Lessee to the State  
21 at the delivery point, the State or its designee shall pay  
22 to Lessee a gathering charge of ten cents (10.0¢) per Mcf  
23 from the date of first delivery hereunder. The above-stated  
24 charge shall increase by six percent (6%) <sup>per year,</sup> compounded annually,  
25 on each anniversary date of the date this Agreement.

26 9.2 It is recognized by the parties hereto that  
27 it may be necessary for Lessee to install compression facil-  
28 ities during the term of this Agreement. At the time the  
29 first compressor unit is installed and first used, the State

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or its designee shall pay Lessee in addition to the gathering charge set forth in Section 9.1, a compression charge of ten cents (10.0¢) per Mcf for all gas delivered by Lessee to the State at the delivery point. Such charge shall increase by six percent (6%) per year, compounded annually, commencing on the first anniversary of the date such compression facilities are installed and first used.

9.3 In the event that Lessee installs or causes to be installed from time to time compression facilities in addition to the first compressor unit mentioned in Section 2, above, Lessee shall give the State and its designee written notice at least six (6) months prior to the time Lessee anticipates placing any additional unit or units in operation in order to maintain capacity in its gathering system. Such notice shall also terminate this Agreement at the end of such six (6) months period. If, within ninety (90) days of the date of such notice the parties shall agree upon a new compression charge to be applicable when such additional compression facilities go into operation, then this Agreement shall not terminate but shall continue in full force and effect as amended to include the new compression charge.

9.4 Lessee 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, the State shall reimburse Lessee in the proportion of deliveries made to the State by Lessee, 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

?

Who are they?  
State  
and Phelps  
or State, Phelps  
and APC?

Since they are signatures of the contract

1 fixed as of the date hereof, with respect to the gathering  
2 of the royalty gas delivered hereunder (including compres-  
3 sion) prior to its delivery to the State that Lessee may be  
4 required to pay for directly or indirectly. //

5  
6 ARTICLE X  
7 BILLING AND PAYMENTS

8 10.1 On or before the 15th day of each month  
9 during the term hereof the State or its designee shall  
10 furnish Lessee with a full and complete statement reflecting  
11 all gas delivered by Lessee during the preceding month and  
12 the total amount due hereunder pursuant to Article IX hereof.  
13 Payment hereunder shall be made to Lessee at its office in  
14 Bartlesville, Oklahoma within ten (10) days after delivery  
15 of each such statement.

16 10.2 On or before the 30th day of each month  
17 during the term hereof Lessee shall furnish to the State or  
18 its designee a full and complete statement reflecting the  
19 total amount of royalty gas produced by Lessee during the  
20 preceding month. Deducting the quantity taken by the State  
21 for such month, Lessee shall determine the amount of royalty  
22 gas not taken by the State for such month and shall make  
23 payment therefor to the State together with said statement.

24 10.3 Each party hereto shall have, at its expense,  
25 the right to examine the books and records of the other  
26 party to the extent necessary to verify the accuracy of any  
27 statement or invoice made under or pursuant to this contract.  
28 Any statement shall be final as to both parties unless  
29 questioned in writing within two (2) years after payment  
30

1 thereof has been made.

2  
3 ARTICLE XI

4 REPRESENTATION AND CONDITION PRECEDENT

5 11.1 It is expressly recognized and agreed that  
6 the gas gathering system utilized for deliveries hereunder  
7 is operated and maintained by Lessee for its own purpose and  
8 Lessee does not, by entering into this Agreement, dedicate  
9 any facilities or otherwise undertake to render any service  
10 to or for the public. This Agreement is being undertaken  
11 solely to effectuate the delivery of royalty gas to the  
12 State, and the State makes the material representation that  
13 neither this Agreement nor the State's use or disposition of  
14 the gas delivered hereunder will subject Lessee to regula-  
15 tion by the Federal Power Commission, the Alaska Public  
16 Utilities Commission, or the Alaska Pipeline Commission.

17 11.2 In the event that any governmental agency  
18 shall declare that Lessee's activities hereunder subject  
19 Lessee to regulation as a utility, then either party shall  
20 have the option to terminate this Agreement upon thirty (30)  
21 days' notice in writing.

22  
23 ARTICLE XII

24 ALASKA PIPELINE COMPANY

25 12.1 The State has entered into a Gas Purchase  
26 Agreement with Alaska Pipeline Company, under the terms of  
27 which APC will purchase the State's royalty gas after same  
28 has been delivered by Lessee to the State. Under such  
29 contract, APC has agreed to make for the State's account all  
30

1 payments required by Articles IX and X hereof. Lessee  
2 agrees to accept such payments by APC as satisfaction of the  
3 State's obligations under Articles IX and X hereof. In the  
4 event of default by APC in making such payments, Lessee  
5 shall promptly notify the State and if such default continues  
6 for a period of thirty (30) days after such notice, Lessee  
7 shall have the option of terminating this Agreement in its  
8 entirety.

9 12.2 Lessee agrees to accept the State's designa-  
10 tion of APC as the State's designee hereunder for the perform-  
11 ance of any other obligations which the provisions hereof  
12 place on the State.

13 12.3 By its execution hereof APC ratifies all of  
14 the terms, covenants, conditions, and representations hereof. ✓

15 ARTICLE XIII

16 FORCE MAJEURE

17  
18 13.1 No liability shall result to either party  
19 from delay in performance or non-performance of any obliga-  
20 tion hereunder (except the State's obligation to make payment  
21 hereunder) caused by circumstances reasonably beyond the  
22 control of the party affected, including, but not limited  
23 to, acts of God, fire, flood, storm, war (declared or unde-  
24 clared), repair of facilities, breakage or accident to  
25 machinery or lines of pipe, repair, redrilling or reworking  
26 of wells, governmental regulation, requisition or direction,  
27 or labor strikes or lockouts.

28 13.2 The party claiming relief under this Article  
29 XIII shall advise the other party with reasonable promptness  
30

1 in writing giving full particulars of the cause or causes  
2 relied upon and shall also give prompt notice in writing of  
3 the cessation of any such cause or causes. The party claiming  
4 force majeure shall exercise due diligence in undertaking to  
5 remedy and overcome the cause of delay hereunder, but neither  
6 party shall be required to agree to any demand of labor to  
7 settle any strike or labor dispute except in the sole discre-  
8 tion of the party subject to such strike or labor dispute.

9  
10 ARTICLE XIV

11 TERM

12 14.1 This Agreement shall become effective upon  
13 the execution hereof and the execution and approval of the  
14 Alaska Royalty Oil and Gas Development Advisory Board and  
15 the State Legislature of the Contract attached as Exhibit  
16 "B" hereto and shall remain in effect until June 1, 1984,  
17 unless terminated or extended prior to such date by mutual  
18 agreement of the parties, or pursuant to this Article or  
19 Article XI or XIII.

20 14.2 In the event that the Agreement attached  
21 hereto as Exhibit "B" is terminated, this Agreement may be  
22 terminated by either party upon thirty (30) days notice.

23 14.3 If deliveries to the State or its designee  
24 hereunder have not commenced on or before June 30, 1978,  
25 then this Agreement shall terminate immediately.

26 14.4 In the event of termination of this Agree-  
27 ment or of deliveries of royalty gas hereunder, the parties  
28 agree that such termination shall have the effect of re-  
29 voking the State's election to receive its royalty gas in-kind  
30

1 as of the date of termination and Lessee shall immediately  
2 commence such royalty payment under the terms of the leases  
3 listed in Exhibit "A" to assure the state of its full royalty  
4 share on all gas produced from the leases.

5 ARTICLE XV

6 MISCELLANEOUS

7  
8 15.1 Except as herein otherwise provided, any  
9 notice, request, demand, statement or bill provided for in  
10 this Agreement, or any notice which either party may desire  
11 to give to the other, shall be in writing and shall be con-  
12 sidered as duly delivered when mailed by registered mail to  
13 either of the parties hereto as the case may be at the  
14 following address:

15 Commissioner of Natural Resources  
16 State of Alaska  
17 Pouch M  
18 Juneau, Alaska 99811

19 Phillips Petroleum Company  
20 Attn: Gas and Gas Liquids Division  
21 Bartlesville, Oklahoma 74004

22 Alaska Pipeline Company  
23 P. O. Box 6288  
24 Anchorage, Alaska 99502

25 or at such other address as either party shall designate  
26 from time to time by formal written notice. Routine com-  
27 munications, including monthly statements and payments,  
28 shall be considered as duly delivered when mailed by either  
29 registered or ordinary mail.

30 IN WITNESS WHEREOF, this Agreement is executed as  
31 of the day and year first above written.  
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STATE OF ALASKA

By *Robert E. Leaska*

ATTEST:

Assistant Secretary

PHILLIPS PETROLEUM COMPANY

By *R. L. Stram*  
Vice President  
ATTORNEY IN FACT

ATTEST:

*Lee P. Vahlquist*  
Assistant Secretary

ALASKA PIPELINE COMPANY

By *Alan Lee*  
President

EXHIBIT "A"

Attached to and Made a Part of a Gas Purchase and Sales Agreement dated April 11, 1977, Between PHILLIPS PETROLEUM COMPANY "~~Buyer~~" and the STATE OF ALASKA "Seller",

With Respect to Certain Royalty Gas Owned and Taken in Kind by the STATE

Under the Leases Described Herein Covering Lands in the State of Alaska.

Each of the Following described Leases reserves to the State of Alaska a one-eighth royalty interest.

<u>Lease Serial No.</u>	<u>Legal Description</u>	<u>Gross Acres</u>
ADL-17589 2/1/62	T.12N., R.9W., S.M. Sec. 31: All; Sec. 32: All.	5,002. 4,375.50
	T.11N., R.9W., S.M. Sec. 5: All; Sec. 6: All; Sec. 7: All; Sec. 18: N 1/2.	
	T.11N., R.10W., S.M. Sec. 12: All; Sec. 13: N 1/2.	5,120.
ADL-17590 3/1/62	T.12N., R.9W., S.M. Sec. 21: W 1/2; Sec. 28: W 1/2.	640.00
	T.12N., R.10W., S.M. Sec. 35: SE 1/4.	5,120 800.00
	T.11N., R.10W., S.M. Sec. 2: E 1/2; Sec. 11: E 1/2.	
ADL-18741 9/1/62	T.11N., R.9W., S.M. Sec. 9: N 1/2, SW 1/4.	5,120. 640.00
	T.12N., R.9W., S.M. Sec. 33: NW 1/4.	

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ADL-37831  
9/1/62

T.12N., R.9W., S.M.  
Sec. 29: All;  
Sec. 30: All;  
Sec. 19: SE 1/4;  
Sec. 20: NE 1/4, S 1/2.  
T.12N., R.10W., S.M.  
Sec. 36: All;  
Sec. 25: SE 1/4.  
T.11N., R.10W., S.M.  
Sec. 1: All.

5,051.  
3,326.00

## GAS PURCHASE CONTRACT

1  
2  
3 This Contract, made and entered into this 11<sup>th</sup> day of  
4 *April* 1977, by and between the Alaska Pipeline Company  
5 ("APC") herein referred to as "Buyer" and the State of Alaska,  
6 hereinafter referred to as "Seller":  
7

WITNESSETH

8  
9 WHEREAS, Buyer owns and operates a natural gas pipeline  
10 system in areas of Alaska for the delivery of natural gas for  
11 ultimate consumption within the State of Alaska, and

12 WHEREAS, Seller has the right under each of the leases,  
13 identified in Exhibit "A" to this Contract, to be paid by Lessee  
14 thereunder a royalty of twelve and one-half percent in-kind or  
15 in-value of the natural gas produced and saved or used off of  
16 the lands covered by each lease, and

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

19 WHEREAS, Buyer represents to Seller that the gas received  
20 by Buyer under this contract will be used to meet the require-  
21 ments of its customers within the State of Alaska; and

22 WHEREAS, this Gas Purchase Contract when executed will  
23 supersede and extinguish that certain Gas Purchase Contract  
24 executed June 4, 1976 by the parties hereto;

25 NOW, THEREFORE, in consideration of the representations,  
26 covenants, and conditions herein contained, Buyer and Seller  
27 hereby agree as follows:  
28  
29  
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32

ARTICLE I

DEFINITIONS

Seller's Royalty Gas

2.1 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 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.

2.2 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, that all facilities necessary to receive and market said gas are ready, at least 60 days prior to the date Buyer will receive gas from Seller pursuant to this Contract.

2.3 Buyer agrees that Seller's royalty gas which is purchased and received by Buyer will be used or resold for use

1 within the State of Alaska.

2  
3 ARTICLE III

4 Quantity

5 3.1 It is understood and agreed by the parties that the  
6 volume of gas available to Seller from the leases covered by  
7 this Contract depends upon the production from the leases over  
8 which Seller has no control, and further depends upon the Lessee's  
9 gathering capacity installed and available, over which Seller  
10 likewise has no control. Buyer hereby agrees to purchase on  
11 each day commencing with the date of first delivery hereunder  
12 and continuing during the term of this contract up to all of  
13 Seller's royalty gas available at the point of delivery described  
14 in Section 5.1 hereof, it being understood that Buyer's require-  
15 ments for its markets may not allow Buyer to purchase the entire  
16 amount of Seller's royalty gas on each day it is available;  
17 and it being further understood that Buyer will take not less  
18 than the amount for which Buyer has demand and delivery facili-  
19 ties available. Buyer shall use its best reasonable efforts  
20 to take not less than three (3) billion cubic feet per year of  
21 royalty gas at the point of delivery.

Who are they?  
State and  
APC or  
State APC  
and D. Ujo

→ approx. 81 mcf/day

22  
23 3.2 It is recognized that it is impossible to deliver to Buyer  
24 each day the exact amount of royalty gas produced from the leases  
25 listed in Exhibit "A". Seller agrees that Seller or Lessee  
26 will carry an over and short account with respect to the receipts  
27 of royalty gas and the delivery of same to Buyer; provided,  
28

→ Why State?

29  
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3-4  
prep work  
need to keep an  
parallel  
accounting  
acc'dg OK Gilbert

→ Let Phillips do that! Besides in Phillips contract they do it!

1 however, that the account shall never be required to carry  
2 more than a total of 60,000<sup>M</sup>Mcf over or underdelivery. In  
3 the event the takes by Buyer on a cumulative basis shall ever  
4 be more than 60,000<sup>M</sup>Mcf less than the amount of royalty gas  
5 available to Buyer at the point of delivery, Buyer shall not  
6 be allowed to make up for any such underdelivery and Seller  
7 may sell the undelivered quantity of royalty gas to Lessee.

8  
9 ARTICLE IV

10 Quality, Pressure, and Odorization

11 4.1 The gas to be delivered by Seller to Buyer at the  
12 delivery point shall be gas of the same quality and pressure  
13 as delivered to Seller by the Lessee at the point of delivery.  
14 Seller shall have no obligation to improve the quality or  
15 pressure of gas beyond that quality and pressure at which  
16 Lessee delivers the gas to seller.

17  
18 4.2 Gas delivered hereunder will not be odorized and  
19 if Buyer so utilizes the gas delivered hereunder for purposes  
20 which require odorization of such gas, the full responsibility  
21 for such use is Buyer's and Buyer agrees to comply with all  
22 laws and regulations respecting the odorization of such gas  
23 and hereby indemnifies and holds Seller harmless from any  
24 and all claims, injuries, expenses, penalties and damages  
25 arising out of or connected with Buyer's failure to observe  
26 strictly and comply with all laws, rules and regulations with  
27 respect hereto.

1 ARTICLE V

2 Point of Delivery, Point of Measurement,  
3 Ownership, and Measurement

4 5.1 Buyer shall install, maintain, and operate a connec-  
5 tion into the Lessee's pipeline system at or near Lessee's  
6 pipeline tap presently being used to deliver gas from Lessee's  
7 pipeline to the Tesoro refinery located in the general vicinity  
8 of the Kenai LNG plant on the North Kenai Road, (hereinafter  
9 called "the point of delivery"). The point of delivery of  
10 all gas delivered hereunder shall be at the same point of  
11 delivery that Seller receives its royalty gas from the Lessee.  
12

13 5.2 Buyer agrees to install, maintain, and operate all  
14 pipeline, pressure regulators, and related facilities necessary  
15 to receive gas hereunder at and from the point of delivery  
16 above specified, to Buyer's metering station(s) also located  
17 in the general vicinity of the Kenai LNG plant on the North  
18 Kenai Road (hereinafter called "the point of measurement").  
19

20 5.3 Buyer shall be deemed to be in control and possession  
21 of the gas delivered hereunder at and from the point of delivery  
22 and responsible for any damage or injury caused thereby.  
23 Buyer shall be responsible for any gas lost between the point  
24 of delivery and the point of measurement. Buyer shall indemnify  
25 and hold Seller harmless as to any injury or damage arising  
26 out of the delivery of gas to Buyer and its measurement hereunder.  
27

28 5.4 Standards of Measurements and Tests  
29  
30  
31  
32

1           5.4.1 Except for the determination and computation  
2 of total heating value, the unit of volume of gas delivered here-  
3 under shall be one (1) cubic foot at an absolute pressure of  
4 fourteen and sixty-five hundredths (14.65) pounds per square  
5 inch and at a base temperature of sixty (60) degrees Fahrenheit.  
6

7           5.4.2 The volumes of gas delivered hereunder shall be  
8 measured and computed by Buyer in accordance with the methods  
9 prescribed in Gas Measurement Committee Report No. 3, Natural  
10 Gas Department, American Gas Association, including the Appendix  
11 thereto, dated April, 1955, except that the atmospheric pressure  
12 shall be assumed to be fourteen and seven-tenths (14.7) pounds  
13 per square inch. The method used for correcting such volumes  
14 for deviation from the Ideal Gas Laws shall be the procedure  
15 recommended in the most current Report of the American Gas Asso-  
16 ciation or by any other method mutually agreeable to the parties  
17 hereto.  
18

19           5.4.3 The specific gravity of the gas delivered hereunder  
20 shall be determined by Lessee utilizing the method prescribed  
21 in American Petroleum Institute Code No. 50-A at the beginning  
22 of delivery hereunder and once during each month thereafter. The  
23 results of each such determination shall be used in computing the  
24 volume of gas delivered hereunder until the effective date of  
25 the next succeeding test.  
26

27           5.4.4 The flowing temperature of the gas delivered here-  
28 under shall be determined by means of a continuous recording  
29 thermometer installed by Buyer so that it will properly record  
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32

1 the temperature of the gas flowing through the meter. The  
2 arithmetical average of the hourly temperatures recorded each day  
3 shall be used in computing the volumes of gas delivered during  
4 such day.

5  
6 5.4.5 If the gas delivered hereunder is solely from the  
7 16-inch pipeline serving the North Cook Inlet Field, the total  
8 heating value of the gas shall be the average of that recorded on  
9 the recording calorimeter for Lessee's gas at the inlet to  
10 Kenai LNG Plant during the billing period corrected to thirty  
11 (30) inches of Mercury and sixty (60) degrees Fahrenheit dry.

12  
13 5.5 Measurement

14  
15 5.5.1 Seller or Lessee may at their option and expense,  
16 install check meters upstream or downstream of Buyer's meter  
17 station provided that such check meters will be installed so  
18 as not to interfere with the operation of Buyer's facilities.  
19 The calibrating and adjusting of meters and the changing of  
20 charts and the reading of charts on meters shall be done by the  
21 party who installed the meters.

22 *2* *Why? It's their equipment!*  
23 5.5.2 Buyer, Lessee, and Seller shall have access at all  
24 times to Buyer's metering equipment including all other instru-  
25 ments used by Buyer in determining the measurement and quality  
26 of the gas delivered hereunder, but the reading, calibrating  
27 and adjusting thereof, and the changing of charts shall be done  
28 only by the employees, agents, or representatives of Buyer. Upon  
29  
30  
31  
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1 request of Lessee or Seller, Buyer shall submit to Lessee or  
2 Seller records and charts from such equipment subject to return  
3 by Lessee or Seller within thirty (30) days after receipt thereof.  
4 Buyer hereby agrees to assure Seller and Lessee ingress and egress  
5 at the point of measurement and between the point of delivery and  
6 the point of measurement without charge for all purposes necessary  
7 hereto.

8  
9 5.5.3 At least once a month Buyer shall test *its* above  
10 mentioned metering equipment or cause the same to be tested and  
11 shall give Lessee or the representative reasonable prior notice  
12 of the time all such tests are to be made so that Lessee may,  
13 if desired, have its representative present to observe such tests  
14 and any adjustments made upon such metering equipment. Following  
15 any test, any of Buyer's metering equipment found to be inac-  
16 curate to any degree shall be adjusted immediately to measure  
17 accurately. If upon any test such metering equipment is found  
18 to be inaccurate by two percent (2%) or more, registration from  
19 said metering equipment and any payments based upon such regis-  
20 trations shall be corrected at the rate of such inaccuracy for  
21 any period of inaccuracy which is definitely known or agreed  
22 upon, but in case the period is not definitely known or agreed  
23 upon, then for a period extending back one-half of the time  
24 elapsed since the last previous test, not exceeding however,  
25 fifteen (15) days.

W/S 2  
15460\*

26  
27 5.5.4 If for any reason Buyer's meter is out of service or  
28 is found registering inaccurately and the error is not determin-  
29 able by ordinary test such that the volume of gas delivered  
30  
31  
32

1 through such meter cannot be ascertained or computed from the  
2 readings thereof, the volume of gas so delivered during the  
3 period the meter is out of service or registering inaccurately  
4 shall be estimated and agreed upon by the parties hereto upon the  
5 basis of the best available data, using the first of the follow-  
6 ing methods which is feasible:

7 (a) By correcting the error if the percentage of  
8 error is ascertainable by calibration, special test,  
9 or mathematical calculation;

10 (b) By using the registration of any check measuring  
11 equipment of Lessee if installed and registering  
12 accurately;

13 (c) By estimating the volume by comparing it with  
14 deliveries during preceding periods under similar  
15 conditions when the meter was registering accurately.

16  
17 ARTICLE VI

18 Price and Billing

19 6.1 The price to be paid by Buyer to Seller for gas deliver-  
20 ies shall be as follows:

21 (a) Commencing on the date of first deliveries here-  
22 under assuming that this date occurs prior to July 1,  
23 1978 and continuing until the first day of July, 1978,  
24 the price shall be 64.65 cents per MCF.

25  
26 (b) Commencing on the first day of July, 1978 and  
27 continuing until the first day of July, 1979 the  
28 price shall be the higher of (i) 66.65 cents per  
29

1 MCF, (ii) the price Seller would have received from  
2 Lessee had it not elected to receive its royalty gas  
3 in kind, (iii) the highest price paid by any purchaser  
4 in the upper Cook Inlet area for gas of similar quality  
5 and similar conditions of delivery; with due regard  
6 to appropriate factors including, but not limited to,  
7 difference of BTU content, delivery pressure, term of  
8 the contract and connection charges.

*What does that include? Previously 100km radius!*

9  
10 (c) For each succeeding 12 month period commencing  
11 July 1, 1979 the price shall be increased to the higher  
12 of (i) the previous year's price plus 2 cents per Mcf,  
13 (ii) the price Seller would have received had it not  
14 elected to take its royalty in-kind, (iii) the highest  
15 price paid by any purchaser in the upper Cook Inlet  
16 area for gas of similar quality and conditions of delivery;  
17 with due regard to appropriate factors including, but  
18 not limited to, difference of BTU content, delivery  
19 pressure, term of contract and connection charges.  
20

21 (d) In addition to the price otherwise payable herein-  
22 above, for gas delivered to Buyer at the delivery point  
23 Buyer shall pay to Lessee, for the account of Seller,  
24 a gathering charge of ten cents (10.0¢) per Mcf from the  
25 date of first delivery hereunder. The above stated  
26 charge shall increase six percent (6%) compounded annually  
27 on each anniversary of the date of this contract.  
28

29 (e) It is recognized by the parties hereto that it will  
30 be necessary for Lessee to install compression facilities  
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during the term of this Agreement. At the time the first compressor unit is installed and first used, Buyer shall pay to Lessee, for the account of Seller, in addition to the price and gathering charge otherwise payable hereinabove, a compression charge of ten cents (10.0¢) per Mcf for all gas delivered to Buyer at the delivery point. Such charge shall increase by six percent (6%) per year compounded annually, commencing on the first anniversary of the date such compression facilities are installed and ready for operation. Nothing herein shall be construed by either party as an obligation on Lessee to install any compression facilities whatever or to operate any compression facilities already installed.

*Where is the counter party in the Phillips agreement?*

*What is the intent?*

*Why is that?*

*That works against the interest of the State!*

*See first sentence of this paragraph which says it will be necessary*

*Who is that? State / Phillips / APE?*

*See 4.2*

*Why not in addition to this good?*

*Wrong! ref. 0*

*What about "use"?*

*not correct! Defers to the delivered amount not the taxes!*

6.2 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

1 gas in-kind and the highest price being paid for gas of similar  
2 quality and similar conditions of delivery; with due regard  
3 to appropriate factors including, but not limited to, difference  
4 of BTU content, delivery pressure, term of the contract and  
5 connection charges in the upper Cook Inlet area and submit  
6 the same to Buyer along with suitable supporting evidence  
7 as to such prices. Buyer shall have the right to submit other  
8 evidence within the 30 day period.

9  
10 6.3 On or before the 15th day of each month after the  
11 delivery of gas hereunder has commenced Buyer shall furnish  
12 Seller and Lessee with a full and complete statement reflecting  
13 the quantity of gas delivered at the delivery point during  
14 the preceding month and the total amounts due hereunder.  
15 Payment under sections 6.1(d), 6.1(e) and 6.1(f) of this Contract  
16 shall be made to Lessee on account of Seller at Lessee's office  
17 in Bartlesville, Oklahoma within ten (10) days after delivery  
18 of each such statement. Payment under sections 6.1(a), 6.1(b)  
19 and 6.1(c) of this Contract shall be made to Seller on the  
20 day of delivery of each such statement by direct wire transfer  
21 of federal reserve funds through the Federal Reserve Bank  
22 wire transfer system to the following address:

23 BANK OF AMERICA, NA + SA  
24 San Francisco, California  
25 Securities Department 3255

26 Credit to: State of Alaska Investment Account

27 or to such other address as the Commissioner of Revenue may designate.  
28

29 6.4 Each party hereto shall have, at its expense, the right  
30 to examine the books and records of the other party to the extent  
31

1 necessary to verify the accuracy of any statement, charge, com-  
2 putation, or demand made under or pursuant to this contract. Any  
3 statement shall be final as to both parties unless questioned in  
4 writing within two (2) years after payment thereof has been made.

5  
6 6.5 The terms "upper Cook Inlet area" as used herein  
7 shall mean the area encompassed in a radius of 100 kilometers  
8 from the Lessee's North Cook Inlet platform.

9  
10 ARTICLE VII

11 Termination

12 7.1 This contract shall become effective upon the execution  
13 hereof and the approval of the Alaska Royalty Oil and Gas Devel-  
14 opment Advisory Board and the State Legislature and shall continue  
15 and remain in effect until June 1, 1984 unless terminated or  
16 extended prior to such date by mutual agreement of the parties, or  
17 pursuant to this Article or Article VIII.

18  
19 7.2 Seller's obligations hereunder are contingent upon  
20 Seller arranging with Lessee for satisfactory transportation of  
21 royalty gas sold hereunder to the point of delivery specified in  
22 section 4.1 of this agreement. If, after exercising Seller's  
23 best efforts, Seller is unable to arrange such transportation on  
24 terms satisfactory to Seller, Seller shall give notice to Buyer  
25 and this agreement shall terminate 30 days after said notice.

26  
27 7.3 The parties hereby agree that in the event that any  
28 governmental agency declares that Lessee's activities hereunder  
29 subject Lessee to regulation as a utility, then either party shall  
30 have the option to give notice to the other and this agreement shall  
31 terminate 30 days after said notice.

*not correct! see  
job as mentioned  
incorrectly shown*

*Who is  
that?  
APC/State  
Shelton*

1           7.4 In the event of default by Buyer in making the payments  
2 required by this Contract, Seller shall give notice to Buyer  
3 and if the default continues for a period of 30 days after such  
4 notice, Seller shall have the option of terminating this Contract.

5  
6           7.5 In the event that Lessee installs or causes to be  
7 installed compression facilities in addition to the first  
8 compressor unit mentioned in section 6.1(e) of this contract,  
9 Seller shall give Buyer written notice at least six (6) months  
10 prior to the time Lessee anticipates placing such additional  
11 facilities in operation to maintain capacity in its gathering  
12 system. Such notice shall also terminate this agreement at the  
13 end of the six (6) month period unless within ninety (90) days  
14 of the date of such notice a new compression charge is agreed  
15 upon by the two parties to be applicable when the additional  
16 facilities go into operation. If a new compression charge  
17 is agreed upon, this agreement shall not terminate but shall  
18 continue in full force and effect as amended to include the  
19 new compression charge.

Who are they?  
State/Philippines  
State/APC  
APC/Philippines

20  
21           7.6 If the agreement between Seller and Lessee attached  
22 hereto as Exhibit "B" is terminated for any reason, this  
23 agreement may be terminated by either party upon thirty (30)  
24 days notice.

25  
26           7.7 If deliveries to Buyer hereunder have not commenced  
27 on or before June 30, 1978, then this Contract shall immediately  
28 terminate.

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ARTICLE VIII

Representation, Condition Precedent and Force Majeure

8.1 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.

8.2 Force Majeure

8.2.1 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), repair of facilities, breakage or accident to machinery or lines of pipe, repair, redrilling or reworking of wells, governmental regulation, requisition or direction, labor strikes or lockouts or breach of contract by Lessee.

8.2.2 The party claiming relief under this Article VIII shall advise the other party with reasonable promptness in writing

1 giving full particulars of the cause or causes relied upon  
2 and shall also give prompt notice in writing of the cessation  
3 of any such cause or causes. The party claiming force majeure  
4 shall exercise due diligence in undertaking to remedy and  
5 overcome the cause of delay hereunder, but neither party shall  
6 be required to agree to any demand of labor to settle any  
7 strike or labor dispute except in the sole discretion of the  
8 party subject to such strike or labor dispute.

Who are they?  
State / APC / Phillips

10 ARTICLE IX

11 Miscellaneous

12 9.1 The terms and provisions of this Agreement shall  
13 extend to and be binding upon the parties hereto, their assigns  
14 and successors in interest. It is understood, however, that  
15 Buyer may not assign its rights and interest in this Agreement  
16 without the written consent of Seller, except as may be necessary  
17 to Buyer to conform with its various financing documents or  
18 as may be desirable to Buyer as to its commonly owned affiliate  
19 or subsidiary. No assignment shall relieve any assignor of  
20 this Agreement of its obligations hereunder without the written  
21 consent of Seller.

Who or what does that mean?

22  
23 9.2 In the event Buyer does not receive or purchase  
24 all of said royalty gas which is available to Buyer, then  
25 Seller may receive and dispose of that portion not taken by  
26 Buyer provided Seller does not burden Buyer with any cost  
27 therefor including Lessee's charges for gathering and compression  
28 on the gas not taken by Buyer.

Who all is covered under that?

Why is this all nec. since

Phillips would take excess gas in value 4.3

Who would pay these charges if Phillips assesses them

1 ARTICLE X

2 Notices

3 10.1 Except as herein otherwise provided, any notice,  
4 request, demand, statement or bill provided for in this Contract,  
5 or any notice which either party may desire to give to the  
6 other, shall be in writing and shall be considered as duly  
7 delivered when mailed by registered mail to either of the  
8 parties hereto as the case may be at the following address:

9 Commissioner of Natural Resources  
10 State of Alaska  
11 Pouch M  
12 Juneau, Alaska 99811

13 Alaska Pipeline Company  
14 P. O. Box 6288  
15 Anchorage, Alaska 99502

16 or at such other address as either party shall designate from  
17 time to time by formal written notice. Routine communications,  
18 including monthly statements and payments, shall be considered  
19 as duly delivered when mailed by either registered or ordinary  
20 mail except payments for royalty gas from Buyer to Seller  
21 which must be made by wire transfer under section 6.3 of this  
22 Contract.

23 IN WITNESS WHEREOF, the parties hereto have caused this  
24 Contract to be executed in two (2) original counterparts on  
25 this day and year first above written.

26 BUYER

STATE OF ALASKA

27 *[Handwritten signature]*

28 ATTEST:

ATTEST:

29 *[Handwritten signature]*

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:

*Which one  
16 1 ?  
17529  
5590  
18740  
18741  
37821*

## 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

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

*Handwritten notes:*  
4000 R/S  
(contract)  
June 1978  
Specimen for  
analysis  
PPD  
1978

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 B. Schmidt

Gary R. Martin

ATTEST:

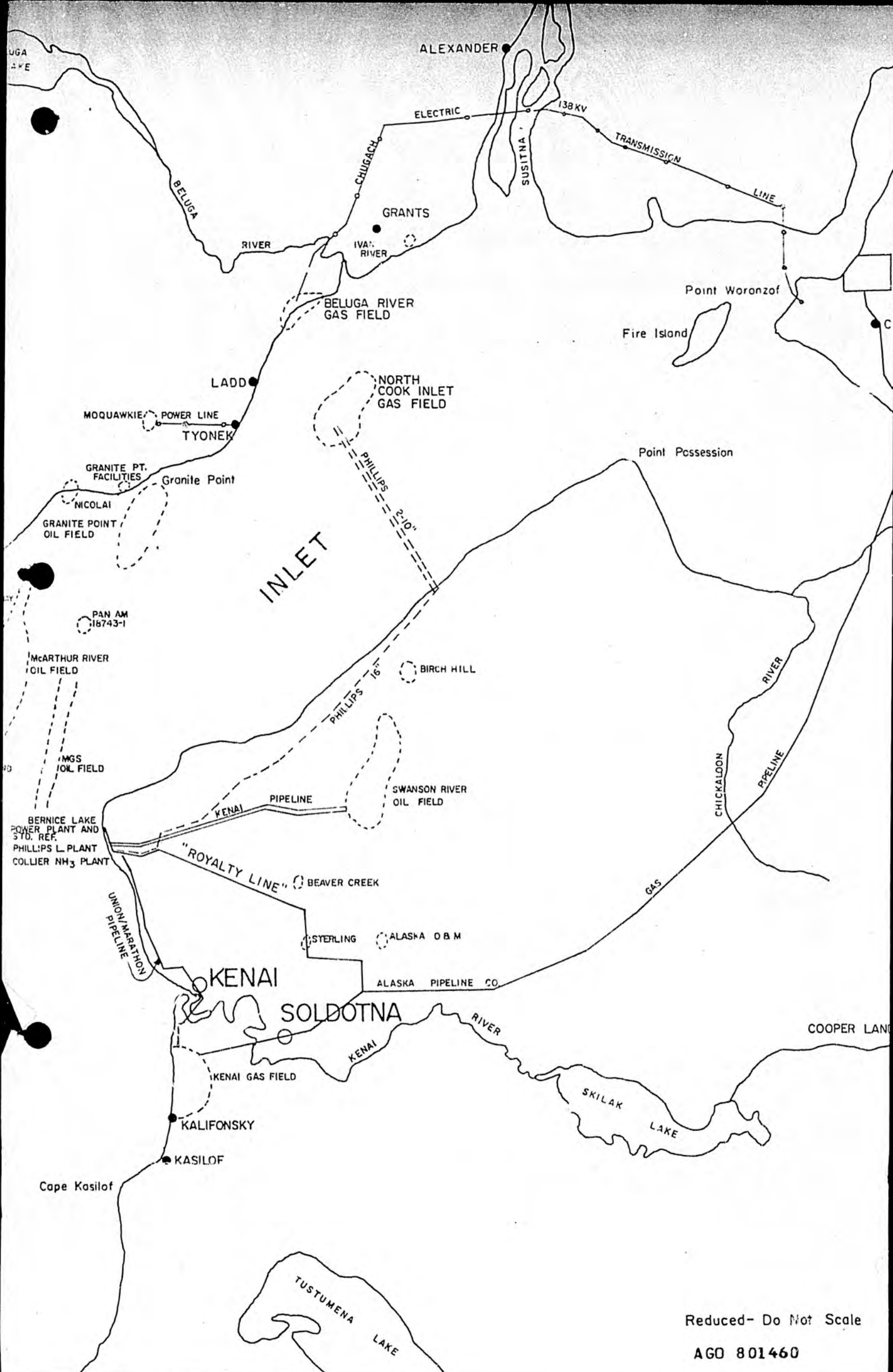
Richard F. Barner

ATTEST:

William J. Fisher

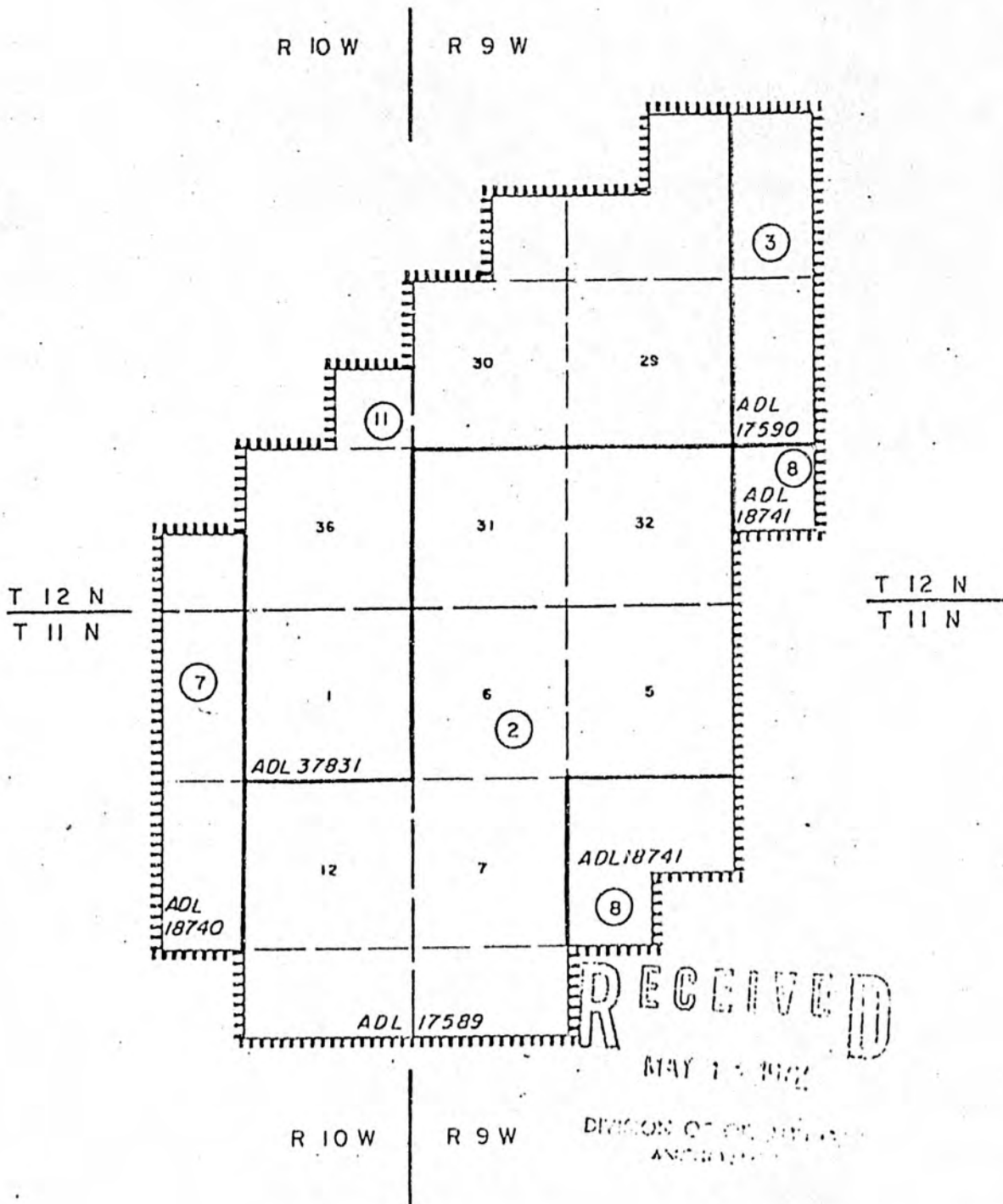


MAPS



Reduced- Do Not Scale

AGO 801460



(Contracted 2-1-72)

ADL 17589  
 ADL 17590  
 ADL 18740  
 ADL 18741  
 ADL 37831

LEGEND

- ▤▤▤▤ Unit Boundary
- Tract Boundary
- ③ Tract Number

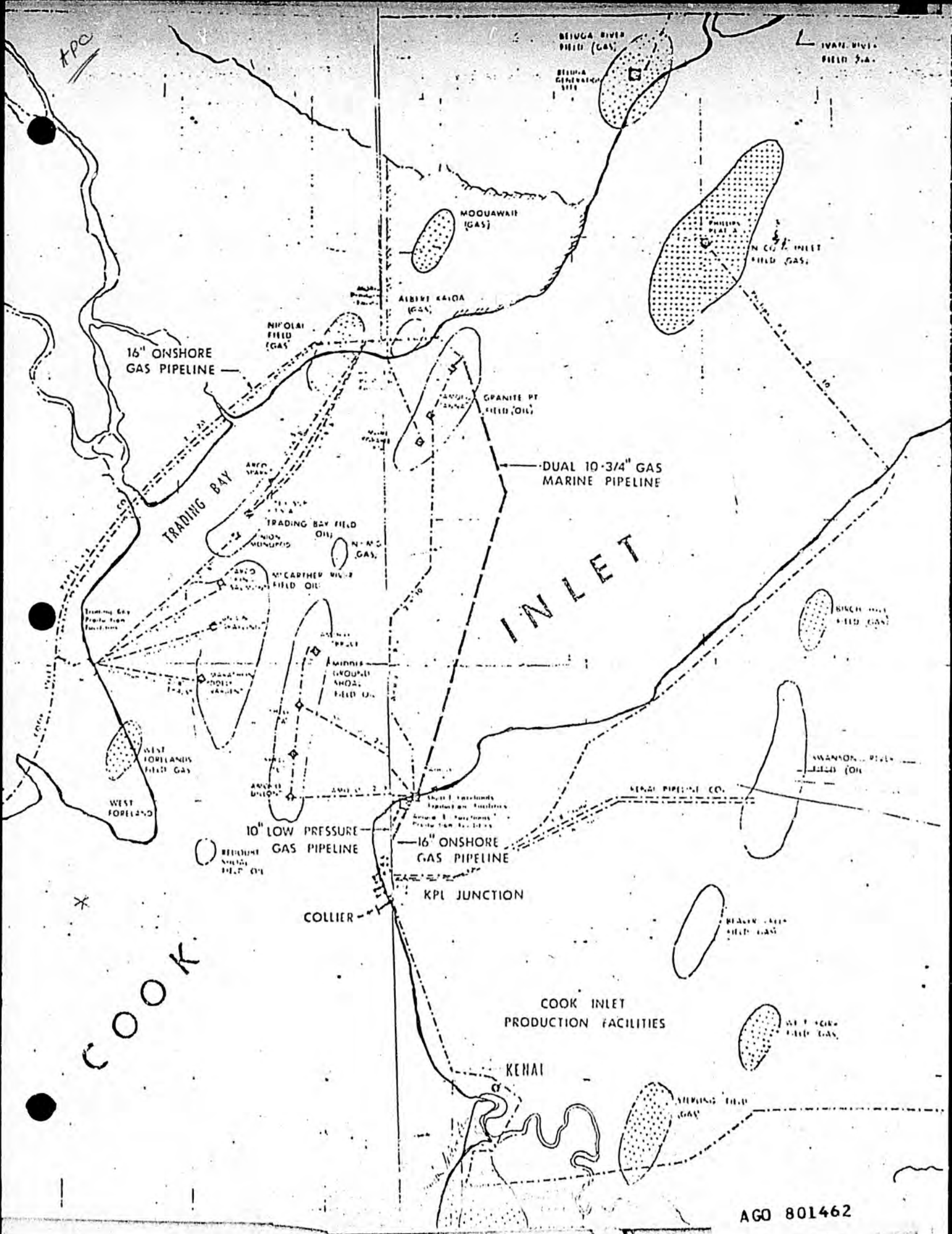
EXHIBIT "A"  
 TO ACCOMPANY

CONTRACTED  
 NORTH COOK INLET  
 UNIT AGREEMENT  
 COOK INLET BASIN, ALASKA

Scale 1" = 1 mi

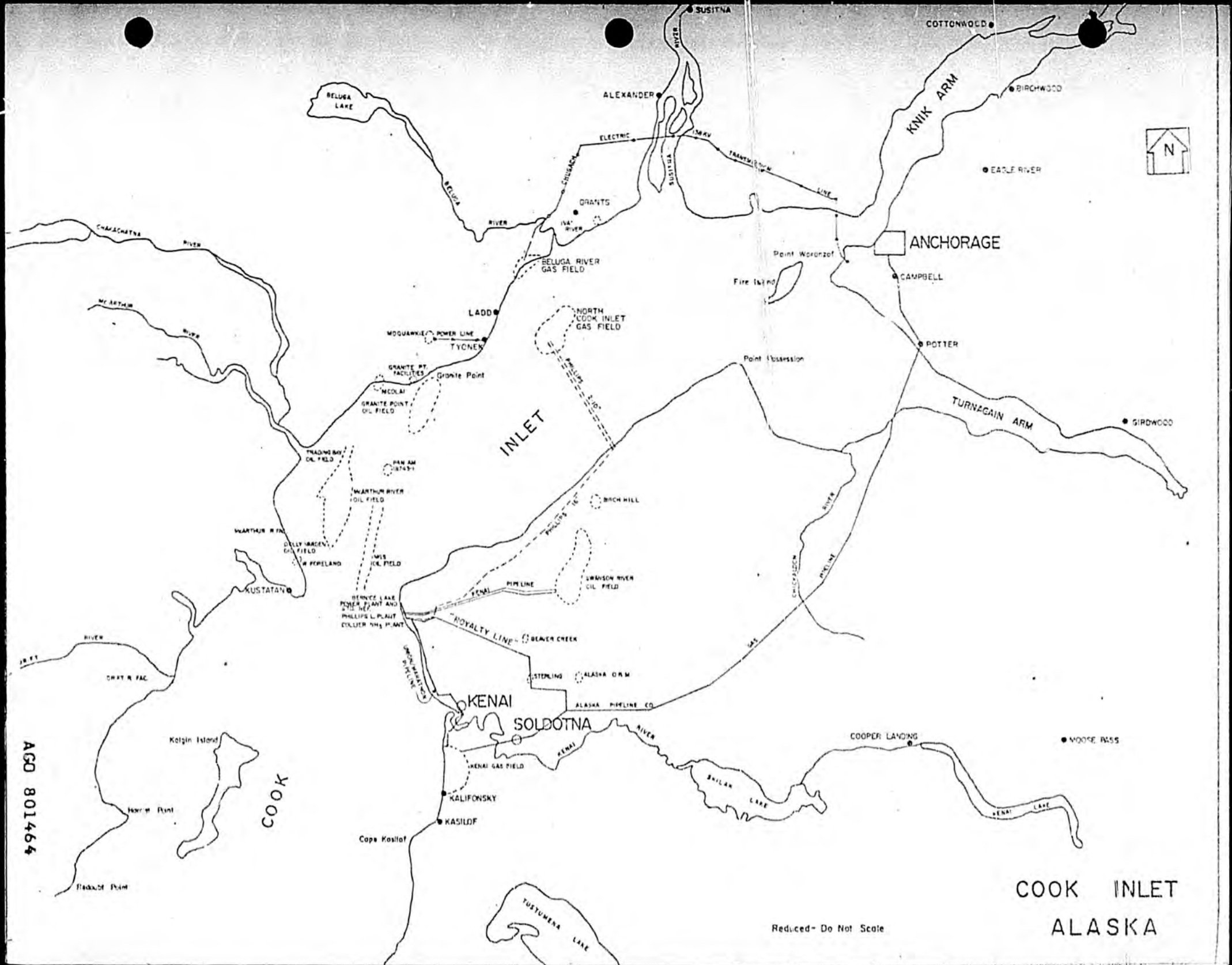
Feb: '72

AGO 801461





OIL AND GAS FIELDS OF THE COOK INLET AREA



AGD 801464

COOK INLET  
ALASKA

Reduced- Do Not Scale

LEGAL OPNS

+

APC + APUC

JURIS

LEGAL OPINIONS

APC AND APUC JURISDICTION

Don Wold  
Executive Director  
Alaska Royalty Oil and Gas  
Development Advisory Board

DATE: March 29, 1977

FILE NO:

TELEPHONE NO:

FROM:

Wilson Condon  
Deputy Attorney General

SUBJECT:

Jurisdiction of the  
Alaska Pipeline Commission  
Over Phillips East Cook  
Inlet Gas Line

This is in response to your memorandum of March 11, 1977 in which you ask if the Alaska Pipeline Commission (APC) would have jurisdiction over a pipeline operated by Phillips Petroleum if State-owned royalty gas is transported over that pipeline to North Kenai Road, where it would be sold by the State to Alaska Pipeline Company, a wholly owned subsidiary of Alaska Gas and Service. My conclusion is that the APC would not have jurisdiction over the Phillips Petroleum Company pipeline.

The Alaska Pipeline Commission has jurisdiction over "pipelines", "pipeline facilities" and "pipeline carriers". AS 42.06.630(10) defines "pipeline carrier" as:

. . . the owner, including corporations . . . , of any pipeline, as the term is defined in this section, or any interest in it;

AS 42.06.630(9) defines "pipeline" or "pipeline facility" as:

. . . all the facilities of a total system of pipe . . . in this state used by a pipeline carrier for transportation, <sup>and</sup> for hire and as a common carrier, of oil or gas for delivery, storage, or further transportation, and including all pipe, pump and compressor stations, station equipment, and all other facilities used or necessary for an integral line of pipe to effectuate the transportation from point to point, excluding, however, gas processing plant, heaters and separators;

→ processing

? also met loc?

What do they do

The salient portion of the above definition is written in the conjunctive, i.e., to be a "pipeline" or "pipeline facility" under the Alaska Pipeline Commission Act, AS 42.06 et seq., a pipeline facility must be used ". . . for transportation, for hire and as a common carrier . . ." (emphasis added).

Of course Phillips, in the arrangement described at the outset of this memorandum, will be using its pipeline for "transportation" of gas. However, since the subject pipeline is neither operated by Phillips "as a common carrier" nor is it subject to the "common carrier" covenant requirement of AS 38.35.120 due to the fact that the lease of state lands for the subject pipeline pre-dates the enactment of that statute, the subject pipeline would not fall within the jurisdiction of the APC were the proposed arrangement to be entered into by Phillips.

WLC:RMB:jec

TO: [

DATE: March 7, 1977

Guy Martin, Commissioner  
Dept. of Natural Resources

FILE NO:

FROM:

Wilson Condon  
Deputy Attorney General

TELEPHONE NO:

SUBJECT:

Jurisdiction of the APUC  
over Phillips Petroleum  
Pipeline

This is in response to your memorandum of February 24, 1977, in which you ask if the Alaska Public Utilities Commission would have jurisdiction over a pipeline operated by Phillips Petroleum if State-owned royalty gas is transported over that pipeline to North Kenai Road, where it would be sold by the State to Alaska Pipeline Company, a wholly owned subsidiary of Alaska Gas and Service. My conclusion is that the APUC would not have jurisdiction over the Phillips Petroleum Company pipeline.

The Alaska Public Utilities Commission has jurisdiction over "public utilities" which are defined by AS 42.05.70(2) as follows:

"public utility" or "utility" includes every corporation (whether public, cooperative, or otherwise), company, individual, or association of individuals, their lessees, trustees, or receivers appointed by a court, that owns, operates, manages or controls any plant, pipeline or system for

\* \* \*

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

\* \* \*

"Public" is defined by AS 42.05.701(5) as follows:

"public" or "general public" means

(A) any group of 10 or more customers that purchase the service or commodity furnished by a public utility as defined in (2) of this section; and

(B) any utility purchasing the product or service or paying for the transmission of electric energy, natural or manufactured gas, or petroleum products which are re-sold to a group included in (A) of this paragraph or which are used to produce the service or commodity sold to the public by the utility.

If Phillips delivers royalty natural gas to the State at the wellhead, and the State contracts with Phillips for transportation of that gas to North Kenai Road, Phillips will be rendering a utility-type service because it will be engaged in the transmission of natural gas. Phillips, however, will be neither a "utility" nor "public utility" within the meaning of the Public Utilities statute because it will not be furnishing transmission service to the "public" or the "Alaska public." Phillips would be furnishing transmission service to the State. This would make it a public utility if 1) the State is the 10th customer to purchase transmission service (our assumption is there are less than 10 purchasers of transmission service), or 2) if the State is a "utility. . . paying for the transmission of. . . natural. . . gas. . . which is resold to [any group of 10 or more customers that purchase the service or commodity furnished by a public utility. . . ]." The State would not be a utility (because it does not fit within the definition of AS 42.05.701(2)), thus Phillips could not be a public utility subject to the jurisdiction of the APUC when it furnishes transmission service to the State.

WLC:FHB:bvd

cc: Frederick H. Boness  
Assistant Attorney General

Robert E. Stoller  
Assistant Attorney General

Board Meeting called to order 10:10 A.M. Dec. 10, 1975,  
Chairman Martin brought the board back into session.

Mr. Martin:

We are at the point on the agenda where we take up discussions and reports. Fred I wonder if, Fred Boness from the Attorney General's Office could just briefly outline the report that he filed on the A-G-Phillips situation regard to public utilities.

Fred Boness:

*jurisdictional*  
*question*

At the last royalty board meeting Phillips raised the possibility that a sale of, or the state taking its gas in-kind might have the effect of subjecting the Phillips pipeline to either FPC or APUC jurisdiction depending on where the gas was sold. Specifically APUC jurisdiction if it was sold to Anchorage Natural Gas Company. I reviewed that possibility and filed a memorandum with the commissioner which indicates that it was my conclusion that there was indeed a possibility that at least limited jurisdiction by the Public Utilities Commission and cited the situation which took place in the Marathon, the Union Marathon Pipeline which exists from the Kenai field to the ING plant. It does have sales off that to the City of Kenai and Anchorage Natural Gas and there is limited jurisdiction exercised by the PUC in that pipeline. I believe the situation would likely be an analog to the Phillips Pipeline.

Mr. Martin:

Fred, is it your view that, if jurisdiction <sup>applied</sup>, and you considered that a likelihood or at least the ~~distinct~~ possibility, could that jurisdiction be waived as a precedent.

Mr. Boness:

The Public Utility Commission does have the authority to grant exemptions under one of its provisions and that could be exercised. The exact, the exact determinance of whether it would be or not specified in the law and it would require a ruling by the APUC.

Mr. Martin:

Do you have any idea, or does anybody have any idea, what might be the time consideration on a waiver at that time?

Mr. Boness:

No, I'm afraid I don't. I haven't talked to the APUC. I would think it would be perhaps two, three-maybe not-I would not think more than six months. Certainly the APUC acts much faster and swifter than the FPC. I think we have that kind of comparison.

End discussion this topic.

guy Martin

until all transportation or exchange arrangements have been completed to the satisfaction of the parties involved. Now detailing all aspects of that, I would like to point out some points. First: with regard to the termination date of the contract it is related to the termination of the Phillips contract and the possible implications of a failure Phillips to produce beyond that point. Second; the price is in fact, the highest price in the area and it is my feeling that this is an important aspect of the agreement for the reason that the board may very well, the board and the state may very well, wish from time to time to be in the position of doing something which is unpalatable, as it is in this case, to remove royalty gas from the user that has served an important public purpose in the state. But the board I think and the state will not want to be in position of attempting to set prices from time to time and place to place and to choose from among consumers in the state. The safest and most consistent standard therefore should be the highest price and we intend that this term will bear that out. We have also indicated that the point of delivery will be the wellhead, and, while we believe that will substantially alter the nature of the original offer made by Alaska Pipeline Company, we believe it is quite important that the state not be responsible for that transportation to shore. That is to be a negotiated item between Phillips and the purchaser. The state I should say at that point, that after having made this decision, fully intends that the decision be carried out and we think it is in the best public policy that this be carried out. I am requesting now and I think we will be requesting later that some terms of agreement, some measure of agreement, some point of agreement be found between Phillips and A N G for the delivery of this gas. I think that terminates my discussion with the exception of one point and that is that the PUC problem has not been one that has escaped our attention. It's our belief that this is a separate function, not one that the board can control as was suggested in the A N G offer. It was suggested in the A N G offer that the state would be capable of somehow dictating the outcome of that regulatory procedure. This, of course, is not the case, we will not attempt to do so. Now, I will indicate that it will be my intention to communicate the sentiments I just communicated with regard to our desire for success of this sale to the PUC with the request that they formulate the necessary procedures to protect Phillips from regulation in order to make this sale successful. So let me terminate my remarks at this time and ask for the comments and response of the board.

John Horn:

Mr. Chairman, let me make one small comment, the expiration date of our contract with the Japanese is June 1, 1984 rather than May 1.

Mr. Martin:

Thank you, John, very much. I will amend that.

Essentially duplicates  
APUC act 42.05.

Xerox 42.06.010 (1)

(2)

42.06.020

attorney general is legal counsel to APC

\* → 42.06.140 (1) + 42.06.630 (9)

(2) -

(3)

// (8)

(9)

42.06.230

340 (b)

370 (a) + (b)

420

630

① What are "the performance of obligations under and compliance with the terms of the leases issued by the State" ?  
(42.06.140 (2)).

(2) promote and insure, in conjunction with the Alaska Public Utilities Commission within its jurisdiction, nondiscriminatory, efficient, and economical oil and gas pipeline transportation at reasonable rates. (§ 1 ch 139 SLA 1972)

**Article 2. Establishment of Alaska Pipeline Commission.**

Section	Section
20. Alaska Pipeline Commission created	90. Compensation of members of the Alaska Pipeline Commission
30. Composition of Alaska Pipeline Commission	100. Principal office; seal
40. Term of office; vacancy	110. Legal counsel
50. Removal of commissioners	120. Employment of commission personnel
60. Qualifications of commissioners	130. Restrictions on commissioners and employees
70. Quorum	
80. Oath of office	

**Sec. 42.06.020. Alaska Pipeline Commission created.** There is created within the Department of Commerce and Economic Development the Alaska Pipeline Commission, to regulate pipeline facilities and pipeline carriers, to regulate the access of information concerning pipeline facilities and carriers to this state, and to represent the interests of the state in any proceedings relating to them as provided for in this chapter. (§ 1 ch 139 SLA 1972; am § 85 ch 218 SLA 1976)

**Effect of amendment.** — The 1976 Commerce and Economic Development" amendment substituted "Department of for "Department of Commerce."

**Sec. 42.06.030. Composition of Alaska Pipeline Commission.** (a) The Alaska Pipeline Commission consists of three members, appointed by the governor and confirmed by a majority of the members of the legislature in joint session.

(b) The governor shall designate one member of the commission as chairman of the commission. This member shall serve as chairman for a term of two years, and may be appointed for successive terms. (§ 1 ch 139 SLA 1972)

**Editor's note.** — Section 2, ch. 139, SLA 1972, provides: "Notwithstanding the provisions of AS 42.06.030 — 42.06.040, until July 1, 1973 the duties and functions of the Alaska Pipeline Commission under AS 42.06 may, by executive order of the governor, be carried out by a single commissioner appointed and paid under the provisions of AS 42.06 and two temporary commissioners who shall be appointed for terms expiring July 1, 1973. Temporary commissioners shall receive no compensation except per diem and travel authorized by law for other state boards and commissions and are not subject to the provisions of AS 42.06.060."

**Sec. 42.06.040. Term of office; vacancy.** (a) The members of the commission shall be appointed for terms of six years, except that of the members first appointed to the commission, one shall be appointed for a term of two years, one for a term of four years, and one for a term

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

**Effect of amendment.** — The 1973 amendment inserted the language beginning "excepting" and ending "waste material" in the first sentence of sub-section (b), substituted "the" for "such an" in that sentence, and added the second sentence of that sub-section.

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

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

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

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

## Chapter 06. Alaska Pipeline Commission Act.

### Article

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

**Legislative committee report.** — For report on ch. 139, SLA 1972 (FCCS HCS CSSB 314), see 1972 Senate Journal, p. 1072; 1972 House Journal, p. 1420.

### Article 1. Declaration of Policy.

#### Section

10. Legislative declaration of policy

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

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

(2) promote and insure, in conjunction with the Alaska Public Utilities Commission within its jurisdiction, nondiscriminatory, efficient, and economical oil and gas pipeline transportation at reasonable rates. (§ 1 ch 139 SLA 1972)

Article 2. Establishment of Alaska Pipeline Commission.

Section	Section
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**Effect of amendment.** — The 1976 Commerce and Economic Development" amendment substituted "Department of for "Department of Commerce."

**Sec. 42.06.030. Composition of Alaska Pipeline Commission.** (a) The Alaska Pipeline Commission consists of three members, appointed by the governor and confirmed by a majority of the members of the legislature in joint session.

(b) The governor shall designate one member of the commission as chairman of the commission. This member shall serve as chairman for a term of two years, and may be appointed for successive terms. (§ 1 ch 139 SLA 1972)

**Editor's note.** — Section 2, ch. 139, SLA 1972, provides: "Notwithstanding the provisions of AS 42.06.030 — 42.06.040, until July 1, 1973 the duties and functions of the Alaska Pipeline Commission under AS 42.06 may, by executive order of the governor, be carried out by a single commissioner appointed and paid under the provisions of AS 42.06 and two temporary commissioners who shall be appointed for terms expiring July 1, 1973. Temporary commissioners shall receive no compensation except per diem and travel authorized by law for other state boards and commissions and are not subject to the provisions of AS 42.06.060."

**Sec. 42.06.040. Term of office; vacancy.** (a) The members of the commission shall be appointed for terms of six years, except that of the members first appointed to the commission, one shall be appointed for a term of two years, one for a term of four years, and one for a term

**Sec. 42.06.130. Restrictions on commissioners and employees.** No member or employee of the commission may have an official connection with, or hold stock or securities in, or have a pecuniary interest in, a corporation, company or association engaged in the production or the transportation of oil or gas. No member or employee may act upon a matter in which his relationship with any person creates a conflict of interest. (§ 1 ch 139 SLA 1972)

**Article 3. Powers and Duties of Commission.**

Section	Section
140. Powers and duties of the commission	370. Rates to be just and reasonable
150. Powers and duties with respect to federally regulated carriers	380. Discrimination in rates
160. Administrative authority of commission; regulations and hearing procedures	390. New or revised tariffs
170. Application of Administrative Procedure Act	400. Suspension of tariff filing
180. Formal hearings	410. Power of commission to fix rates
190. Final orders of the commission	420. Valuation of property of a pipeline carrier
200. Format of orders	430. General provisions as to accounts, records and reports
210. Publication of reports, orders, decisions and regulations	440. Inspection of records
220. Annual report	450. Investigation of management practices
230. Jurisdiction of commission	460. Designation of service agents
240. Certificate required	470. Effect of regulations
245. Federally regulated carriers	480. Review and enforcement
250. Application	490. Complaint against pipeline carrier
260. Public hearings	500. Adjudication by commission under Administrative Procedure Act
270. Grant or denial of application	510. Public records
280. Insurance and security	520. Application fees
290. Abandonment	530. Injunctive and monetary sanctions
300. Modification, suspension or revocation of certificates	540. Civil penalties
305. Transfer of certificate	550. Each violation a separate offense
310. Standards of service and facilities	560. Actions to recover damages and penalties; disposition
320. Discrimination in service	570. Penalties cumulative
330. Power of commission to allocate usage	580. Joinder of actions
340. Order for joint use or connection	590. Private cause of action
350. Tariffs, contracts, filing and public inspection	600. Regulation by municipality
360. Adherence to tariffs	610. Expenses of investigation or hearing
	620. Classification
	630. Definitions
	640. Short title

**Sec. 42.06.140. Powers and duties of the commission.** The commission

- (1) shall regulate pipelines and pipeline carriers in the state;
- (2) may investigate upon complaint or its own motion, the rates, classifications, rules, regulations, prices, services, practices and facilities of pipeline carriers, and the performance of obligations under and compliance with the terms of leases issued by the state;
- (3) may make, prescribe or require just, fair and reasonable rates, classifications, regulations, practices, services and facilities for pipeline carriers;

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(4) may require pipeline carriers to file with the commission reports and other information and data required or permitted to be required by other provisions of this chapter;

(5) may adopt regulations that are necessary and proper to the performance of its duties under this chapter, including regulations governing practices and procedures of the commission, which regulations shall not be inconsistent with state law;

(6) shall during normal business hours have access to and may designate any of its employees, agents or consultants to inspect and examine, the accounts, financial and property records, books, maps, inventories, appraisals, valuations, and related reports kept by a pipeline carrier, or kept for it by others, which directly affect the interests of the state and directly relate to pipelines located in the state;

(7) may initiate, intervene in, and appear personally or by counsel and offer evidence in and participate in, any proceedings involving a pipeline carrier, and affecting the interests of the state, before any officer, department, board, commission or court of this state;

(8) shall require permits for the construction, enlargement in size or operating capacity, extension, operation or abandonment of any oil or gas pipeline facility, subject to necessary and reasonable terms, conditions and limitations;

(9) may prescribe the system of accounts and regulate the service of an oil or gas pipeline facility;

(10) shall provide all reasonable assistance to the Department of Law in intervening in, offering evidence in, and participating in proceedings involving a pipeline carrier and affecting the interests of the state, before an officer, department, board, commission or court of another state or the United States. (§ 1 ch 139 SLA 1972; am §§ 1, 2 ch 201 SLA 1976)

*Effect of amendment.* -- The 1976 of the United States" from the end of amendment deleted "or of another state or paragraph (7) and added paragraph (10).

**Sec. 42.06.150. Powers and duties with respect to federally regulated carriers.** Section 140 of this chapter applies to oil and gas pipeline carriers regulated under the Interstate Commerce Act of 1906, or the Natural Gas Act of 1938, only to the extent not preempted under those federal Acts. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.160. Administrative authority of commission; regulations and hearing procedures.** (a) The commission may adopt regulations, not inconsistent with law, necessary or proper to exercise its powers and to perform its duties under this chapter.

(b) The commission shall adopt regulations governing practice and procedure, consistent with due process of law, including the conduct of formal and informal investigations, prehearing conferences, hearings and proceedings, and the handling of procedural motions by a single

**Sec. 42.06.210. Publication of reports, orders, decisions and regulations.** All reports, orders, decisions and regulations of the commission shall be in writing. The commission shall apprise all affected operators of oil or gas pipeline facilities and interested parties of these reports, orders, decisions, and regulations as they are issued and adopted, and, when appropriate to do so, publish them in a manner that will reasonably inform the public or the affected consumers of the services of any oil or gas pipeline facility. The commission may set charges for costs of printing or reproducing and furnishing copies of its reports, orders, decisions and regulations. The publication requirement, as it pertains to regulations, does not supersede the requirements of the Administrative Procedure Act (AS 44.62). (§ 1 ch 139 SLA 1972)

**Sec. 42.06.220. Annual report.** The commission shall publish an annual report reviewing its work and submit it to the legislature by February 15 of each year. The report shall contain information and data which bear a significant relationship to the development and regulation of oil or gas pipeline facilities in the state and include an outline of the commission's program for the development and regulation of oil or gas pipeline facilities in the forthcoming year. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.230. Jurisdiction of commission.** Except as otherwise provided in this chapter or hereafter otherwise expressly provided by law, except as to any concurrent jurisdiction with the Alaska Public Utilities Commission under ch. 5 of this title as to a public utility described in AS 42.05.701(2)(D) and (E), and except as to jurisdiction of the Department of Law as provided by § 140(10) of this chapter, the jurisdiction and authority over the subject matter of this chapter is exclusively in the commission. To the extent that the performance of any duties of the commission affect a pipeline carrier or a pipeline subject to the Interstate Commerce Act or the Natural Gas Act, the performance of its duties shall not, as to that pipeline carrier or pipeline, conflict with applicable federal laws, regulations, rules, orders, or other requirements. (§ 1 ch 139 SLA 1972; am § 3 ch 201 SLA 1976)

**Effect of amendment.** — The 1976 amendment, in the first sentence, deleted "and" preceding "except as to any concurrent jurisdiction" and inserted "and

except as to jurisdiction of the Department of Law as provided by § 140(10) of this chapter."

**Sec. 42.06.240. Certificate required.** (a) After January 1, 1974 no pipeline carrier, or person which will be a pipeline carrier upon completion of any proposed construction or extension, shall engage in the transportation of oil or gas by pipeline subject to the jurisdiction of the commission, or undertake the construction or extension of any pipeline facilities for that purpose, or acquire or operate any pipeline facilities or extension, unless there is in force with respect to that pipeline carrier a certificate of public convenience and necessity issued

(b) If the commission, upon its own motion or upon complaint, after providing reasonable notice and opportunity for hearing, finds that the service or facilities of an oil or gas pipeline facility are unreasonable, unsafe, inadequate, insufficient, or unreasonably discriminatory, or otherwise in violation of this chapter, the commission shall prescribe by regulation or order, the reasonable, safe, adequate, sufficient service or facilities to be observed, furnished, enforced, or employed, including all repairs, changes, alterations, extensions, substitutions, or improvements in facilities that are reasonably necessary and proper for the safety, accommodation, and convenience of the public and the users. Regulations or orders issued under this subsection shall conform to accepted industry standards and practices.

(c) Every common carrier shall, when order by the Alaska Pipeline Commission, extend or enlarge its pipeline or storage facilities provided the extension or enlargement shall be found to be reasonable and required in the public interest and that the expense involved will not impair the ability of the common carrier or public utility to perform its duty to the public. (§ 1 ch 139 SLA 1972; am § 29 ch 3 FSSLA 1973)

*Effect of amendment.* — The 1973 amendment added subsection (c).

**Sec. 42.06.320. Discrimination in service.** No oil or gas pipeline carrier may, as to service, make or grant an unreasonable preference or advantage to any person or subject any person to an unreasonable prejudice or disadvantage. No oil or gas pipeline facility which is owned by more than one owner may require that users make separate requests of each separate owner in order to obtain a reasonable share of the service provided by the oil or gas pipeline facility. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.330. Power of commission to allocate usage.** If the commission, upon its own motion or upon complaint, after providing reasonable notice and opportunity for hearing, finds that an oil or gas pipeline facility is making or granting an unreasonable preference or advantage to any person or subjecting any person to an unreasonable prejudice or discrimination, the commission may prescribe rules to end the discrimination or the commission may itself prescribe the allocation of the service until it determines the discrimination can be avoided by appropriate rule or agreement. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.340. Order for joint use or connection.** (a) When there is failure to agree upon the joint use or interconnection of oil or gas pipeline facilities or the conditions or compensation for joint use or interconnections, any interested person may apply to the commission for an order requiring the interconnection. If, after investigation and opportunity for hearing, the commission finds that public convenience and necessity require the joint use or connection, and that the use or

connection will not result in substantial injury to the oil or gas pipeline facility or its customers, or in substantial detriment to the services furnished by the oil or gas pipeline facility, or in the creation of safety hazards, it shall

- (1) order that the use be permitted;
- (2) prescribe reasonable conditions and compensation for the joint use;
- (3) order the interconnection to be made;
- (4) determine the time and manner of the interconnection;
- (5) determine the apportionment of costs and responsibility for operation and maintenance of the interconnection.

(b) During construction of a pipeline the commission, after investigation and opportunity for hearing and findings as required in (a) of this section, may order the inclusion within the pipeline at points that it designates, special fittings including but not limited to tees, wyes, spools, reducers, enlargers, flanges, flange plates, valves and valve boxes, to reduce the time and cost of future connections for the injection and removal of gas and oil from the main pipeline, and to maintain and facilitate intrastate commerce. A request for special fittings may be made by the commissioner of natural resources for the state. A request for special fittings and valves may be made to the commission by a local government, person, company or corporation. The cost of furnishing and installing the special fittings shall be paid by the state. However, if the special fittings are used by a person for a commercial enterprise or by a municipality for the operation of a utility, the commission shall require that the using person or municipality reimburse the state for the cost of furnishing and installing. (§ 1 ch 139 SLA 1972; am § 1 ch 5 SSSLA 1974)

Effect of amendment. — The 1974 amendment added subsection (b).

**Sec. 42.06.350. Tariffs, contracts, filing and public inspection.** (a) Under such regulations as the commission shall prescribe, every intrastate oil or gas pipeline carrier shall file with the commission, within the time and in the form designated by the commission, all rates, tariffs, charges, classifications, rules, regulations, terms, and conditions pertaining to service provided under the certificate, and shall maintain copies on file at its principal business office and at places designated by the commission, available to, and subject to inspection by, the general public on demand.

(b) The commission may reject the filing of all or part of a tariff which does not comply with the form or filing regulations of the commission or which is not consistent with this chapter or the regulations of the commission. A tariff or provision so rejected is void. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.360. Adherence to tariffs.** The terms and conditions under which a pipeline carrier offers its services and facilities to the public

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shall be governed strictly by the provisions of its currently effective tariffs. No legally filed and effective tariff rate, charge, rule, regulation or condition of service may be changed except in the manner provided in this chapter. If more than one tariff rate or charge can reasonably be applied for billing purposes the one most advantageous to the customer shall be used. (§ 1 ch 139 SLA 1972)

✓ Sec. 42.06.370. Rates to be just and reasonable. (a) All rates demanded or received by a pipeline carrier, or by any two or more pipeline carriers jointly, for a service furnished or to be furnished shall be just and reasonable.

✓ (b) Additional regulations and rules governing determination of a reasonable tariff shall be published by the commission. (§ 1 ch 139 SLA 1972)

Sec. 42.06.380. Discrimination in rates. (a) No pipeline carrier may, as to rates, grant a preference or advantage to any customer or subject a customer to an unreasonable prejudice or disadvantage. No pipeline carrier may establish or maintain an unreasonable difference as to rates, either as between localities served or between classes of service provided under the certificate.

(b) No pipeline carrier may directly or indirectly refund, rebate or remit in any manner, or by any device, any portion of the rates and charges or charge, demand or receive a greater or lesser compensation for service than is specified in its effective tariff nor extend to any customer served under the certificate any form of contract, agreement, inducement, privilege or facility, or apply any rule, regulation or condition of service except as are extended or applied to all customers under like circumstances. (§ 1 ch 139 SLA 1972)

Sec. 42.06.390. New or revised tariffs. (a) No pipeline carrier may establish or place in effect any new or revised rates, charges, rules, regulations, conditions of service or practices except after 30 days notice to the commission and to the public. Notice shall be given by filing with the commission and keeping open for public inspection the revised tariff provisions which shall plainly indicate the changes to be made in the schedules then in force and the time when the changes will go into effect. The commission may prescribe additional means of giving notice. The commission, for good cause shown, may allow changes to take effect on less than 30 days notice under conditions the commission prescribes.

(b) New and revised tariffs shall be filed in the manner provided in § 350 of this chapter. (§ 1 ch 139 SLA 1972)

Sec. 42.06.400. Suspension of tariff filing. (a) When a tariff filing is made containing a new or revised rate, classification, rule, regulation, practice, or condition of service the commission may, either upon written complaint or upon its own motion, after reasonable notice, conduct a hearing to determine the reasonableness and propriety of the filing.

Pending a hearing the commission may, by order stating the reasons for its action, suspend the operation of the tariff filing for an initial period not longer than six months beyond the time when it would otherwise go into effect.

(b) An order suspending a tariff filing may be vacated if, after investigation, the commission finds that it is in all respects proper. Otherwise the commission shall hold a hearing on the suspended filing and issue its order, before the end of the suspension period, granting, denying or modifying the suspended tariff in whole or in part.

(c) In the case of a proposed increased rate, the commission may by order require the interested pipeline carrier to place in escrow in a financial institution approved by the commission, and keep accurate account of, all amounts received by reason of the increase, specifying by whom and in whose behalf the amounts are paid. Upon completion of the hearing and decision the commission may by order require the pipeline carrier to refund to the persons in whose behalf the amounts were paid, that portion of the increase in rates which was found to be unreasonable or unlawful. No funds may be released from escrow without the commission's prior written consent and the escrow agent shall be so instructed by the pipeline carrier, in writing, with a copy to the commission. The pipeline carrier, at its expense, may substitute a bond in lieu of the escrow requirement.

(d) One who initiates a change in existing tariffs bears the burden of proving the reasonableness of the change. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.410. Power of commission to fix rates.** When the commission, after an investigation and hearing, finds that a rate demanded, observed, charged or collected by a pipeline carrier for a service, subject to the jurisdiction of the commission, or that a classification, rule, regulation, practice, or contract affecting the rate, is unjust, unreasonable, unduly discriminatory or preferential, the commission shall determine a just and reasonable rate, classification, rule, regulation, practice, or contract to be observed or allowed and shall establish it by order. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.420. Valuation of property of a pipeline carrier.** The commission may, after providing reasonable notice and opportunity to be heard, ascertain and set the fair value of the whole or any part of the property of a pipeline carrier, insofar as it is material to the exercise of the jurisdiction of the commission. The commission may make revaluations from time to time and ascertain the fair value of all new construction, extensions, and additions to the property of a pipeline carrier. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.430. General provisions as to accounts, records and reports.** To the extent necessary to the performance of the duties of the commission as provided in this chapter:

**Sec. 42.06.600. Regulation by municipality.** The commission's jurisdiction and authority extend to an oil or gas pipeline facility operating in a city or borough, whether home rule or otherwise. If a conflict between a certificate, order, decision or regulation of the commission and a charter, permit, franchise, ordinance, rule or regulation of such a local governmental entity occurs, the certificate, order, decision or regulation of the commission prevails. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.610. Expenses of investigation or hearing.** After completion of a hearing or investigation held under this chapter, the commission shall allocate the costs of the hearing or investigation among the parties, including the commission, as is just under the circumstances. The costs allocated may include the costs of any time devoted to the investigation or hearing by hired consultants, whether or not the consultants appear as witnesses or participants. The commission shall provide an opportunity for any person objecting to an allocation to be heard before the allocation becomes final. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.620. Classification.** The commission may by regulation provide for the classification of oil or gas pipeline facilities based upon differences in annual revenue, assets, nature of ownership and other appropriate distinctions and as between these classifications, by regulation, provide for different reporting, accounting and other regulatory requirements. (§ 1 ch 139 SLA 1972)

**Sec. 42.06.630. Definitions.** In this chapter

- (1) "commission" means the Alaska Pipeline Commission;
- (2) "commissioner" means a member of the commission;
- (3) "duties" means duties, powers, obligations and functions;
- (4) "gas" includes all natural gas and hydrocarbons produced at the wellhead and not defined as oil;
- (5) "Interstate Commerce Act" means the Interstate Commerce Act of 1906, 34 Stat. 584, as amended;
- (6) "municipality" means an organized borough or incorporated city;
- (7) "Natural Gas Act" means the Natural Gas Act of 1938, 52 Stat. 821, as amended;
- (8) "oil" includes crude oil, and other hydrocarbons regardless of gravity which are produced at the wellhead in liquid form, its products and liquid hydrocarbons, including the liquid hydrocarbons known as distillate or condensate recovered or extracted from gas, other than gas produced in association with oil and commonly known as casinghead gas;
- (9) "pipeline" or "pipeline facility" means all the facilities of a total system of pipe (whether owned or operated by a pipeline carrier under a contract, agreement, or lease) in this state used by a pipeline carrier for transportation, for hire and as a common carrier, of oil or gas for delivery, storage, or further transportation, and including all pipe, pump and compressor stations, station equipment, and all other facilities used

or necessary for an integral line of pipe to effectuate the transportation from point to point, excluding, however, gas processing plants, treaters and separators;

(10) "pipeline carrier" means the owner, including corporations organized under the laws of the United States or of other states, of any pipeline, as the term is defined in this section, or any interest in it;

(11) "regulation" includes rules;

(12) "tariff" means a rate, charge, toll, rule or regulation of an oil or gas pipeline facility relating to services furnished by the facility to the general public or other users for compensation. (§ 1 ch 139 SLA 1972; am §§ 7, 8 ch 6 FSSLA 1973)

Effect of amendment. — The 1973 amendment rewrote paragraphs (4) and (8).

Sec. 42.06.640. Short title. This chapter may be cited as the Alaska Pipeline Commission Act. (§ 1 ch 139 SLA 1972)

### Chapter 07. Alaska Transportation Commission Act.

#### Article

1. Establishment of Transportation Commission (§§ 42.07.011 -- 42.07.111)
2. Powers and Duties of Commission (§§ 42.07.121 -- 42.07.161)

Repeal of former chapter. — Section 1, ch. 104, SLA 1969, repealed former Chapter 07, entitled "Alaska Transportation Commission." The former chapter consisted of §§ 42.07.010 — 42.07.159, and derived from § 1, ch. 139, SLA 1966.

#### Article 1. Establishment of Transportation Commission.

##### Section

11. Creation and composition
21. Term of office; vacancy
31. Quorum
41. Qualifications
51. Out of office
61. Restrictions
71. Compensation of members of the Alaska Transportation Commission

##### Section

81. Principal office and seal
91. Legal counsel
101. Employment and compensation of personnel
111. Annual report

Sec. 42.07.011. Creation and composition. (a) There is created the Alaska Transportation Commission within the Department of Commerce and Economic Development. The commission consists of three members appointed by the governor and confirmed by the legislature in joint session.

(b) The governor shall designate one member of the commission as chairman of the commission. This member shall serve as chairman for

*Extra*

§ 38.35.110

PUBLIC LANDS

§ 38.35.120

to comply with its terms, conditions, and obligations. Only upon proper acceptance of offered lease by the applicant within 30 days after its having been presented is the grant of the application consummated. (§ 1 ch 72 SLA 1972; am § 9 ch 3 FSSLA 1973)

*Effect of amendment.* — The 1973 amendment rewrote this section.

**Sec. 38.35.110. Term of lease.** Each lease of state land for pipeline right-of-way purposes shall contain a provision that the lease shall run for a specified term of not greater than 30 years, and shall be renewable for additional periods of up to 10 years each, so long as the lessee is in commercial operation and is in full compliance with all state law, including but not limited to state law pertaining to regulation and taxation of the pipeline facility, and is in compliance with all terms of the lease. In making this determination he shall take into consideration the cost of the proposed pipeline, its useful life, and the probable financing requirement for the proposed pipeline. (§ 1 ch 72 SLA 1972; am § 10 ch 3 FSSLA 1973)

*Effect of amendment.* — The 1973 amendment substituted "30 years" for "25 years" and inserted "is in commercial operation and" in the first sentence and added the second sentence.

*R-O-W  
Leasing Act*

**Sec. 38.35.120. Covenants required to be included in lease.** (a) A noncompetitive lease of state land for a right-of-way for an oil or natural gas pipeline valued at \$1,000,000 or more may be granted only upon the condition that the lessee expressly covenants in the lease, in consideration of the rights acquired by it under the lease, that

(1) it assumes the status of and will perform all of its functions undertaken under the lease as a common carrier and will accept, convey, and transport without discrimination crude oil or natural gas, depending on the kind of pipeline involved, delivered to it for transportation from fields in the vicinity of the pipeline subject to the lease throughout its route both on state land obtained under the lease and on other land; however, a lessee who owns or operates a natural gas pipeline subject to regulation either (A) under the Natural Gas Act (15 U.S.C. 717 et seq.) of the United States, or (B) by the state or political subdivisions with respect to rates and charges for the sale of natural gas, is, to the extent of that regulation, exempt from the common carrier requirement in this paragraph; it will accept, convey, and transport crude oil or natural gas without unjust or unreasonable discrimination in favor of one producer or person, including itself, as against another but will take the crude oil or natural gas, depending on the kind of pipeline involved, delivered or offered, without unreasonable discrimination, that the Alaska Pipeline Commission shall, after a full hearing with due notice to the interested parties and a proper finding of facts, determine to be reasonable in the performance of its duties as a common carrier;

(2) it will interchange crude oil or natural gas, depending on the kind of pipeline involved, with each like common carrier and provide connections and facilities for the interchange of crude oil or natural gas at every locality reached by both pipelines when the necessity exists, subject to rates and regulations made by the appropriate state or federal regulatory agency;

(3) it will maintain and preserve books, accounts, and records and will make those reports that the state may prescribe by regulation or law as necessary and appropriate for purposes of administration of this chapter;

(4) it will accord at all reasonable times to the state and its authorized agents and auditors the right of access to its property and records, of inspection of its property, and of examination and copying of records;

(5) it will provide connections, as determined by the Alaska Pipeline Commission under AS 42.06.340, to facilities on the pipeline subject to the lease, both on state land and other land in the state, for the purpose of delivering crude oil or natural gas, depending on the kind of pipeline involved, to persons (including the state and its political subdivisions) contracting for the purchase at wholesale of crude oil or natural gas transported by the pipeline when required by the public interest;

(6) it shall, notwithstanding any other provision, provide connections and interchange facilities at state expense at such places the state considers necessary if the state determines to take a portion of its royalty or taxes in oil or natural gas;

(7) it will construct and operate the pipeline in accordance with applicable state laws and lawful regulations and orders of the Alaska Pipeline Commission;

(8) it will, at its own expense, during the term of the lease

(A) maintain the leasehold and pipeline in good repair;

(B) promptly repair or remedy any damage to the leasehold;

(C) promptly compensate for any damage to or destruction of property for which the lessee is liable resulting from damage to or destruction of the leasehold or pipeline;

(9) it will not transfer, assign, or dispose of in any manner, directly or indirectly, or by transfer of control of the carrier corporation, its interest in a right-of-way lease, or any rights under the lease or any pipeline subject to the lease to any person other than another owner of the pipeline (including subsidiaries, parents and affiliates of the owners), except to the extent that the commissioner, after consideration of the protection of the public interest (including whether the proposed transferee is fit, willing and able to perform the transportation or other acts proposed in a manner that will reasonably protect the lives, property and general welfare of the people of Alaska), authorizes; the commissioner shall not unreasonably withhold his consent to the transfer, assignment or disposal;

(10) it will file with the commissioner a written appointment of a named permanent resident of the state to be its registered agent in the state and to receive service of notices, regulations, decisions and orders of the commissioner; if it fails to appoint an agent for service, service may be made by posting a copy in the office of the commissioner and filing a copy of it in the office of the lieutenant governor and by mailing a copy to the lessee's last known address;

(11) the applicable law of this state will be used in resolving questions of interpretation of the lease;

(12) the granting of the right-of-way lease is subject to the express condition that the exercise of the rights and privileges granted under the lease will not unduly interfere with the management, administration, or disposal by the state of the land affected by the lease, and that the lessee agrees and consents to the occupancy and use by the state, its grantees, permittees, or other lessees of any part of the right-of-way not actually occupied or required by the pipeline for the full and safe utilization of the pipeline, for necessary operations incident to land management, administration, or disposal;

(13) it will be liable to the state for damages or injury incurred by the state caused by the construction, operation or maintenance of the pipeline and it will indemnify the state for the liabilities or damages;

(14) it will procure and furnish liability and property damage insurance from a company licensed to do business in the state or furnish other security or undertaking upon the terms and conditions the commissioner considers necessary if the commissioner finds that the net assets of the lessee are insufficient to protect the public from damage for which the lessee may be liable arising out of the construction or operation of the pipeline.

(b) For a right-of-way lease granted under this chapter for an oil or natural gas pipeline valued at \$1,000,000 or more to be valid and of legal effect, it must contain the terms required to be inserted under the provisions of §§ 110 — 140 of this chapter. An oil or natural gas pipeline right-of-way lease granted under this chapter that does not contain the required terms is null and void and without legal effect and does not vest any interest in state land or any authority in the carrier granted the lease.

(c) The commissioner may insert in any right-of-way lease other reasonable provisions and conditions that he determines the public interest requires.

(d) The lease will also contain terms and conditions that are reasonably necessary to obligate the lessee, to the extent reasonably practicable, to

(1) prevent conflicts with other existing uses of the land involving a superior public interest;

(2) protect state and private property interests;

(3) prevent any significant adverse environmental impact, including but not limited to the erosion of the surface of the land, and damage to fish and wildlife and their habitat;

(4) restore and revegetate during the term and at termination of the lease; and

(5) protect the interests of individuals living in the general area of the right-of-way who rely on the fish, wildlife, and biotic resources of the area for subsistence purposes.

(e) In the event the commissioner proposes to offer a lease or leases to two or more lessees for the same pipeline, the commissioner may include terms in the lease or leases which establish the limit of the obligations and liabilities of each lessee arising under this chapter or under the lease or leases.

(f) The commissioner may, at his discretion, include any or all of the terms set out in this section in leases of state land for products pipeline right-of-way purposes. (§ 1 ch 72 SLA 1972; am § 11 ch 3 FSSLA 1973)

**Effect of amendment.** — The 1973 amendment rewrote this section.

**Sec. 38.35.130. Right-of-way easements or leases acquired from others.** (a) The lessee may, if the commissioner delegates the function to it, condemn, by declaration of taking, under AS 09.55.420 — 09.55.450, real property and acquire leases of or easements or rights-of-way on lands in the state required for right-of-way purposes for a pipeline subject to the lease on behalf of and as agent for the state in which title to or interest in the land shall vest.

(b) The lease shall contain a covenant that the land, right-of-way, or easement acquired under this section is or will form part of the land leased to the lessee. (§ 1 ch 72 SLA 1972; am § 12 ch 3 FSSLA 1973)

**Effect of amendment.** — The 1973 amendment rewrote subsection (a), deleting the paragraph designations and deleting the provisions of former paragraphs (1) and (2). The amendment also, in subsection (b), substituted "The lease shall contain a covenant" for "The

lease covenant required by this section shall be accompanied by a provision" and deleted "carrier" following "lessee."

Quoted in *Arco Pipeline Co. v. 3.60 Acres, More or Less*, Sup. Ct. Op. No. 1177 (File No. 2419), 539 P.2d 64 (1975).

**Sec. 38.35.140. Payment of rental and costs.** (a) The lease price for a right-of-way lease shall be the annual fair market rental of the state lands included in the right-of-way based on the appraised fair market value of the land. The lease price is payable annually in advance on or before the anniversary of the lease. The appraised fair market rental value shall be adjusted periodically under the provisions of AS 38.05.015. Rental may not be charged for any land acquired by the lessee under § 130(b) of this chapter and conveyed without cost to the state.

(b) The lessee shall reimburse the state for all reasonable costs incurred in monitoring the construction of the pipeline on the right-of-way. (§ 1 ch 72 SLA 1972; am § 13 ch 3 FSSLA 1973)

Sections  
from APUC

Boys Stover - due APUC

05.141 - 211 P + D  
221 - 281 P. Gov + Nec.

AG is legal counsel ←

Xerox 42.05.711 (d)  
42.05.141 (A)  
42.05.171  
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HEA 42.05.221 (d) (1) - (5)  
42.05.541  
42.05.701 (2) (0)

**Sec. 42.05.141. General powers and duties of the commission.** The Alaska Public Utilities Commission may

(1) regulate every public utility engaged or proposing to engage in such a business inside the state, except to the extent exempted by § 711 of this chapter and the powers of the commission shall be liberally construed to accomplish its stated purposes;

(2) investigate, upon complaint or upon its own motion, the rates, classifications, rules, regulations, practices, services and facilities of a public utility and hold hearings on them;

(3) make or require just, fair and reasonable rates, classifications, regulations, practices, services and facilities for a public utility;

(4) prescribe the system of accounts and regulate the service and safety of operations of a public utility;

(5) require a public utility to file reports and other information and data;

(6) appear personally or by counsel and represent the interests and welfare of the state in all matters and proceedings involving a public utility pending before an officer, department, board, commission or court of the state or of another state or the United States and to intervene in, protest, resist, or advocate the granting, denial or modification of any petition, application, complaint or other proceeding;

(7) examine witnesses and offer evidence in any proceeding affecting the state and initiate or participate in judicial proceedings to the extent necessary to protect and promote the interests of the state. (§ 6 ch 113 SLA 1970; am § 1 ch 33 SLA 1971)

The general powers and duties of the Public Utilities Commission are set forth in this section. *Greater Anchorage Area Borough v. City of Anchorage*, Sup. Ct. Op. No. 856 (File No. 1569), 504 P.2d 1027 (1972).

The essence of the administrative power conferred upon the Public Utilities Commission is regulatory; the commission is empowered to set rates, promulgate regulations, collect information, process complaints against utilities and the like. *Greater Anchorage Area Borough v. City of Anchorage*, Sup. Ct. Op. No. 856 (File No. 1569), 504 P.2d 1027 (1972).

The statutory framework does not grant unlimited adjudicatory authority to the Public Utilities Commission. *Greater Anchorage Area Borough v. City of Anchorage*, Sup. Ct. Op. No. 856 (File No. 1569), 504 P.2d 1027 (1972).

This chapter simply does not contemplate the establishment of an administrative body with the authority to adjudicate disputes over the authority of boroughs to

control construction along their rights of way. *Greater Anchorage Area Borough v. City of Anchorage*, Sup. Ct. Op. No. 856 (File No. 1569), 504 P.2d 1027 (1972).

The Public Utilities Commission is not empowered to decide disputes between municipalities over the control of construction activities within rights of way belonging to one of the disputants. *Greater Anchorage Area Borough v. City of Anchorage*, Sup. Ct. Op. No. 856 (File No. 1569), 504 P.2d 1027 (1972).

There is no "right" to have the commission act. *Jager v. State*, Sup. Ct. Op. No. 1161 (File No. 2057), 537 P.2d 1100 (1975).

The matter of rate discrimination and investigation is such that the commission must be free to weigh the charges and data presented and the costs to the public and the utility, against which a complaint has been brought, to determine whether further proceedings are in the public interest. *Jager v. State*, Sup. Ct. Op. No. 1161 (File No. 2057), 527 P.2d 1100 (1975).

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

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

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

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

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

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

Article 3. Certificate of Public Convenience and Necessity.

Section	Section
221. Certificates required	271. Modification, suspension or revocation of certificates
231. Application	281. Transfer of certificate
241. Conditions of issuance	
251. Use of streets in cities and boroughs	
261. Discontinuance, suspension or abandonment of certificated service	

Repeal of former article. — Section 5, ch. 113, SLA 1970, repealed former Article 3, entitled "Valuation of Public Utility Properties." The former article consisted of §§ 42.05.250 — 42.05.280 and derived from ch. 199, SLA 1959.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Am. Jur. and C.J.S. references. — 43 73 C.J.S. Public Utilities § 46 et seq.  
Am. Jur., Public Utilities and Services,  
§§ 196, 216 to 223.

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

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

**Article 8. Judicial Review, Penalties and Enforcement.**

Section	Section
541. Effect of regulations	601. Actions to recover penalties; disposition
551. Review and enforcement	611. Penalties cumulative
561. Injunctive and monetary sanctions	621. Joinder of actions
571. Civil penalties	
581. Each violation a separate offense	

**Repeal of former article.** — Section 5, ch. 113, SLA 1970, repealed former Article 8, entitled "Municipal and Other Public Utilities." The former article consisted of §§ 42.05.620 — 42.05.630 and derived from ch. 199, SLA 1959.

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

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

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

**Orders of commission expressly made subject to Administrative Procedure Act.** — Subsection (a) of this section expressly makes orders of the Public Utilities Commission subject to the provisions of the Alaska Administrative Procedure Act (AS 44.62). Greater Anchorage Area Borough v. City of Anchorage, Sup. Ct. Op. No. 856 (File No. 1569), 504 P.2d 1027 (1972). AS 44.62.570 is made applicable to review of final orders of the Public Utilities Commission by this section. Jager v. State,

## Article 10. General Provisions.

Section  
701. Definitions  
711. Exemptions

Section  
721. Short title

**Sec. 42.05.701. Definitions.** In this chapter

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

73 C.J.S. Public Utilities §§ 1 to 3.

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

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

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

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

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

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

**Effect of amendment.** — The 1973 amendment inserted the language beginning "excepting" and ending "waste material" in the first sentence of subsection (b), substituted "the" for "such an" in that sentence, and added the second sentence of that subsection.

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

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

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

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

### Chapter 06. Alaska Pipeline Commission Act.

#### Article

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

**Legislative committee report.** — For report on ch. 139, SLA 1972 (FCCS HCS CSSB 314), see 1972 Senate Journal, p. 1072; 1972 House Journal, p. 1420.

#### Article 1. Declaration of Policy.

##### Section

10. Legislative declaration of policy

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

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

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U-75-68(3)

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

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

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

U-75-68

ERRATA NOTICE

ORDER NO. 3

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

(Issued December 17, 1975)

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

"Royalty Tax" to "Royalty Gas"

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

BY DIRECTION OF THE COMMISSION

(S E A L)



STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

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

In the Matter of the Filing of a     )  
Tariff Revision, Designated as     )     U-75-68  
TA12-4, by ALASKA GAS AND SERVICE   )  
COMPANY to Adopt Purchased Gas and   )     ORDER NO. 3  
Tax Adjustment Clauses             )  
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ORDER MODIFYING PURCHASED GAS COST AND TAX FLOW  
THROUGH CLAUSES AND ACCEPTING MODIFIED CLAUSES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Royalty Gas

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

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

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

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

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

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

RESERVE TAX

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

*1975  
AGAS  
done  
apparently*

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

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

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

PURCHASED GAS COST ADJUSTMENT CLAUSE AND SEVERANCE TAX CLAUSE

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

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

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

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

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

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

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

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

ORDER

THE COMMISSION FURTHER ORDERS:

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

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

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

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

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

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

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

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

BY DIRECTION OF THE COMMISSION

(S E A L)



U-75-68(3)  
Page 16

AGO 801517

SCR 106

CS HCR 142

1 IN THE SENATE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 SENATE CONCURRENT RESOLUTION NO. 106

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

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

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

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

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

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

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

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

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

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

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

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

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

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

SCB107 PAYING TRIBUTE TO JIM MCKEOWN  
PRIME SPONSORS: RULES

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

MESSAGES FROM THE GOVERNOR

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

HOUSE RESOLUTION NO. 7

HOUSE CONCURRENT RESOLUTION NO. 86

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

SENATE RESOLUTION NO. 7

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

SENATE CONCURRENT RESOLUTION NO. 91

SENATE CONCURRENT RESOLUTION NO. 106

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

SENATE JOINT RESOLUTION NO. 54

HOUSE JOINT RESOLUTION NO. 67

HOUSE JOINT RESOLUTION NO. 77

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

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

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

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

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

Nays: 2 M. Beirne, Fischer.

Excused: 1 Kelley.

And so, the effective date clause was adopted.

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

#### SECOND READING OF SENATE RESOLUTIONS

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

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

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

#### THIRD READING OF HOUSE BILLS

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

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

and transmitting same for consideration.

CSHB  
661  
am

The above message will be considered at a later time.

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

SENATE COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 730

and transmitting same for consideration.

The above message will be considered at a later time.

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

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

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

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

The above message will be considered at a later time.

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

FIRST REFERENCE AND READING OF SENATE BILLS

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

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

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

REPORTS OF STANDING COMMITTEES

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

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

*11* *Duncan absent*  
*Guy*  
*I-ta*  
*Navigators*

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

CS  
SSHB  
549  
(Fin)

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

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

SECOND READING OF SENATE RESOLUTIONS

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

SCR  
106

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

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

*Senate*

Nays: 2 Hohman, Ray

Absent: 1 Rodey (*Vote DP in Resources*)

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

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

SPECIAL ORDERS

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

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

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

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

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

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

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

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

#### STANDING COMMITTEE REPORTS

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

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

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

"An Act relating to agricultural land."

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

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

*Died in Finance*

*See SCR 106*

Original Sponsor: Rules Committee by  
request of the Governor

Offered: 5/10/76  
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE CONCURRENT RESOLUTION NO. 142

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

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

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

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

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

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

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

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

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

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

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.

27  
28  
29

MEMORANDUM

May 8, 1976

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

TO: The Honorable Fred Brown

FROM: Gregg Erickson  
Director of Research Services

Summary

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

Analysis

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

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

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

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

*true*

*Not so,  
since Phillips  
will have  
to produce  
more gas  
to meet  
its obliga-  
tions*

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

*Don't  
get it!*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LEASES  
AND  
PERMITS

March 4, 1968

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

Re: Right-of-Way Permit Application  
ABL 37819

Gentlemen:

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

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

AGO 801535

Phillips Petroleum Company

2

March 4, 1968

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

Thank you for your cooperation.

Sincerely,

F. J. KEENAN, Acting Director

By: Howard J. Grey  
Acting Tidelands Supervisor

HJG:elm

Enclosure

AGO 801536

APPLICATION FOR RIGHT-OF-WAY PERMIT

Date: February 15, 1968

The undersigned Phillips Petroleum Company residing at  
a Delaware Corporation with offices in Bartlesville, Oklahoma hereby applies  
to the Director of the Division of Lands, Department of Natural Resources, for  
Right-of-Way 100 feet in width and as shown on plat feet in length located in  
Section Various, Township 10N, Range 6W, Seward Meridian,  
containing an area of \_\_\_\_\_ acres as shown on the plat attached hereto in triplicate  
copies, for the purpose of constructing and maintaining thereon a Two 10" gas pipelines  
and appurtenances for private, public, intermittent, yearlong use (strike inappli-  
cable words).

State briefly the standards of construction of proposed improvements:

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

Constructed \_\_\_\_\_ Construction to begin approximately June, 1968

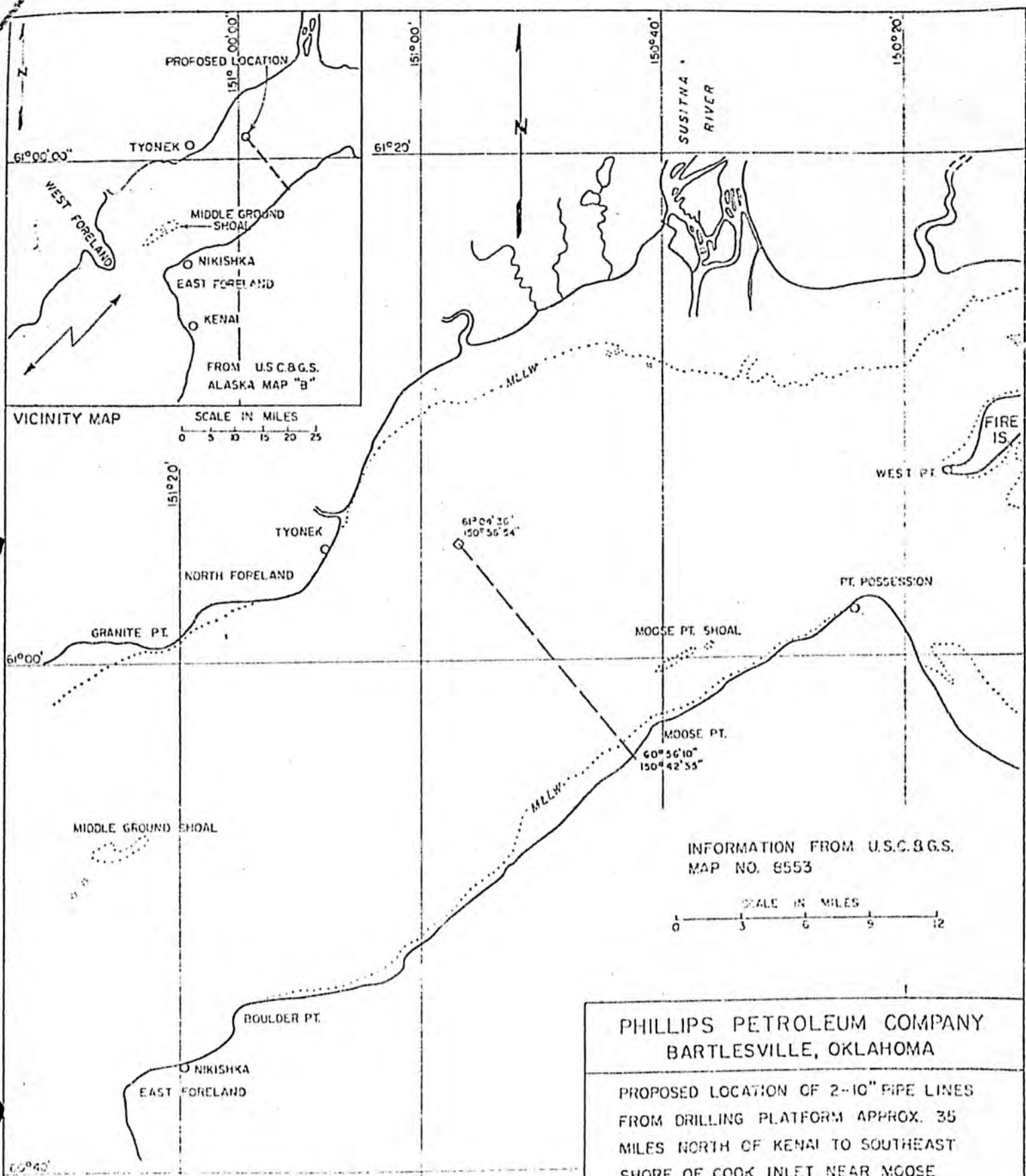
To be completed approximately 1 year later

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

*James H. Welch*

James H. Welch, Right of Way Representative

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



PHILLIPS PETROLEUM COMPANY  
BARTLESVILLE, OKLAHOMA

PROPOSED LOCATION OF 2-10" PIPE LINES  
FROM DRILLING PLATFORM APPROX. 35  
MILES NORTH OF KENAI TO SOUTHEAST  
SHORE OF COOK INLET NEAR MOOSE  
POINT, ALASKA.

DATE JANUARY 22, 1968

AGO 801538

From The Desk Of:

Pedro Denton

To: GREG ERICKSON

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

3/22/77 PD

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF LANDS

ADL No. 37817

RIGHT-OF-WAY PERMIT

THIS AGREEMENT made and entered into this 12th day of March, 1970, by and between the STATE OF ALASKA, acting by and through the Department of Natural Resources, Division of Lands, hereinafter referred to as the grantor and Phillips Gas Supply Corporation hereinafter referred to as the permittee.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

day and year first above written.

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES

By: [Signature]  
Chief, Lands Section - Water Resources  
Division of Lands

PHILLIPS GAS SUPPLY CORPORATION

[Signature]  
Regional Vice President

[Handwritten initials]

UNITED STATES OF AMERICA )  
State of Alaska ) ss.

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

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

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

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

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

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

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

X

STATE OF ALASKA  
THE LEGISLATURE

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

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

March 31, 1977

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

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

FROM: Randolph Berry *RSB*  
Legislative Counsel

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

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

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

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

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

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

AGO 801543

Gregg Erickson  
March 31, 1977  
Page 2

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

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

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

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

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

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

AGO 801544

Gregg K. Erickson  
March 31, 1977  
Page 3

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

RB:hjd

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

# MEMORANDUM

TO:  Elke Kallab  
Research Analyst  
Legislative Affairs Agency

DATE : April 13, 1977

FROM: Pete Nelson *Pete*  
Land Management Officer III

SUBJECT: North Cook Inlet Gas Field

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

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

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL 18741

Competitive Oil and Gas Lease

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

hereinafter called "Lessee", whether one or more.

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

S-13-6-27

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 26. BONDS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To Lessor:  
Director, Division of Lands  
State of Alaska  
344 Sixth Avenue  
Anchorage, Alaska

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

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

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

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

IN WITNESS WHEREOF the parties have executed this lease.  
Pan American Petroleum Corporation

STATE OF ALASKA

BY: Ross W. Conroy  
.....  
Its Attorney-in-Fact  
.....  
LESSEE

By: Norris C. Bakke, Jr.  
.....  
Norris C. Bakke, Jr.  
.....  
Title Minerals Officer LESSOR

THE UNITED STATES OF AMERICA )  
STATE OF ALASKA )

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

WITNESSES my hand and official seal of the day and year in this certificate above written.  
Jahn Katar )  
..... Notary Public in and for Al. ) My Commission expires 9-27-65

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES  
Division of Lands

ADL 3783  
ADL 18255

LEASE NO. ADL

Competitive Oil and Gas Lease

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

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

S-13-6-26

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

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

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

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

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

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

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

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

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

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

470  
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470 4-2-63  
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9. RENTAL. This lease shall terminate on any anniversary date hereof prior to the completion on said land of a well capable of producing oil or gas in paying quantities, unless on or before said anniversary date Lessee shall pay or tender to Lessor as annual rental a sum equal to \$1.00 per acre, or fraction thereof, then included in this lease, or unless such annual rental has been waived or suspended as provided in Paragraph 13 of this lease. If Lessor's office is not open for business on the anniversary date, the time for payment is extended to include the next day on which said office is open for business. Any rental paid for any one lease year shall be credited on any royalty for that year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 26. BONDS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To Lessor: Director, Division of Lands  
State of Alaska  
344 Sixth Avenue  
Anchorage, Alaska

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

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

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

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

IN WITNESS WHEREOF the parties have executed this lease.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
LESSEE

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

THE UNITED STATES OF AMERICA }  
STATE OF ALASKA } ss.

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

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

IN WITNESS WHEREOF the parties have executed this lease.

STANDARD OIL COMPANY OF CALIFORNIA  
By Geoffrey G. Gignil  
Contract Agent  
By E. A. Hansen  
Assistant Secretary

RICHFIELD OIL CORPORATION  
By E. M. Phillips  
Assistant General Manager of Production Dept.  
By R. G. ...  
Assistant Secretary

SHELL OIL COMPANY  
By J. E. Mohr  
Attorney in Fact

LESSEE

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL 17590

Competitive Oil and Gas Lease

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

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

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

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

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

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

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

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

5. EXTENSION BY UNIT PRODUCTION (2) This lease shall without application be extended beyond its primary term if upon or prior to the expiration date of such term the lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, production of oil or gas is had in paying quantities under the agreement, and a portion of such production is allocated to said land under the agreement. In such event this lease shall continue in effect so long as it remains subject to such agreement and action production under said agreement is allocated to said land; (b) The Commissioner may, in his discretion provide for the extension of the term of this lease, if such lease is on the expiration date thereof included in an approved unit plan or if it is included in a program of secondary recovery operation designed to bring about or restore production, provided, however, that if any lease or portion thereof is eliminated from such unit plan or recovery program, or if such unit plan or recovery program is terminated, then no such lease or portion thereof shall continue in full force and effect for ninety (90) days from the date of such elimination or termination and so long thereafter as drilling or re-drilling operations are being conducted thereon and so long thereafter as oil or gas is produced in paying quantities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26. BONDS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To Lessor: Director, Division of Lands  
State of Alaska  
344 Sixth Avenue  
Anchorage, Alaska

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

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

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

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

IN WITNESS WHEREOF the parties have executed this lease.

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.....  
LESSEE

STATE OF ALASKA  
By: *Paul J. Ingvald*  
Title: Mineral Leasing Officer LESSOR

THE UNITED STATES OF AMERICA }  
STATE OF ALASKA }

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

WITNESS my hand and official seal the day and year in this certificate above written  
*John Wallace* Notary Public in and for Alaska. My Commission expires 9-27-68

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

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

EDMOND LEE KELLY

Edmond Lee Kelly

35

Notary Public in and for said City and County of San Francisco, State of California

RESIDING AT SAN FRANCISCO, CALIFORNIA

... notice of such default to commence to remedy there is no well on said land capable of producing oil or gas in paying quantities. If at such time there is on said land a well capable of producing oil or gas in paying quantities, this lease may be cancelled only by judicial proceedings. In the event of any cancellation under this paragraph, Lessee shall have the right to retain under this lease any and all drilling or producing wells as to which no default exists together with a parcel of land surrounding each such well

STATE OF CALIFORNIA,

COUNTY OF LOS ANGELES.

} ss.

On this 14th day of December, in the year 1961, before me, SUE M. MASON, a Notary Public in and for said County and State,

personally appeared F. E. McPHILLIPS known to me to be the Assistant General Manager of Production Dept., and R. G. NELSON known to me to be the Assistant

Secretary of RICHFIELD OIL CORPORATION, the corporation that executed the within instrument, known to me to be the persons who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the same.

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

My Commission Expires May 4, 1964  
My commission expires

Sue M. Mason

Notary Public in and for said County and State.

ACK ROC CORP  
NOC FORM 2529  
PRTO. IN U.S.A. 1-61

STATE OF CALIFORNIA

COUNTY OF LOS ANGELES

ss.

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

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

Mildred M. Crawford

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

My Commission expires December 11, 1963

IN WITNESS WHEREOF the parties have executed this lease.  
IN WITNESS WHEREOF the parties have executed this lease.

SHELL OIL COMPANY

RICHFIELD OIL CORPORATION

By [Signature] Vice President

By [Signature] Assistant General Manager of Production Dept.

STANDARD OIL COMPANY OF CALIFORNIA

By [Signature] Assistant Secretary

By [Signature] CONTRACT AGENT

By [Signature] ASSISTANT SECRETARY

LESSEE

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL 18740

Competitive Oil and Gas Lease

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

hereinafter called "Lessee", whether one or more.

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

S-13-6-28

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 26. BONDS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To Lessor: Director, Division of Lands  
State of Alaska  
344 Sixth Avenue  
Anchorage, Alaska

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

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

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

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

IN WITNESS WHEREOF the parties have executed this lease.

Pan American Petroleum Corporation

STATE OF ALASKA

BY: Russ W. Tracy  
Its Attorney-in-Fact  
LESSEE

By: Norris C. Bakke, Jr.  
Norris C. Bakke, Jr.  
Title: General Officer LESSOR

THE UNITED STATES OF AMERICA }  
STATE OF ALASKA, ss.

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

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

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES

Division of Lands

LEASE NO. ADL 17589

Competitive Oil and Gas Lease

THIS LEASE, dated the 1st day of February, 1952, is made by and between the State of Alaska, acting by and through the Director of the Division of Lands, Department of Natural Resources or his authorized agent, hereinafter called "lessor", and

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

hereinafter called "Lessee", whether one or more.

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

S-13-6-8

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Oil  $12\frac{1}{2}\%$  per cent in amount or value of the oil produced and saved and removed or sold from said land.

(b) Gas  $12\frac{1}{2}\%$  per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances  $12\frac{1}{2}\%$  per cent in amount or value of such substances produced and saved and removed or sold from said lands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 26. BONDS

AGO 801564

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

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

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

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

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

27. ACTS OF GOD. Should Lessee be prevented from complying with any expressed or implied covenant of this lease in producing or marketing oil or gas from said land after

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To Lessor: Director, Division of Lands  
State of Alaska  
344 Sixth Avenue  
Anchorage, Alaska

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

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

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

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

IN WITNESS WHEREOF the parties have executed this lease.

Pan American Petroleum Corporation  
By: Willard B. Condit  
Its Attorney in Fact  
LESSEE

STATE OF ALASKA  
By: Roscoe E. Bell  
Title: Director, Div. of Lands LESSOR

THE UNITED STATES OF AMERICA }  
STATE OF ALASKA }

ss. }  
This certifies that on the 31 day of January, 1965 before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared ROSCOE E. BELL, to me known and known to me to be the person described in and who executed the foregoing lease on behalf of the State of Alaska as Director of the Division of Lands, Department of Natural Resources, or his authorized agent. The said ROSCOE E. BELL executed said lease in my presence and, after being duly sworn according to law, stated to me under oath that he is the Director of the Division of Lands, Department of Natural Resources, or his authorized agent, and has authority pursuant to law to execute the foregoing lease as such Director, or authorized agent, on behalf of the State of Alaska, acting through the Division of Lands, Department of Natural Resources and that he executed the same freely and voluntarily as the free and voluntary act and deed of the said State of Alaska for the Division of Lands, Department of Natural Resources.

WITNESS my hand and official seal this 31 day and year in this certificate above written.  
J. M. [Signature] Notary Public in and for Alaska. My Commission expires 9-27-65