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**APPLICABLE
STATUTES**

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

(am §§ 40, 41 ch 127 SLA 1974)

Effect of amendment.

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

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

Legislative committee report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Editor's note. — Section 1, ch. 117, SLA 1975, provides: "It is the intent of this Act to implement the provisions of art. VIII,

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

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

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

Section	Section
10. Purpose	40. Powers
20. Establishment	50. Board approval required
25. Membership	55. Action by legislature
30. Compensation; per diem, travel expenses	60. Confidentiality
35. Meetings, rules, quorum, votes required; conflict of interest	70. Criteria
	80. Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) the projected social impacts of the transaction;

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

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

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

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

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

Sec. 38.06.080. Definitions. In this chapter

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

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

Chapter 35. Right-of-Way Leasing Act.

Section	Section
10. Legislative declaration of policy	140. Payment of rental and costs
20. Grant of right-of-way lease	150 — 160. [Repealed]
30. Abandonment, reduction or impairment of service of pipeline	170. Forfeiture of lease
40. Temporary or emergency service or temporary abandonment, reduction or impairment of service by lessee	180. Suits to enjoin or recover damages for defaults
50. Applications for right-of-way leases	190. Application of the Administrative Procedure Act
60. [Repealed]	200. Judicial review of decisions of commissioner on application
70. Notice of application	205. Lease savings clause
80. Analysis and public hearing	210. Delegation of commissioner's authority
100. Decision on application	220. Continued operation of certain carriers
110. Term of lease	225. Binding effect of covenants
120. Covenants required to be included in lease	230. Definitions
130. Right-of-way easements or leases acquired from others	

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

(4) the projected social impacts of the transaction;

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

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

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Applied 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. 38.35.010. Legislative declaration of policy. (a) The natural resources of this state in crude oil and natural gas and in its land for transportation of these resources and their products by pipeline toward markets both in and out of the state are capable of making a significant contribution to the general welfare of the people of this state. It is the policy of this state that the development, use, and control of a pipeline transportation system be directed to make the maximum contribution to the development of the human resources of this state, the increase in the standard of living for all of its residents, the advancement of existing and potential sectors of its economy, the strengthening of free competition in its private enterprise system, and the careful protection of its incomparable natural environment.

(b) The State of Alaska reserves unto itself all rights, powers, privileges and immunities not preempted by federal interstate commerce laws and regulations in the right-of-way leasing of any state lands for pipeline construction, transmission, or operation within its boundaries. (§ 1 ch 72 SLA 1972; am § 1 ch 3 FSSLA 1973)

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

Sec. 38.35.020. Grant of right-of-way lease. (a) Rights-of-way on state land including rights-of-way over, under, along, across, or upon the right-of-way of a public road or highway or the right-of-way of a railroad or other public utility, or across, upon, over, or under a river or other body of water or land belonging to or administered by the state may be granted by noncompetitive lease by the commissioner for pipeline purposes for the transportation of oil, products or natural gas under those conditions prescribed by law or by administrative regulation. Except to the extent authorized by an oil and gas lease or unit agreement approved by the state, no person may engage in any construction or operation of any part of an oil, products, or natural gas pipeline, which in whole or in part is or is proposed to be on state land unless that person has obtained from the commissioner a right-of-way lease of the land under this chapter.

(b) The commissioner may by regulation exempt the construction or operation of field gathering lines or any reasonable classification of them from the requirement of a right-of-way lease under this chapter. (§ 1 ch 72 SLA 1972; am § 2 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment designated the provisions of this section as subsection (a), added the exception to the beginning of the second sentence of that subsection, made such other changes in that subsection as to make a detailed comparison impracticable, and added subsection (b).

Sec. 38.35.030. Abandonment, reduction or impairment of service of pipeline. No lessee may abandon any portion of a pipeline that is subject to a lease granted under this chapter, or operation or transportation, service, or sale by it, or reduce or impair service, except in accordance with the terms of the lease or § 40 of this chapter. (§ 1 ch 72 SLA 1972; am § 3 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment deleted "carrier" following "lessee" and substituted "subject to a lease granted under this chapter" for "on state public land or subject to the lease" and "except in accordance with the terms of the lease or § 40 of this chapter" for provisions requiring a certificate that the abandonment, reduction, or impairment is in accordance with the terms of the lease.

Sec. 38.35.040. Temporary or emergency service or temporary abandonment, reduction or impairment of service by lessee. The commissioner may, either upon a request made in the form he shall by regulation require, or upon his own motion without request, authorize or require temporary or emergency rendering of service or temporary or emergency abandonment, reduction or impairment of service by a pipeline of a lessee without compliance with §§ 50 — 100 of this chapter. Nothing in this section prevents a carrier from temporarily suspending operations in the event of an emergency which threatens public health or safety; however, notice shall be given the commissioner as soon as possible. (§ 1 ch 72 SLA 1972; am § 4 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment deleted "carrier" following "lessee" near the end of the first sentence.

Sec. 38.35.050. Applications for right-of-way leases. (a) A person or persons desiring to own a pipeline which is proposed to be located in whole or in part on state land, shall apply for a noncompetitive right-of-way lease of the state land.

(b) Applications under (a) of this section shall be made in a form and manner prescribed by regulation, and shall include any and all data, information, plans and exhibits which the commissioner determines are necessary to prepare the analysis required by § 80 of this chapter and to make a decision under § 100 of this chapter.

(c) Any amendment to an application filed under this section which constitutes a substantial change in the application is subject to all provisions of this chapter applying to an original application.

(d) All persons owning or planning to own an interest in a pipeline or proposed pipeline subject to a lease must join in the application under (a) of this section. Any person employed by the lessee in operating the

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pipeline is bound by the covenants of the lease applicable to functions within the scope of his employment as if he were an applicant under the lease and the state may enforce any breach of a covenant directly against an operator who is not in compliance with the covenant. (§ 1 ch 72 SLA 1972; am § 5 ch 3 FSSLA 1973)

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

Sec. 38.35.060. Application for certificate to abandon or diminish service.

Repealed by § 6 ch 3 FSSLA 1973.

Editor's note. — The repealed section derived from § 1, ch. 72, SLA 1972.

Sec. 38.35.070. Notice of application. Upon receiving an application under § 50 of this chapter, the commissioner shall

(1) cause notice of it to appear in a daily newspaper of general circulation published in the vicinity of the location of the proposed pipeline, the notice to include:

- (A) a general description of the land involved;
- (B) a summary of the substance of the application;
- (2) file copies of the application with each coordinate agency;
- (3) furnish at cost copies of a notice or application to persons requesting them; and
- (4) provide other publication and notice he considers reasonable and appropriate to inform the public of the application. (§ 1 ch 72 SLA 1972; am § 7 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment deleted "or 60" following "§ 50" in the introductory language, substituted "a daily newspaper" for "the daily newspaper" and "in the vicinity of" for "nearest" in the introductory language of paragraph (1), inserted "the notice to include" in that language, added paragraphs (1)(A) and (1)(B), and added paragraph (4).

Sec. 38.35.080. Analysis and public hearing. (a) The commissioner shall, within a reasonable time after receiving the application, prepare an analysis of the application or of the matter of which he was notified, including a proposal for action if feasible; a proposed lease and a general statement of his basis and purpose, if favorable action is proposed; or, when a proposal for action is not feasible before a hearing, a description of the subjects and issues involved.

(b) Upon completion of the analysis but not less than 30 days before the date set for hearing an application or a substantial amendment to an application, the commissioner shall publish notice, and make copies available as provided in § 70 of this chapter.

(c) The commissioner shall set all applications for public hearing as soon as practicable, if a public hearing on an application is requested by any person within 30 days of publication of notice under § 70(a) of this chapter or if the proposed action being considered involves a substantial public interest. The commissioner shall set the application for public hearing and publish notice of the time and place of the public hearing at least 30 days before the hearing.

(d) The provisions of the Administrative Procedure Act (AS 44.62) do not apply to hearings held under this section. (§ 1 ch 72 SLA 1972; am § 8 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment inserted "or of the matter of which he was notified" and deleted "or certificate or both" following "a proposed lease" in subsection (a), added the language beginning "if a public hearing on an application is requested" to the end of the first sentence of subsection (c), added the

second sentence of that subsection, and added subsection (d).

Editor's note. — The reference to § 70(a) of this chapter in the first sentence of subsection (c) should be to § 70(1) of this chapter. AS 38.35.070 contains no subsection designations.

Sec. 38.35.100. Decision on application. (a) The commissioner shall promptly determine, on an application filed with him under § 50 of this chapter, whether the applicant is fit, willing and able to perform the transportation or other acts proposed in a manner that will be required by the present or future public interest. In making a determination the commissioner shall consider whether or not

(1) the proposed use of the right-of-way will unreasonably conflict with existing uses of the land involving a superior public interest;

(2) the applicant has the technical and financial capability to protect state and private property interests;

(3) the applicant has the technical and financial capability to take action to the extent reasonably practical to

(A) prevent any significant adverse environmental impact, including but not limited to, erosion of the surface of the land and damage to fish and wildlife and their habitat;

(B) undertake any necessary restoration or revegetation; and

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

(4) the applicant has the financial capability to pay reasonably foreseeable damages for which he may become liable on claims arising from the construction, operation, maintenance or termination of the pipeline.

(b) If the commissioner makes these determinations favorably to the applicant, then he may grant the whole or part of the application. Otherwise, he shall deny the application. In order to grant the whole or part of the application the commissioner shall offer a lease to the applicant for its acceptance through signing of the lease and agreeing

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;

(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)

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

Sec. 38.35.150. Additional provisions of lease.

Repealed by § 14 ch 3 FSSLA 1973.

Editor's note. — The repealed section derived from § 1, ch. 72, SLA 1972.

Sec. 38.35.160. Transfer of right-of-way lease, certificates, or pipeline.

Repealed by § 15 ch 3 FSSLA 1973.

Editor's note. — The repealed section derived from § 1, ch. 72, SLA 1972.

Sec. 38.35.170. Forfeiture of lease. Failure to begin construction of the pipeline facility within a reasonable time of the granting of a right-of-way lease under this chapter for reasons within the control of the lessee or failure of an owner of an interest in the granted right-of-way substantially to comply with the terms of the right-of-way shall be grounds for forfeiture of the right-of-way interest of the lessee or owner in an action brought by the commissioner in the superior court. Before the commencement of any action for forfeiture of an interest in a right-of-way under this section, the commissioner shall give the lessee or owner of the interest notice in writing of the alleged default and shall not commence the proceeding unless the lessee or owner of the interest has failed to initiate good faith efforts to cure the default within 60 days of the notice of the alleged default. (§ 1 ch 72 SLA 1972; am § 16 ch 3 FSSLA 1973)

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

Sec. 38.35.180. Suits to enjoin or recover damages for defaults.

(c) Neither this section nor the state's obtaining an injunction or recovering penalties extinguishes any civil cause of action arising out of a violation of this chapter or the provisions of a right-of-way lease. (am § 17 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment, in subsection (c), deleted "or criminal responsibility" following "civil cause of action" and "or certificate under a lease" following "a right-of-way lease,"

inserted "or the provisions of," and deleted the former second sentence.

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

Sec. 38.35.190. Application of the Administrative Procedure Act.
(a) AS 44.62.010 — 44.62.320, 44.62.640 and 44.62.650 apply to

regulations adopted by the commissioner under the authority of this chapter.

(b) Repealed by § 18 ch 3 FSSLA 1973.

(c) Repealed by § 18 ch 3 FSSLA 1973.

(d) Repealed by § 18 ch 3 FSSLA 1973. (§ 1 ch 72 SLA 1972; am § 18 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment repealed subsections (b), (c), and (d).

Sec. 38.35.200. Judicial review of decisions of commissioner on application. (a) An applicant or competing applicant or a person who has a direct financial interest affected by the lease who raises objections within 60 days of the publication of notice under § 70 of this chapter are the only persons with standing to seek judicial review of a decision of the commissioner under § 100 of this chapter.

(b) The only grounds for judicial review of a decision of the commissioner are

(1) failure to follow the procedures set out in this chapter; or

(2) abuse of discretion so capricious, arbitrary or confiscatory as to constitute a denial of due process. (§ 1 ch 72 SLA 1972; am § 19 ch 3 FSSLA 1973)

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

Sec. 38.35.205. Lease savings clause. A judicial finding that any term or condition of a right-of-way lease issued under this chapter is unlawful or invalid may not operate to invalidate the lease or any other term or condition of the lease. (§ 23 ch 3 FSSLA 1973)

Sec. 38.35.210. Delegation of commissioner's authority. The commissioner may delegate to an employee of the Department of Natural Resources or the Department of Law the authority granted under this chapter, except for the authority to execute leases. (§ 1 ch 72 SLA 1972; am § 20 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment deleted "and certificates" following "leases" at the end of the section.

Sec. 38.35.220. Continued operation of certain carriers.

(d) Repealed by § 21 ch 3 FSSLA 1973.

(am § 21 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment repealed subsection (d).

Sec. 38.35.225. Binding effect of covenants. By entering into a lease under this chapter, the lessee is bound by all the covenants provided for in the lease to the full extent of the power of the state to impose those covenants under its authority as owner of the land to be leased or under its police or regulatory powers or otherwise; provided that the right of the lessee to challenge the power of the state to require such a covenant as owner of the land to be leased or under its police or regulatory powers or otherwise is preserved until such time as action to enforce the covenant is taken by the state. (§ 23 ch 3 FSSLA 1973)

Sec. 38.35.230. Definitions. In this chapter

- (1) "commissioner" means the commissioner of natural resources;
- (2) "coordinate agencies" includes Department of Labor, Department of Highways, Department of Environmental Conservation, and the Alaska Pipeline Commission;
- (3) "lease" means the instrument or extension of an instrument issued under this chapter granting a leasehold interest in state land for pipeline right-of-way purposes to a person and authorizing the construction or operation of, or transportation, service or sale by a pipeline for crude oil, natural gas, or products;
- (4) "lessee" means a person or persons holding a valid lease issued by the commissioner;
- (5) "natural gas" includes all hydrocarbons produced at the wellhead not defined as oil;
- (6) "oil" includes crude petroleum oil and other hydrocarbons regardless of gravity which are produced at the wellhead in liquid form and 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;
- (7) "pipeline" or "pipeline facility" means all the facilities of a total system of pipe (whether owned or operated under a contract, agreement, or lease) used by a carrier for transportation of crude oil, natural gas, or products for delivery, for storage, or for further transportation, and including all pipe, pump or compressor stations, station equipment, tanks, valves, access roads, bridges, airfields, terminals and terminal facilities, including docks and tanker loading facilities, operations control center for both the upstream part of the pipeline and the terminal, tanker ballast treatment facilities, and fire protection system, communication system, and all other facilities used or necessary for an integral line of pipe, taken as a whole, to effectuate transportation, including an extension or enlargement of the line;
- (8) "product" means refined crude oil, crude tops, topped crude, processed crude petroleum, residue from crude petroleum, cracking stock, uncracked fuel oil, fuel oil, treated crude oil, residuum, gas oil, casinghead gasoline, natural gas gasoline, naphtha, distillate, gasoline, kerosene, benzine, wash oil, waste oil, blended gasoline, lubricating oil, blends or mixtures of petroleum and any liquid product or by-product derived from crude petroleum oil or natural gas;

(9) "state land" means

(A) "state lands" as defined in AS 38.05.365;

(B) public land of the United States selected by the state under sec. 6 of the Alaska Statehood Act of 1958 (PL 85-508; 72 Stat. 399), as amended, and real property of the United States transferred to the state under secs. 21, 35 and 45 of the Alaska Omnibus Act of 1959 (PL 86-70; 73 Stat. 141), as amended;

(C) any interest owned by the state in land;

(10) "transportation" means the shipment or carriage by a pipeline of crude oil, natural gas, or products from an upstream terminus in one or more fields or points of production or supply of the minerals to a downstream terminus in one or more points for delivery of the minerals to a purchaser or consignee, for storage, or for further carriage or shipment, including shipment or carriage within the state that may be classified as interstate or foreign transportation to the extent that the transportation may constitutionally be subjected to the provisions of this chapter, as well as all services necessary to effectuate shipment or carriage, including, among other things, the receipt, storage, processing, handling, transfer in transit, forwarding, and delivery of the minerals. (§ 1 ch 72 SLA 1972; am § 22 ch 3 FSSLA 1973)

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

Chapter 40. Local Hire Under State Leases.

Section	Section
30. Resident employment	70. Penalties
40. Reporting provisions	80. Injunctive relief
60. Hearings and investigations	90. Definitions

Sec. 38.40.030. Resident employment. (a) In order to create, protect and preserve the right of Alaska residents to employment, the commissioner of natural resources shall incorporate into all oil and gas leases, easements or right-of-way permits for oil or gas pipeline purposes, unitization agreements, or any renegotiation of any of the preceding to which the state is a party, provisions requiring the lessee to comply with applicable laws and regulations with regard to the employment of Alaska residents, a provision requiring the employment of qualified Alaska residents, a provision prohibiting discrimination against Alaska residents and, when in the determination of the commissioner of natural resources it is practicable, a provision requiring compliance with the Alaska Plan, all in accordance with the provisions of this chapter.

(b) All employment falling within the purview of § 50 of this chapter shall be filled by Alaska residents if they are qualified and available. The commissioner of labor, whose decision is final as to residency, shall determine the resident status of individuals for purposes of this chapter

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

(4) the projected social impacts of the transaction;

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

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

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

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

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

Sec. 38.06.080. Definitions. In this chapter

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

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

Chapter 35. Right-of-Way Leasing Act.

Section	Section
10. Legislative declaration of policy	140. Payment of rental and costs
20. Grant of right-of-way lease	150 — 160. [Repealed]
30. Abandonment, reduction or impairment of service of pipeline	170. Forfeiture of lease
40. Temporary or emergency service or temporary abandonment, reduction or impairment of service by lessee	180. Suits to enjoin or recover damages for defaults
50. Applications for right-of-way leases	190. Application of the Administrative Procedure Act
60. [Repealed]	200. Judicial review of decisions of commissioner on application
70. Notice of application	205. Lease savings clause
80. Analysis and public hearing	210. Delegation of commissioner's authority
100. Decision on application	220. Continued operation of certain carriers
110. Term of lease	225. Binding effect of covenants
120. Covenants required to be included in lease	230. Definitions
130. Right-of-way easements or leases acquired from others	

Applied 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. 38.35.010. Legislative declaration of policy. (a) The natural resources of this state in crude oil and natural gas and in its land for transportation of these resources and their products by pipeline toward markets both in and out of the state are capable of making a significant contribution to the general welfare of the people of this state. It is the policy of this state that the development, use, and control of a pipeline transportation system be directed to make the maximum contribution to the development of the human resources of this state, the increase in the standard of living for all of its residents, the advancement of existing and potential sectors of its economy, the strengthening of free competition in its private enterprise system, and the careful protection of its incomparable natural environment.

(b) The State of Alaska reserves unto itself all rights, powers, privileges and immunities not preempted by federal interstate commerce laws and regulations in the right-of-way leasing of any state lands for pipeline construction, transmission, or operation within its boundaries. (§ 1 ch 72 SLA 1972; am § 1 ch 3 FSSLA 1973)

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

Sec. 38.35.020. Grant of right-of-way lease. (a) Rights-of-way on state land including rights-of-way over, under, along, across, or upon the right-of-way of a public road or highway or the right-of-way of a railroad or other public utility, or across, upon, over, or under a river or other body of water or land belonging to or administered by the state may be granted by noncompetitive lease by the commissioner for pipeline purposes for the transportation of oil, products or natural gas under those conditions prescribed by law or by administrative regulation. Except to the extent authorized by an oil and gas lease or unit agreement approved by the state, no person may engage in any construction or operation of any part of an oil, products, or natural gas pipeline, which in whole or in part is or is proposed to be on state land unless that person has obtained from the commissioner a right-of-way lease of the land under this chapter.

(b) The commissioner may by regulation exempt the construction or operation of field gathering lines or any reasonable classification of them from the requirement of a right-of-way lease under this chapter. (§ 1 ch 72 SLA 1972; am § 2 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment designated the provisions of this section as subsection (a), added the exception to the beginning of the second sentence of that subsection, made such other changes in that subsection as to make a detailed comparison impracticable, and added subsection (b).

Sec. 38.35.030. Abandonment, reduction or impairment of service of pipeline. No lessee may abandon any portion of a pipeline that is subject to a lease granted under this chapter, or operation or transportation, service, or sale by it, or reduce or impair service, except in accordance with the terms of the lease or § 40 of this chapter. (§ 1 ch 72 SLA 1972; am § 3 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment deleted "carrier" following "lessee" and substituted "subject to a lease granted under this chapter" for "on state public land or subject to the lease" and "except in accordance with the terms of the lease or § 40 of this chapter" for provisions requiring a certificate that the abandonment, reduction, or impairment is in accordance with the terms of the lease.

Sec. 38.35.040. Temporary or emergency service or temporary abandonment, reduction or impairment of service by lessee. The commissioner may, either upon a request made in the form he shall by regulation require, or upon his own motion without request, authorize or require temporary or emergency rendering of service or temporary or emergency abandonment, reduction or impairment of service by a pipeline of a lessee without compliance with §§ 50 — 100 of this chapter. Nothing in this section prevents a carrier from temporarily suspending operations in the event of an emergency which threatens public health or safety; however, notice shall be given the commissioner as soon as possible. (§ 1 ch 72 SLA 1972; am § 4 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment deleted "carrier" following "lessee" near the end of the first sentence.

Sec. 38.35.050. Applications for right-of-way leases. (a) A person or persons desiring to own a pipeline which is proposed to be located in whole or in part on state land, shall apply for a noncompetitive right-of-way lease of the state land.

(b) Applications under (a) of this section shall be made in a form and manner prescribed by regulation, and shall include any and all data, information, plans and exhibits which the commissioner determines are necessary to prepare the analysis required by § 80 of this chapter and to make a decision under § 100 of this chapter.

(c) Any amendment to an application filed under this section which constitutes a substantial change in the application is subject to all provisions of this chapter applying to an original application.

(d) All persons owning or planning to own an interest in a pipeline or proposed pipeline subject to a lease must join in the application under (a) of this section. Any person employed by the lessee in operating the

pipeline is bound by the covenants of the lease applicable to functions within the scope of his employment as if he were an applicant under the lease and the state may enforce any breach of a covenant directly against an operator who is not in compliance with the covenant. (§ 1 ch 72 SLA 1972; am § 5 ch 3 FSSLA 1973)

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

Sec. 38.35.060. Application for certificate to abandon or diminish service.

Repealed by § 6 ch 3 FSSLA 1973.

Editor's note. — The repealed section derived from § 1, ch. 72, SLA 1972.

Sec. 38.35.070. Notice of application. Upon receiving an application under § 50 of this chapter, the commissioner shall

(1) cause notice of it to appear in a daily newspaper of general circulation published in the vicinity of the location of the proposed pipeline, the notice to include:

- (A) a general description of the land involved;
- (B) a summary of the substance of the application;
- (2) file copies of the application with each coordinate agency;
- (3) furnish at cost copies of a notice or application to persons requesting them; and

(4) provide other publication and notice he considers reasonable and appropriate to inform the public of the application. (§ 1 ch 72 SLA 1972; am § 7 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment deleted "or 60" following "§ 50" in the introductory language, substituted "a daily newspaper" for "the daily newspaper" and "in the vicinity of" for "nearest" in the introductory language of paragraph (1), inserted "the notice to include" in that language, added paragraphs (1)(A) and (1)(B), and added paragraph (4).

Sec. 38.35.080. Analysis and public hearing. (a) The commissioner shall, within a reasonable time after receiving the application, prepare an analysis of the application or of the matter of which he was notified, including a proposal for action if feasible; a proposed lease and a general statement of his basis and purpose, if favorable action is proposed; or, when a proposal for action is not feasible before a hearing, a description of the subjects and issues involved.

(b) Upon completion of the analysis but not less than 30 days before the date set for hearing an application or a substantial amendment to an application, the commissioner shall publish notice, and make copies available as provided in § 70 of this chapter.

(c) The commissioner shall set all applications for public hearing as soon as practicable, if a public hearing on an application is requested by any person within 30 days of publication of notice under § 70(a) of this chapter or if the proposed action being considered involves a substantial public interest. The commissioner shall set the application for public hearing and publish notice of the time and place of the public hearing at least 30 days before the hearing.

(d) The provisions of the Administrative Procedure Act (AS 44.62) do not apply to hearings held under this section. (§ 1 ch 72 SLA 1972; am § 8 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment inserted "or of the matter of which he was notified" and deleted "or certificate or both" following "a proposed lease" in subsection (a), added the language beginning "if a public hearing on an application is requested" to the end of the first sentence of subsection (c), added the

second sentence of that subsection, and added subsection (d).

Editor's note. — The reference to § 70(a) of this chapter in the first sentence of subsection (c) should be to § 70(1) of this chapter. AS 38.35.070 contains no subsection designations.

Sec. 38.35.100. Decision on application. (a) The commissioner shall promptly determine, on an application filed with him under § 50 of this chapter, whether the applicant is fit, willing and able to perform the transportation or other acts proposed in a manner that will be required by the present or future public interest. In making a determination the commissioner shall consider whether or not

(1) the proposed use of the right-of-way will unreasonably conflict with existing uses of the land involving a superior public interest;

(2) the applicant has the technical and financial capability to protect state and private property interests;

(3) the applicant has the technical and financial capability to take action to the extent reasonably practical to

(A) prevent any significant adverse environmental impact, including but not limited to, erosion of the surface of the land and damage to fish and wildlife and their habitat;

(B) undertake any necessary restoration or revegetation; and

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

(4) the applicant has the financial capability to pay reasonably foreseeable damages for which he may become liable on claims arising from the construction, operation, maintenance or termination of the pipeline.

(b) If the commissioner makes these determinations favorably to the applicant, then he may grant the whole or part of the application. Otherwise, he shall deny the application. In order to grant the whole or part of the application the commissioner shall offer a lease to the applicant for its acceptance through signing of the lease and agreeing

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;

(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) named state a of the may b filing a copy (11) of int (12) condi lease dispo agre perm occu the adm (13) stat pipe (14) insu othe com ass for ope (15) nat eff pro rig rec an lea re in no s b f

(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)

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

Sec. 38.35.150. Additional provisions of lease.

Repealed by § 14 ch 3 FSSLA 1973.

Editor's note. — The repealed section derived from § 1, ch. 72, SLA 1972.

Sec. 38.35.160. Transfer of right-of-way lease, certificates, or pipeline.

Repealed by § 15 ch 3 FSSLA 1973.

Editor's note. — The repealed section derived from § 1, ch. 72, SLA 1972.

Sec. 38.35.170. Forfeiture of lease. Failure to begin construction of the pipeline facility within a reasonable time of the granting of a right-of-way lease under this chapter for reasons within the control of the lessee or failure of an owner of an interest in the granted right-of-way substantially to comply with the terms of the right-of-way shall be grounds for forfeiture of the right-of-way interest of the lessee or owner in an action brought by the commissioner in the superior court. Before the commencement of any action for forfeiture of an interest in a right-of-way under this section, the commissioner shall give the lessee or owner of the interest notice in writing of the alleged default and shall not commence the proceeding unless the lessee or owner of the interest has failed to initiate good faith efforts to cure the default within 60 days of the notice of the alleged default. (§ 1 ch 72 SLA 1972; am § 16 ch 3 FSSLA 1973)

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

Sec. 38.35.180. Suits to enjoin or recover damages for defaults.

(c) Neither this section nor the state's obtaining an injunction or recovering penalties extinguishes any civil cause of action arising out of a violation of this chapter or the provisions of a right-of-way lease. (am § 17 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment, in subsection (c), deleted "or criminal responsibility" following "civil cause of action" and "or certificate under a lease" following "a right-of-way lease," inserted "or the provisions of," and deleted the former second sentence. As the rest of the section was not affected by the amendment, it is not set out.

Sec. 38.35.190. Application of the Administrative Procedure Act. (a) AS 44.62.010 — 44.62.320, 44.62.640 and 44.62.650 apply to

regulations adopted by the commissioner under the authority of this chapter.

(b) Repealed by § 18 ch 3 FSSLA 1973.

(c) Repealed by § 18 ch 3 FSSLA 1973.

(d) Repealed by § 18 ch 3 FSSLA 1973. (§ 1 ch 72 SLA 1972; am § 18 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment repealed subsections (b), (c), and (d).

Sec. 38.35.200. Judicial review of decisions of commissioner on application. (a) An applicant or competing applicant or a person who has a direct financial interest affected by the lease who raises objections within 60 days of the publication of notice under § 70 of this chapter are the only persons with standing to seek judicial review of a decision of the commissioner under § 100 of this chapter.

(b) The only grounds for judicial review of a decision of the commissioner are

(1) failure to follow the procedures set out in this chapter; or

(2) abuse of discretion so capricious, arbitrary or confiscatory as to constitute a denial of due process. (§ 1 ch 72 SLA 1972; am § 19 ch 3 FSSLA 1973)

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

Sec. 38.35.205. Lease savings clause. A judicial finding that any term or condition of a right-of-way lease issued under this chapter is unlawful or invalid may not operate to invalidate the lease or any other term or condition of the lease. (§ 23 ch 3 FSSLA 1973)

Sec. 38.35.210. Delegation of commissioner's authority. The commissioner may delegate to an employee of the Department of Natural Resources or the Department of Law the authority granted under this chapter, except for the authority to execute leases. (§ 1 ch 72 SLA 1972; am § 20 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment deleted "and certificates" following "leases" at the end of the section.

Sec. 38.35.220. Continued operation of certain carriers.

(d) Repealed by § 21 ch 3 FSSLA 1973.
(am § 21 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment repealed subsection (d).

Sec. 38.35.225. Binding effect of covenants. By entering into a lease under this chapter, the lessee is bound by all the covenants provided for in the lease to the full extent of the power of the state to impose those covenants under its authority as owner of the land to be leased or under its police or regulatory powers or otherwise; provided that the right of the lessee to challenge the power of the state to require such a covenant as owner of the land to be leased or under its police or regulatory powers or otherwise is preserved until such time as action to enforce the covenant is taken by the state. (§ 23 ch 3 FSSLA 1973)

Sec. 38.35.230. Definitions. In this chapter

(1) "commissioner" means the commissioner of natural resources;

(2) "coordinate agencies" includes Department of Labor, Department of Highways, Department of Environmental Conservation, and the Alaska Pipeline Commission;

(3) "lease" means the instrument or extension of an instrument issued under this chapter granting a leasehold interest in state land for pipeline right-of-way purposes to a person and authorizing the construction or operation of, or transportation, service or sale by a pipeline for crude oil, natural gas, or products;

(4) "lessee" means a person or persons holding a valid lease issued by the commissioner;

(5) "natural gas" includes all hydrocarbons produced at the wellhead not defined as oil;

(6) "oil" includes crude petroleum oil and other hydrocarbons regardless of gravity which are produced at the wellhead in liquid form and 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;

(7) "pipeline" or "pipeline facility" means all the facilities of a total system of pipe (whether owned or operated under a contract, agreement, or lease) used by a carrier for transportation of crude oil, natural gas, or products for delivery, for storage, or for further transportation, and including all pipe, pump or compressor stations, station equipment, tanks, valves, access roads, bridges, airfields, terminals and terminal facilities, including docks and tanker loading facilities, operations control center for both the upstream part of the pipeline and the terminal, tanker ballast treatment facilities, and fire protection system, communication system, and all other facilities used or necessary for an integral line of pipe, taken as a whole, to effectuate transportation, including an extension or enlargement of the line;

(8) "product" means refined crude oil, crude tops, topped crude, processed crude petroleum, residue from crude petroleum, cracking stock, uncracked fuel oil, fuel oil, treated crude oil, residuum, gas oil, casinghead gasoline, natural gas gasoline, naphtha, distillate, gasoline, kerosene, benzine, wash oil, waste oil, blended gasoline, lubricating oil, blends or mixtures of petroleum and any liquid product or by-product derived from crude petroleum oil or natural gas;

(9) "state land" means

(A) "state lands" as defined in AS 38.05.365;

(B) public land of the United States selected by the state under sec. 6 of the Alaska Statehood Act of 1958 (PL 85-508; 72 Stat. 399), as amended, and real property of the United States transferred to the state under secs. 21, 35 and 45 of the Alaska Omnibus Act of 1959 (PL 86-70; 73 Stat. 141), as amended;

(C) any interest owned by the state in land;

(10) "transportation" means the shipment or carriage by a pipeline of crude oil, natural gas, or products from an upstream terminus in one or more fields or points of production or supply of the minerals to a downstream terminus in one or more points for delivery of the minerals to a purchaser or consignee, for storage, or for further carriage or shipment, including shipment or carriage within the state that may be classified as interstate or foreign transportation to the extent that the transportation may constitutionally be subjected to the provisions of this chapter, as well as all services necessary to effectuate shipment or carriage, including, among other things, the receipt, storage, processing, handling, transfer in transit, forwarding, and delivery of the minerals. (§ 1 ch 72 SLA 1972; am § 22 ch 3 FSSLA 1973)

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

Chapter 40. Local Hire Under State Leases.

Section	Section
30. Resident employment	70. Penalties
40. Reporting provisions	80. Injunctive relief
60. Hearings and investigations	90. Definitions

Sec. 38.40.030. Resident employment. (a) In order to create, protect and preserve the right of Alaska residents to employment, the commissioner of natural resources shall incorporate into all oil and gas leases, easements or right-of-way permits for oil or gas pipeline purposes, unitization agreements, or any renegotiation of any of the preceding to which the state is a party, provisions requiring the lessee to comply with applicable laws and regulations with regard to the employment of Alaska residents, a provision requiring the employment of qualified Alaska residents, a provision prohibiting discrimination against Alaska residents and, when in the determination of the commissioner of natural resources it is practicable, a provision requiring compliance with the Alaska Plan, all in accordance with the provisions of this chapter.

(b) All employment falling within the purview of § 50 of this chapter shall be filled by Alaska residents if they are qualified and available. The commissioner of labor, whose decision is final as to residency, shall determine the resident status of individuals for purposes of this chapter

Sec. 38.05.321. Restriction on sale or lease or other disposal of agricultural land. No state land classified as agricultural land may be sold, leased or otherwise disposed of in a manner inconsistent with § 69 of this chapter. (§ 3 ch 71 SLA 1976)

Sec. 38.05.323. Tidelands seaward of public recreational sites. (a) Notwithstanding any other provision of law, a home rule or general law municipality which accepts by conveyance or other disposition from the state a public recreation area facility developed under the terms of P.L. 507 (70 Stat. 130), upon application, shall receive by conveyance from the director all land owned by the state seaward of the public recreation area facility which is between the mean high tide line and the mean low tide line. The director may promulgate necessary regulations providing for the conveyance of land under this section.

(b) Interests obtained by lease for shore fisheries development, sale, permit or lease for mineral exploration, development, or extraction, or for any other purpose, before August 13, 1974, are affected by this section only on the date of their expiration or termination. (§ 1 ch 108 SLA 1974)

Sec. 38.05.325. Homestead entry.

Cross reference. — As to reservation to properties or interest to state land are which contracts for sale, lease or grant of subject, see AS 38.05.125.
state land and deeds to state land,

Sec. 38.05.330. Permits. The director, without the prior approval of the commissioner, may issue permits, rights of way or easements on state land for roads, trails, ditches, field gathering lines or transmission and distribution pipelines not subject to AS 38.35, telephone and transmission lines, log storage, oil well drilling sites and production facilities for the purposes of recovering minerals from adjacent lands under valid lease, and other similar uses or improvements, or for the limited personal use of timber or materials. The commissioner, upon recommendation of the director, shall establish a reasonable rate or fee schedule to be charged for these uses. In the granting, suspension or revocation of a permit or easement of lands, the director shall give preference to that use of the land which will be of greatest economic benefit to the state and the development of its resources. However, first preference shall be granted to the upland owner for the use of a tract of tideland, or tideland and contiguous submerged land, which is seaward of the upland property of the upland owner and which is needed by the upland owner for any of the purposes for which the use may be granted. (§ 7 art III ch 169 SLA 1959; am § 7 ch 61 SLA 1960; am § 4 ch 72 SLA 1972; am § 28 ch 3 FSSLA 1973; am § 13 ch 257 SLA 1976)

APC



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

** Phillips gas gathering +
comparisons on changes
to AGAS).*
*15% overall
rate of return +
appx. 11% APUC is
allowing AGAS on
all its
operations.
6/2-4/1977*

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Mr. Wold

-2-

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

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Mr. Wold

-3-

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

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Mr. Wold

-4-

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^{gas}, 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.

What would use "Various factors" be?

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Mr. Wold

-5-

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

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Mr. Wold

-6-

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.

*an average = 14.3 BCF
only an average contract*

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.

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Mr. Wold

-7-

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.

*Procedure by
APC to APUC for
approval
and response
4/2-4/18/77*



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Mr. Wold

-8-

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 ~~conservative~~ 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.

best esti-
mate/
judgment
DT 4/18/77

AGO 801609

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Mr. Wold

-9-

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 801610

?
Free AK Pipe
line

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

April 6, 1977

subject: the proposed contract between State of Alaska and Phillips
Petroleum Company for North Cook Inlet royalty gas

Dear Don:

After reading the draft contract attached to this letter, I am required to inform you that I believe this contract to be severely prejudicial to the natural gas consumers served by Alaskan Pipeline Company.

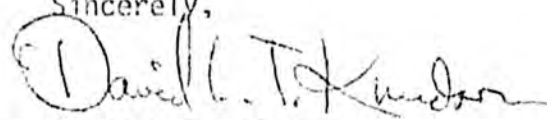
Specifically, I am troubled by Article 9.1, Article 9.2, and Article 11.1. These articles establish a basic cost of service, an escalation factor to be applied to this basic cost of service, a provision for higher costs of service due to compressor costs, and an exemption of this natural gas transmission system from Alaska Public Service Commission control.

I have seen no justification that a pipeline costing 10 to 12 million dollars perhaps 9 years ago (which is most probably highly depreciated) should have a cost of service of 10¢ per Mcf. Regarding the rate of escalation to be applied to the basic rate (i.e., 6 per cent per annum), I would like to point out that in all cost of service projections which I have made show declining transportation charges through time even given a general inflation rate of 6 per cent. I am unaware that future compression costs for State of Alaska royalty gas separate from net working interest gas will require payment on the basis of 10¢ per Mcf and inflated each year thereafter at 6 per cent. In short, the underlying economics of the above mentioned contract should be worked out prior to signing the contract. This is especially so given the fact that contract Article 11.1 frees Phillips from Alaska Public Service Commission supervision.

The delay required by this staff work should not be lengthy.

RECEIVED
APR 07 1977

ALASKA ROYALTY
OIL & GAS BOARD

Sincerely,

David L.T. Knudson
7510 Chad
Anchorage, AK 99502

AGO 801611

period extending back one-half of the time elapsed since the last previous test, not exceeding, however, fifteen (15) days.

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

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

✓ ARTICLE IX

GATHERING AND COMPRESSION CHARGES AND TAXES

9.1 For all gas delivered by Lessee to the State at the delivery point, the State or its designee shall pay

to Lessee a ^{a)} gathering charge of ten cents (10.0¢) per Mcf from the date of first delivery hereunder. The above-stated charge shall increase by six percent (6%) compounded annually, on each anniversary date of the date this Agreement.

9.2 It is recognized by the parties hereto that it may be necessary for Lessee to install compression facilities during the term of this Agreement. At the time the first compressor unit is installed and first used, the State or its designee shall pay Lessee in addition to the gathering charge set forth in Section 9.1, ^{a)} 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 of 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. ^{b-)} 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.

for such month, Lessee shall determine the amount of royalty gas not taken by the State for such month and shall make payment therefor to the State together with said statement.

10.3 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 or invoice 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.

ARTICLE XI

REPRESENTATION AND CONDITION PRECEDENT

11.1 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 Lessee does not, by entering into this Agreement, dedicate any facilities or otherwise undertake to render any service to or for the public. This Agreement is being undertaken solely to effectuate the delivery of royalty gas to the State, and the State makes the material representation that neither this Agreement nor the State's use or disposition of the gas delivered hereunder will subject Lessee to regulation by the Federal Power Commission, the Alaska Public Utilities Commission, or the Alaska Pipeline Commission.

10

11.2 In the event that any governmental agency shall declare that Lessee's activities hereunder subject Lessee to regulation as a utility, then either party shall have the option to terminate this Agreement upon thirty (30)

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;

March 29, 1977

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

STATE
of ALASKA

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

TO:

Wilson Condon
Deputy Attorney General

DATE : March 11, 1977

FROM:

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

SUBJECT:

Jurisdiction of the Alaska
Pipeline Commission over the
Phillips Petroleum Company
pipeline.

Please refer to Commissioner Martin's memo to the Attorney General dated February 24, 1977 and your response dated March 7, 1977 regarding the same subject except as related to the Alaska Public Utilities Commission.

We would sincerely appreciate your review and opinion of the same matter except as related to the Alaska Pipeline Commission.

cc: Fred Boness

AGO 801617

Don

file 3/17/77

John^(W) received the State-Phillips draft by telecopy Friday afternoon. He did not receive the State-Pipeline draft due to breakdown of our Xerox telecopier. I'm sending it, plus the AG opinion today by airmail special delivery. Have no idea when they will get it, but couldn't do better by Goldstruck or otherwise!

Wall

ALASKA PIPELINE COMPANY

Dale Teel
President

March 10, 1977

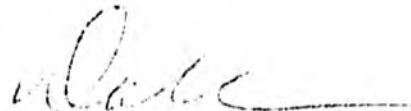
Dear Don:

I've managed to write three pages, giving my rationale regarding the charges by Phillips.

I also enclose for your personal information copies of the transmittal letter on Chugach's latest rate increase filing and an internal memo I wrote on that subject. While the Chugach's letter is public information, at the APUC, I believe it would be best not to publicize it out of your office and certainly my comments on that matter need to be restricted.

I hope this material will help you bring our negotiations to fruition.

Cordially,



cc: Mr. John Horn w/attachments

RECEIVED

RECEIVED
MAR 14 1977

ALASKA ROYALTY
OIL & GAS BOARD

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801619

ALASKA PIPELINE COMPANY

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

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 deliver 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

ALASKA PIPELINE COMPANY



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

-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:

\$9,030,000 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.

AGO 801621

3/19/77

Handwritten notes:
Since they can flow through this cost to the compressor without APC approval. See below memo & APC 2/14/77



ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road
P.O. Box 6288 / 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

cc: Fred Bones
Royalty Board

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

*APUC
Does not speak
to the matter
of transporta-
tion etc, Commission,
etc.*

AGO 801623

RECEIVED
MAR 11 1977

RM/Deemer

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

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

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

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

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

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

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
letter attached*

Paul F. Robison, Esquire
921 W. 6th Avenue
Anchorage, Alaska 99501

Mr. & Mrs. Roger Clyne
3011 Lexington Avenue
Anchorage, Alaska 99502

Roger R. Kempel, Attorney
Municipality of Anchorage
P. O. Box 400
Anchorage, Alaska 99510

Mr. & Mrs. Hostman
Whirlaway Rd. Box 100
Eagle River, Alaska 99577

COURTESY LIST

Alaska Gas & Service Company
P. O. Box 6288
Anchorage, Alaska 99502

City of Kenai
Box 580
Kenai, Alaska 99611

Chugach Electric Association, Inc.
P. O. Box 351B
Anchorage, Alaska 99501

Kenai Utility Service Company
P. O. Box 614
Kenai, Alaska 99611

Kenai Peninsula Borough
P. O. Box 850
Soldotna, Alaska 99669

Cook Inlet Region, Inc.
1211 West 27th Avenue
Anchorage, Alaska 99503

The Honorable Helen D. Beirne
Representative
Box 4-BB
Spenard, Alaska 99503

The Honorable Bob Bradley
Representative
601 North Bragaw
Anchorage, Alaska 99504

The Honorable Thelma Buchholdt
Representative
2607 Kona Lane
Anchorage, Alaska 99503

The Honorable Samuel R. Cotton
Representative
Box 296
Eagle River, Alaska 99577

The Honorable John L. Rader
Senator
Box 2068
Anchorage, Alaska 99501

The Honorable Patrick Rodey
Senator
3605 Lois Drive 3611
Anchorage, Alaska 99503

The Honorable Clem V. Tillion
Senator
Box 373
Homer, Alaska 99603

The Honorable Edward C. Willis
Senator
Box 402
Eagle River, Alaska 99577

The Honorable Avrum Gross
Attorney General
Pouch K
Juneau, Alaska 99811

Anchorage Attorney General's
Office
Civil Section
368 K Street
Anchorage, Alaska 99501

Courtesy List (Cont.)

The Honorable Helen M. Fischer
Representative
2023 Wildwood Lane
Anchorage, Alaska 99503

The Honorable Clark Gruening
Representative
940 Tyonek
Anchorage, Alaska 99501

The Honorable H. M. "Mike" Hershberger
Representative
2906 Will Rogers Place
Anchorage, Alaska 99503

The Honorable Ramona M. Kelley
Representative
5214 East 24th Avenue
Anchorage, Alaska 99504

The Honorable Joseph H. McKinnon
Representative
2203 West 46th Avenue
Anchorage, Alaska 99503

The Honorable Hugh Malone
Representative
Box 9
Kenai, Alaska 99611

The Honorable Kathryn Ostrosky
Representative
423 E. 12th Avenue
Anchorage, Alaska 99501

The Honorable William K. Parker
Representative
337 East 10th Avenue
Anchorage, Alaska 99501

The Honorable Leo Rhode
Representative
Box 406
Homer, Alaska 99603

The Honorable Theodore G. Smith
Representative
2616 Sorbus Circle
Anchorage, Alaska 99504

The Honorable Susan Sullivan
Representative
7330 Barge Court
Anchorage, Alaska 99504

The Honorable Richard K. Urion
Representative
3239 Hiland Drive
Anchorage, Alaska 99504

The Honorable W. E. "Brad" Bradley
Senator
P. O. Drawer 8670
Anchorage, Alaska 99503

The Honorable Genie Chance
Senator
Box 2392
Anchorage, Alaska 99510

The Honorable Mike Colletta
Senator
Box 3188
Anchorage, Alaska 99501

The Honorable Chaney Croft
Senator
425 "C" Street, Suite 710
Anchorage, Alaska 99501

The Honorable Joseph L. Orsini
Senator
2912 Alder Drive
Anchorage, Alaska 99504



Alaska Gas and Service Company

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

September 29, 1976

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

Dear Commissioners:

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

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

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

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

Alaska Gas and Service Company



GENERAL OFFICES LOCATED AT 3898 SPENARD ROAD
P. O. BOX 8188 ANCHORAGE, ALASKA 99582 / PHONE (907) 277-1311
TELEX 22-187

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

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

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

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

Very truly yours,

Dale Teel
President

dh

Enclosure

AGO 801630

APUC
Phillips
AK Pipe Co.

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:FHE:bvd

cc: Frederick H. Boness
Assistant Attorney General

Robert E. Stoller
Assistant Attorney General



PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA 74004

918 661-6500

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?

AGO 801633

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><u>\$7,070,000</u></u>

Cost/Mcf @ 43 Bcf/Year = 16.4¢

Cost/Mcf @ 55 Bcf/Year = 12.9¢

T A B L E I Y

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
	<hr/>
TOTAL	<u><u>\$2,010,000</u></u>

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.

011-321

T A B L E I

PIPELINE

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

ESTIMATED COSTS

	<u>\$/Year</u>
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T A B L E I I

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What does this mean

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See Phillips 3/3/77 letter to Don Ward

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.

What does this mean? APC have to pay 10¢/Mcf only if needed get royalty gas only when not make sense since 1/8 of product from well also...

from added compression



PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA 74004

918 651-6500

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?
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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.

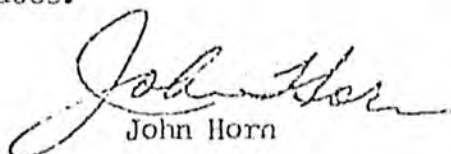
5. Q. What is your best forecast of future production from this field? Will you share with the State your future production plans so that the State may plan accordingly to utilize its royalty gas?

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

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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.

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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.

Phillips

See memo 3, 1977
reply

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?

AGO 801643

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?

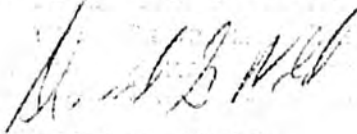
6. The State understands your need to maintain production of your LNG plant and that your ability to deliver royalty gas to the State will change as the field pressure changes. Would you please explain this procedure and give us your best forecast of your ability to make delivery in the future.

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

DCW/jl

AGO 801644

100-100000-1000
100-100000-1000
100-1000

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

Readers
CC: FGS
CC: Roy Ed 225

TO: Avrum Gross
Attorney General

DATE : February 24, 1977

FROM: Guy Martin
Commissioner

SUBJECT:

Alaska Pipeline Company -
Gas Purchase Contract 76-1.

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 being produced in the "upper Cook Inlet area" by Phillips Petroleum on the North Cook Inlet platform.

Paragraph 3.1 of this agreement provides "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". The producer, Phillips, was to make delivery, in accordance with the lease agreement, at the wellhead. Paragraph 3.2 of this agreement, states "Buyer, at its own expense, shall arrange to accept Sellers gas at the point of delivery". This point is, of course, offshore on the Phillips platform.

Phillips presently operates their own pipeline from the platform to transport the gas to their LNG plant located near the North Kenai Road. It is the responsibility of the Alaska Pipeline Company to work out an arrangement with Phillips to have the royalty gas transported to an agreeable point where they can take possession.

The Alaska Pipeline Company and Phillips were able to work out an agreement for Phillips to deliver the gas at a point near the terminus of the pipeline (see enclosed map) located near the North Kenai Road. However, to do so, Phillips would become subject to the jurisdiction of the Alaska Public Utilities Commission, which they refuse to do. Attempts have been made by Alaska Pipeline Company to obtain an exemption of jurisdiction for Phillips from the APUC. However, Phillips alone must obtain the exemption and to do so they must submit to the jurisdiction of the APUC. If this problem is not resolved, the State will be unable to take this gas in-kind to complete the sale.

The Alaska Pipeline Company has now proposed that the State accept delivery near the terminus of the Phillips pipeline located near the North Kenai Road and then deliver the gas at this point to the Alaska Pipeline Company. APC would pay any costs incurred in such a delivery.

AGO 801645

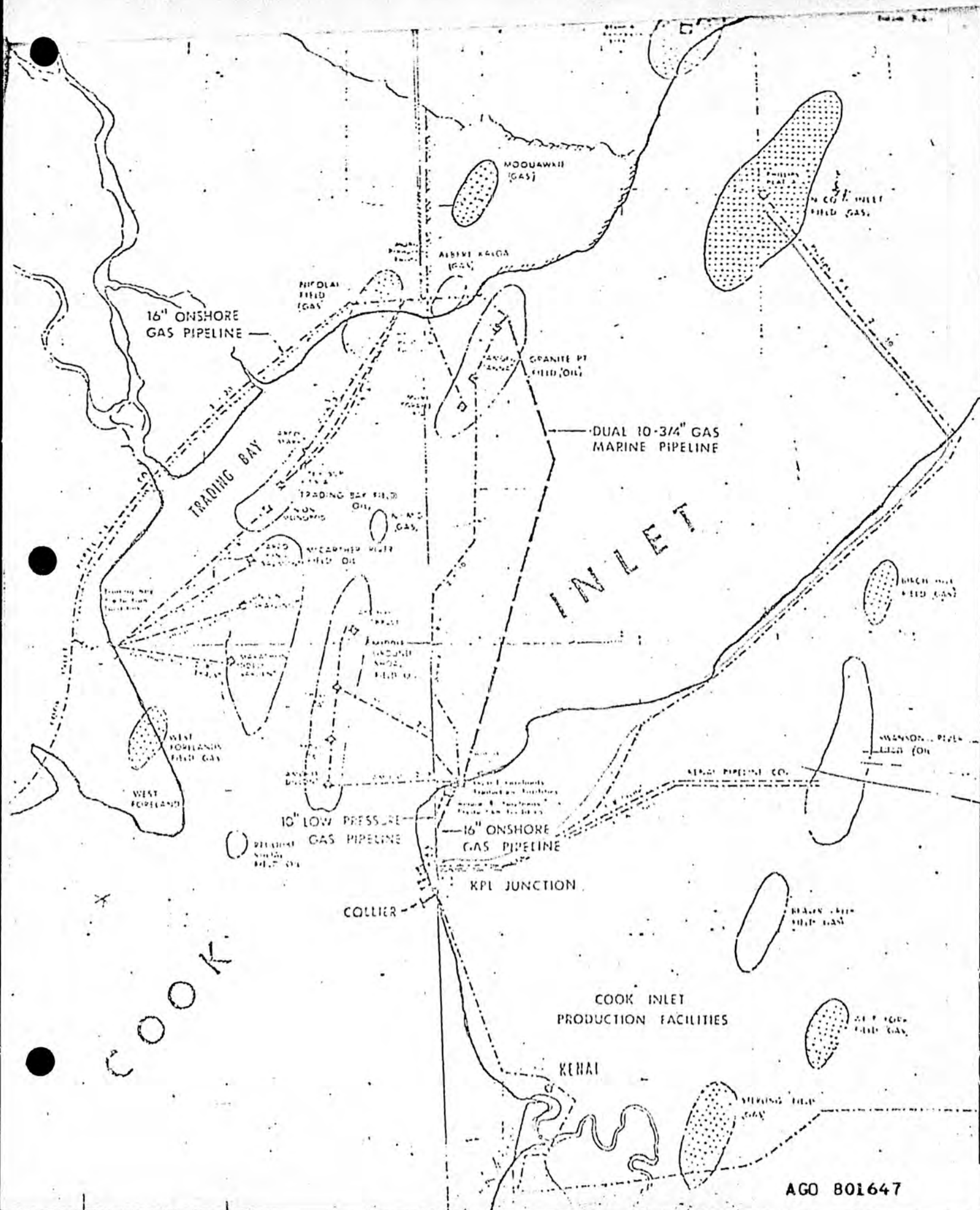
Page Two
Avrum Gross
February 24, 1977

It is presently believed that Phillips would be willing to enter into such an arrangement if the Attorney General renders a written opinion that delivery of the gas under this arrangement will not subject them (Phillips) to the jurisdiction of the APUC.

We would sincerely appreciate your review and opinion of this matter. Should you need any assistance or further information please do not hesitate to call upon us. We hope to bring a report and recommendation to the Royalty Oil and Gas Development Advisory Board on March 8, 1977.

cc: Don Wold
Fred Boness

GRM/DGW/jl



WALTER GROSS
6815 210

Department of
Natural Resources
ALASKA PIPELINE COMPANY

P. O. BOX 6554 • HOUSTON, TEXAS 77005

February 23, 1977

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

Dear Mr. Martin:

My understanding of the Royalty Board's action of February 22 was that you would inquire of the Attorney General as to the propriety of the State's contracting to deliver North Cook Inlet royalty gas to us onshore, at the delivery charges we have negotiated with Phillips, while warranting to Phillips that their delivery to us for the account of the State (which we would underwrite and pay) would not result in regulatory jurisdiction by the Alaska Public Utilities Commission or the Alaska Pipeline Commission over Phillips.

We met with the Attorney General also on February 22 to apprise him of the matter at hand, but for only a very few minutes and without a full discussion. We are of course hopeful that all essential concurrences will be available, whether as a legal opinion or as an approval of the contracts for the proposed action. We do need to pursue this subject urgently in order to have an amended contract approved in the present legislative session and begin taking the royalty gas as soon as possible this year.

We appreciate your courtesy to us at the February 22 meeting and we hope to appear if necessary at the next meeting to answer any further questions. Meanwhile, except as to our paying Phillips for the account of the State, our previous drafts of proposed contract language would apply to the course we hope the State will follow.

Very truly yours,



Dale Teel
President

DT:t

cc: Mr. Don Wold, Executive Director
Oil and Gas Royalty Advisory Board
State of Alaska
Juneau, Alaska

Mr. Avrum Gross, Attorney General
State of Alaska
Juneau, Alaska

Mr. John Horn
Phillips Petroleum Company
Bartlesville, Oklahoma

Mr. Gordon Zerbetz, Chairman
Alaska Public Utilities Commission
11th Floor, MacKay Building
Anchorage, Alaska

AGO 801648

From - Dallwell

*No. Logged or copied
2-23-77*

Possible approach regarding transportation and compression charges:

The Lessor and the Lessee would have an agreement under which the Lessee will give the Lessor its royalty share of the gas at a point convenient to the Lessor. The Lessor will bear the costs associated with making the royalty share of the gas available to it. That agreement will provide that the State's obligation will be discharged by payment of those costs by APC and Phillips will agree that such a payment will satisfy the State's obligation.

In the Agreement between APC and the State, APC will covenant and undertake to discharge (or underwrite) the State's obligation to the State's Lessee by making payment of the transportation and costs directly to the State's Lessee.

RECEIVED
FEB 23 1977

ALASKA ROYALTY
OIL & GAS BOARD

State & Phillips agree on 411 Road Delivery Point

Royalty line to built

State contract is changed

* that's not
a take or pay
provision

(a) article III regards delivery points

(b) APC take or pay for all that can be delivered, ^{* forfeit the rest}

(c) APC reimburse state for distribution & delivery
charges paid to Phillips

?

1. We take or pay for all royalty gas delivered to the
plant. Phillips pay \$ royalty on undelivered portion (to state)

2. Phillips transport all of the "W" as much as possible to plant
to the LNG plant. State pays Phillips for -

(a) dehydration

(b) gathering

(c) compression

3. We pay the state for the ^{ing delivered} ~~amount~~ plus the royalty
price with the total as one unit of gas. The state is
whole

4. State takes royalty

7 (a) we pay the state ~~take or pay~~ APC will take

1. take or pay for gas that we receive

2. could they be a gas industry group

(b) how does it "take or pay"?

5. If there is a take or pay provision, take or pay is
the take or pay provision. take or pay is

(a) take or pay is take or pay provision

take or pay is take or pay provision

6. Advantages APC

- (a) may gain (conserve) some reserves
- (b) take or pay liability is reduced
- (c) deal with only 100% gas
- (d) no premiums for standbys
- (e) no exchange prices
- (f) all inclusive cost of gas
- (g) the several future benefits of the royalty line
- (h) the royalty line would provide a source of gas to cover in event future rules change

Disadvantages to APC

- (a) take or pay considerations
- (b) may have to take make-up gas under 100 million bbl
- (c) have to make major capital investments,

7. Advantages to Lease

- (a) get more royalty & income volume
- (b) get advance royalty if space balance
- (c) other more \$ for use due to higher price of natural gas

Disadvantages to Lease

- (a) could lose income if gas prices fall
- (b) if natural gas price is "not high" price

8 Advantages to Bullseye

- (a) are in a no burden situation
- (b) get some benefit as a major power user
- (c) receive add'l \$ for add'l throughput to pay against hardware
- (d) would "recover" reserves in amount of "undelivered" royalty
- (e) may be part of APUC feature

Disadvantages

- (a) may feel pressure to deliver
- (b) sheltered reserves if

APC notes

State & Phillips agree on N. Road delivery point

No royalty line is built

State contract is changed

(a) article III regards delivery point

(b) APC to take or pay for all that can be delivered

(c) APC to reimburse state for dehydration + delivery charges paid to Phillips

where is this reflected?

1. We take or pay for all royalty gas delivered to the plant. Phillips pays royalty in \$ for "undelivered" portion

2. Phillips transport all of "9" as much as possible of it into the LNG plant. State pays Phillips for dehydration gathering compression

3. We reimburse state for these same charges as part of our cost of gas. The state is "whole".

exchange? 4. Marathon reduce their plants feed share by a volume equal to the delivered royalty. The plant feed is "whole"

5. We take what we can sell [up to the delivered royalty volume] from Marathon through existing ~~facilities~~ facilities.

6. If there is too much royalty

(a) we flow the excess to Anadarko via the Kawai field [Marathon share]

(b) or we bank the excess in the Kawai field as owned gas when we do need depend on take or pay treatment

7. If there is not enough royalty produced

- (a) Phillips produces additional gas for our accounts + delivers if able
- (b) or we take from Marathon out of our owned Kenai "banked" gas
- (c) or we take from Union/Marathon out of our ~~owned~~ regular Kenai reserves

8. If there is not enough royalty delivered

- (a) same as #7 except (a) option would be unavailable
- (b) Phillips pay \$ royalty ^{in lieu of} ~~as~~ undelivered royalty share

9. Advantages to APC/late payers

how is that?

- (a) "gain" additional reserves at current prices
- (b) no additional hardware + associated costs
- (c) depreciation, transportation + compression are included in costs of gas

Other than what you would have to pay Phillips

how?

? How

? How

- (d) take or pay liability is reduced
- (e) have no owned gas in N. Cook with future declines problem
- (f) cleaner APUC situation on waivers
- (g) good flexibility

Disadvantages

How?

- (a) some take or pay liability with state
- (b) may get into take or pay with Union/Marathon
- ✓ (c) APC costs of gas goes up
- (d) tax questions on gas paid for but not taken
- ✓ (e) lose these "reserves" (royalty) forfeited to Phillips

10. Advantages to the state

- how? (a) get more royalty \$ on same quantity of gas
 (b) would get "advance" royalty on "banked" gas
 (c) may realize more \$ on N. Cash due to several matters
 (d) residents get benefit of gas usage
- That's not really true! gas not really by APG would go to Phillips
 how? They have prior to that time so what does it mean?

Disadvantages

- (a) some administrative effort required due to state/Phillips contract

11 Advantages to Phillips

- What is "lost"? (a) are able to utilize some of the "lost" royalty in their plants
 (b) provide royalty on no burden basis
 (c) would receive add'l \$ for add'l throughput of existing + future facilities.
 (d) field depletion ^{rate} would slow a bit
- What does that mean?
 What's so good about it? What exactly is meant by?
 how? would it not be accelerating?

Disadvantages

- ✓ (a) may feel pressure to deliver royalty
 ✓ (b) APUC question may still exist
 How? see (c) shortened plant's reserve life.
 (d) above

12 Advantages to Marathon

- ✓ (a) would get add'l \$ for Kenda gas used as standby gas
- ? (b) would get add'l \$ for exchange service
- ✓ (c) if gas is bank in & exchanged for Kenda gas
It will result in more gas to receive in 1986

Disadvantages

- ? (a) could have deferred sales on Aachraf contract

13 Required

(a) State/Phillips contract for dehydration, transport & compression

what's that?

(b) balancing agreement with Phillips

(c) state contract change

what's that?

(d) balancing, exchange, standby agreement with Marathon

(e) APCC question

(f) pre-determination of take or pay treatment for rate making

"

"cost of gas"

1/80!!!

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

*Alaska Pipeline
Readers
cc: Board*

TO: Guy Martin
Commissioner

DATE: February 14, 1977

FROM: Don Wold *DW*

SUBJECT: Alaska Pipeline Company-
Gas Purchase contract 76-1

Alaska Pipeline Company has been unable to work out an arrangement with Phillips Petroleum Company to take delivery of the State Royalty gas contracted on June 4, 1976 between the State and subject company. There are two reasons why Alaska Pipeline Company has been unable to solve this problem. They are:

1. In accordance with the contract, buyer is to purchase all royalty gas to be used to meet the requirements of its customers within the State of Alaska. (They do not have customers to consume all of this gas all of the time. Phillips has agreed to take back any surplus at their purchase price, however, this violates the contract. Homer Electric is the primary customer and cannot consume all the gas available.)

2. Alaska Pipeline Company must take delivery from Phillips near the terminus of the Phillips pipeline located near the North Kenai Road. To do so, Phillips would be subject to the jurisdiction of the Alaska Public Utilities Commission, which they refuse to do. Phillips alone must obtain an exemption of jurisdiction for their pipeline from the APUC and to do so they must submit to jurisdiction by the APUC. One major purpose of the APUC is to consider the cost of such gas transmission and the cost of compression which would be passed on to the Alaska Pipeline Company and to the consumer by Phillips to accommodate delivery.

There is one further serious consideration relating to this contract. If the State does not cooperate in resolving this problem, the Alaska Pipeline Company will have control of this gas until 1984 whether or not they ever take delivery. This assumes that they will retain their rights under the contract. This means that Phillips will be able to take all royalty gas for their use and the State will be unable to use it for any other purposes or to deliver it to anyone else who could work out an arrangement to accept delivery.

Alaska Pipeline Company has now proposed that the State accept delivery near the terminus of the Phillips Petroleum Company pipeline located on the North Kenai road and then deliver

Memo to Guy Martin
Alaska Pipeline Company
February 15, 1977

Page 2

the gas at this point to Alaska Pipeline Company. To this end Alaska Pipeline Company had drafted two agreements. One agreement is a new gas purchase contract between Alaska Pipeline Company and the State of Alaska to replace the one previously entered into and another between the State and Phillips Petroleum Company for the taking of the royalty gas in-kind at the new delivery point. These agreements and the forwarding memo are appended.

The Alaska Pipeline Company, Phillips Petroleum Company and myself met in Bartlesville, Oklahoma to attempt to work out an arrangement whereby Phillips could cooperate. Attending this meeting were: Don Wold, John Horn, Phillips Petroleum Company, John L. Williford, Phillips Petroleum Company attorney, C. J. Silas, Vice President, Phillips Natural Gas Department and Dale Teel, President of Alaska Pipeline Company. Phillips has reviewed the enclosed agreements and are concerned about whether or not the taking of the gas at the North Kenai road will, in fact, exempt them from the jurisdiction of the Alaska Public Utilities Commission. They are not satisfied that by simply delivering the gas to a different party satisfies the problem of the APUC. Phillips will consider accepting such an agreement if the Attorney General renders an opinion that Phillips will not come under the jurisdiction of the APUC. Alaska Pipeline Company has retained the services of former Commissioner Tony Motley to assist them in bringing the issue to the attention of the Attorney General and to encourage an opinion. Should this effort be successful 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.

The APUC would normally audit, in some detail, the delivery charges and the compression cost that would be passed on to the consumer. This situation has certain obvious political concerns that must be considered.

[In accordance with the proposed agreement, the Alaska Pipeline Company must agree to accept the charges identified by the State's and Phillips Petroleum Company's agreement, and the APUC must concur since they have rate setting authority.] It should be noted that the APUC has an apparent agreement with Alaska Pipeline Company to fold-in all royalty gas costs to their rate base and do not have to justify such increased costs to the APUC. Therefore, Alaska Pipeline Company does not need to justify these higher costs. All they must do is fold-in the costs and pass them through to the consumer. This is being confirmed by the PUC.

[What does this mean?]
Get this statement fixed

AGO 801658

Memo to Guy Martin
Alaska Pipeline Company
February 14, 1977

Page 3

Phillips will agree to the above, subject to the approval of their management. They have, however, asked why they should cooperate since they must go to considerable expense with no return and stand a chance of obtaining adverse publicity by having to appear before the Royalty Board and the Legislature to respond to questioning regarding the agreements. The State has the responsibility to acquire royalty gas for use within the State if needed and they would stand a potential of obtaining even greater adverse publicity should they refuse to cooperate and prevent the State from using such needed gas.

Phillips has agreed to supply the State with complete justification of the transportation costs and compression costs.

They will also supply a forecast of future production. They will also explain how production will decline and how the production's change will affect the deliverability to the State. They will also supply a detailed forecast of the installation of the compressors. They will also determine whether or not they could agree to the State's involvement in determining when the installation of the compressors is necessary.

The Alaska Pipeline Company desires to appear before the Royalty Board at an early date to explain their case and urgently request that this be considered at this session of the Legislature. Should they need to wait until next year, the term of the contract will be so short as to make it not worthwhile.

Occ: Roy Board

ALASKA PIPELINE COMPANY



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

February 2, 1977

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

Dear Mr. Wold:

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

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

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

ALASKA PIPELINE COMPANY



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

Mr. Donald Wold
February 2, 1977
Page -2-

term of this contract to the "life of production", which we proposed originally, the feasibility of such a pipeline would be much improved.

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

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

Very truly yours,

Dale Teel
President

DT:dh

Enclosures

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

AGO 801661

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

Gentlemen:

What are these?

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

** And whom?*
Since State takes delivery onshore, it must

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

to party doing negotiations on the gathering costs charged!

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

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

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

Accepted for Phillips Petroleum Company:

By _____ Date _____

For the State of Alaska:

By _____ Its _____

GAS PURCHASE CONTRACT

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

WITNESSETH

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

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

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

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

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

ARTICLE 1

Seller's Royalty Gas

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

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

ARTICLE II

Quantity

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

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

ARTICLE III

Quality, Pressure, and Odorization

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

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

ARTICLE IV

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

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

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

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

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

4.4 Standards of Measurements and Tests

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

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

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

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

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

4.5 Measurement

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

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

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

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

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

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

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

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

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

ARTICLE V

Price and Billing

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

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

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

*Needs to be
referred to
per Grogg's
memo to
Fred Brown*

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

see above

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

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

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

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

! Does this mean they will agree to jurisdiction in that instance?

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

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

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

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

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

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

ARTICLE VI

Term

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

ARTICLE VII

Conditions Precedent and Force Majeure

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

*See page 13
Comments*

*No longer same
Valid since
the club was
point
man is
on-site*

*much too
long*

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

7.3 Force Majeure

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

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

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

ARTICLE VIII

Miscellaneous

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

ARTICLE IX

Notices

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

AGO 801675

2
What
does that
mean

Who are they

Commissioner
Department of Natural Resources
Pouch M, Juneau, Alaska 99811

or to Buyer at:

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

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

"BUYER"

STATE OF ALASKA

ATTEST:

ATTEST:

1/11/77

Phillips is "hooked" either by APC or HFA deal

42.05.701

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

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

42.05.701

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

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

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

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

when a compressor installed.

GAS GATHERING AGREEMENT

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

W I T N E S S E T H:

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

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

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

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

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

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

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

1. identify amount to be delivered?
2. detail cost of investment to ~~store~~ deliver, joint - compression cost etc.?
3. when compressors installed? does state have control?
4. details of agreement -

AGO 801678

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

See Div 4, Sec 2

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

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

ARTICLE I

DEFINITIONS

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

ARTICLE II

FACILITIES

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

See
Article
IV

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

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

ARTICLE III

QUANTITY OF GAS

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

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

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

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

ARTICLE IV

POINT OF DELIVERY AND OWNERSHIP

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

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

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

ARTICLE V

DELIVERY PRESSURE

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

ARTICLE VI

QUALITY OF GAS

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

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

ARTICLE VII

STANDARDS OF MEASUREMENT AND TESTS

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

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

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

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

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

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

ARTICLE VIII

MEASUREMENT

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

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

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

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

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

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

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

ARTICLE IX

GATHERING AND COMPRESSION CHARGES AND TAXES

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

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

See Appendix
Compression
page 1

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

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

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

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

Nothing herein shall be construed by either party as an obligation

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

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

ARTICLE X

BILLING AND PAYMENTS

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

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

ARTICLE XI

REPRESENTATION AND CONDITION PRECEDENT

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

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

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

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

ARTICLE XII

FORCE MAJEURE

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

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

ARTICLE XIII

TERM

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

ARTICLE XIV

MISCELLANEOUS

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

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

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

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

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

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

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

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

ATTEST:

ALASKA PIPELINE COMPANY

Assistant Secretary

By _____
President

ATTEST:

PHILLIPS PETROLEUM COMPANY

Assistant Secretary

By _____
Vice President

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

File

*Don. Wald
cc: Board
1-21-77*



ALASKA PIPELINE COMPANY

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

RECEIVED
DEC 20 1976

ALASKA LOYALTY
OIL & GAS BOARD

December 15, 1976

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

RECEIVED
DEC 17 1976

Department of
Natural Resources

Dear Commissioners:

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

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

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

Very truly yours,

Dale Teel

Dale Teel

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

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

SUBSIDIARY OF ALASKA INTERSTATE COMPANY

AGO 801692

Get this letter from APUC if nec.

periodic report to Phillips from APUC jurisdiction



Alaska Gas and Service Company

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

September 29, 1976

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

Dear Commissioners:

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

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

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

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

Alaska Gas and Service Company



GENERAL OFFICES LOCATED AT 3088 SPENARD ROAD
P. O. BOX 8288 ANCHORAGE, ALASKA 99512 / PHONE (907) 277-3331
TELEX 22-187


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

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

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

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

Very truly yours,


Dale Teel
President

dh

Enclosure



ALASKA PIPELINE COMPANY

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

August 31, 1976

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

Dear John:

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

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

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

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

Very truly yours,

Dale Teel
Dale Teel

dh

Enclosures

bcc: Alaska Public Utilities Commission

GAS GATHERING AGREEMENT

RECEIVED
A.P.C.

SEP 21 1976

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

W I T N E S S E T H:

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

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

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

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

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

APC contract with State

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

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

ARTICLE I
DEFINITIONS

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

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

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

ARTICLE II
FACILITIES

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

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

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

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

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

ARTICLE III
QUANTITY OF GAS

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

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

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

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

ARTICLE IV

POINT OF DELIVERY AND OWNERSHIP

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

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

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

ARTICLE V

DELIVERY PRESSURE

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

ARTICLE VI

QUALITY OF GAS

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

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

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

ARTICLE VII

STANDARDS OF MEASUREMENT AND TESTS

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

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

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

4. The flowing temperature of the gas delivered hereunder shall be determined by means of a continuous recording thermometer installed

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

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

ARTICLE VIII

MEASUREMENT

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

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

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

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

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

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

ARTICLE IX

GATHERING CHARGE AND TAXES

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

Exact
125%
Full Share Royalty

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

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

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

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

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

ARTICLE X

BILLING AND PAYMENTS

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

ARTICLE XI

REPRESENTATION AND CONDITION PRECEDENT

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

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

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

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

ARTICLE XII

CONTINUITY OF SUPPLY

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

ARTICLE XIII

FORCE MAJEURE

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

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

ARTICLE XIV

TERM

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

ARTICLE XV

MISCELLANEOUS

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

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

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

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

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

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

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

ATTEST:

ALASKA PIPELINE COMPANY

Assistant Secretary

By _____
President

ATTEST:

PHILLIPS PETROLEUM COMPANY

Assistant Secretary

By _____
Vice President

June 11, 1976

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

Dear Harold:

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

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

I enjoyed working with you.

Yours truly,

William C. Fackler
Executive Director

Enclosures (2)

WCF:lb

Gas Purchase Contract

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

WITNESSED

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

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

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

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

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

Which are
101?
ADL 17529
17590
18740
18741
37831
Y12

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.

There is that

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

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

ARTICLE IV

Quality

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

ARTICLE V

Price and Billing

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

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

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

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

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

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

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

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

ARTICLE VI

Term

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

ARTICLE VII

Conditions Precedent

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

ARTICLE VIII

Notices

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

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

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

Commissioner

Department of Natural Resources

Pouch M, Juneau, Alaska 99811

or to Buyer at:

Alaska Pipeline Company

P. O. Box 6288

Anchorage, Alaska 99502

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

"BUYER"

STATE OF ALASKA

Harold E. Schmidt

Greg R. Martin

ATTEST:

ATTEST:

Richard F. Barner

William J. Fackler



April 26, 1976

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

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

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

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

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

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

6. The contract shall not be effective until

-all necessary permits and authorizations by governing bodies are obtained

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

-six month's notice required under lease

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

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

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

Requires consent of the board.

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

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

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

May, 1976

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

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

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

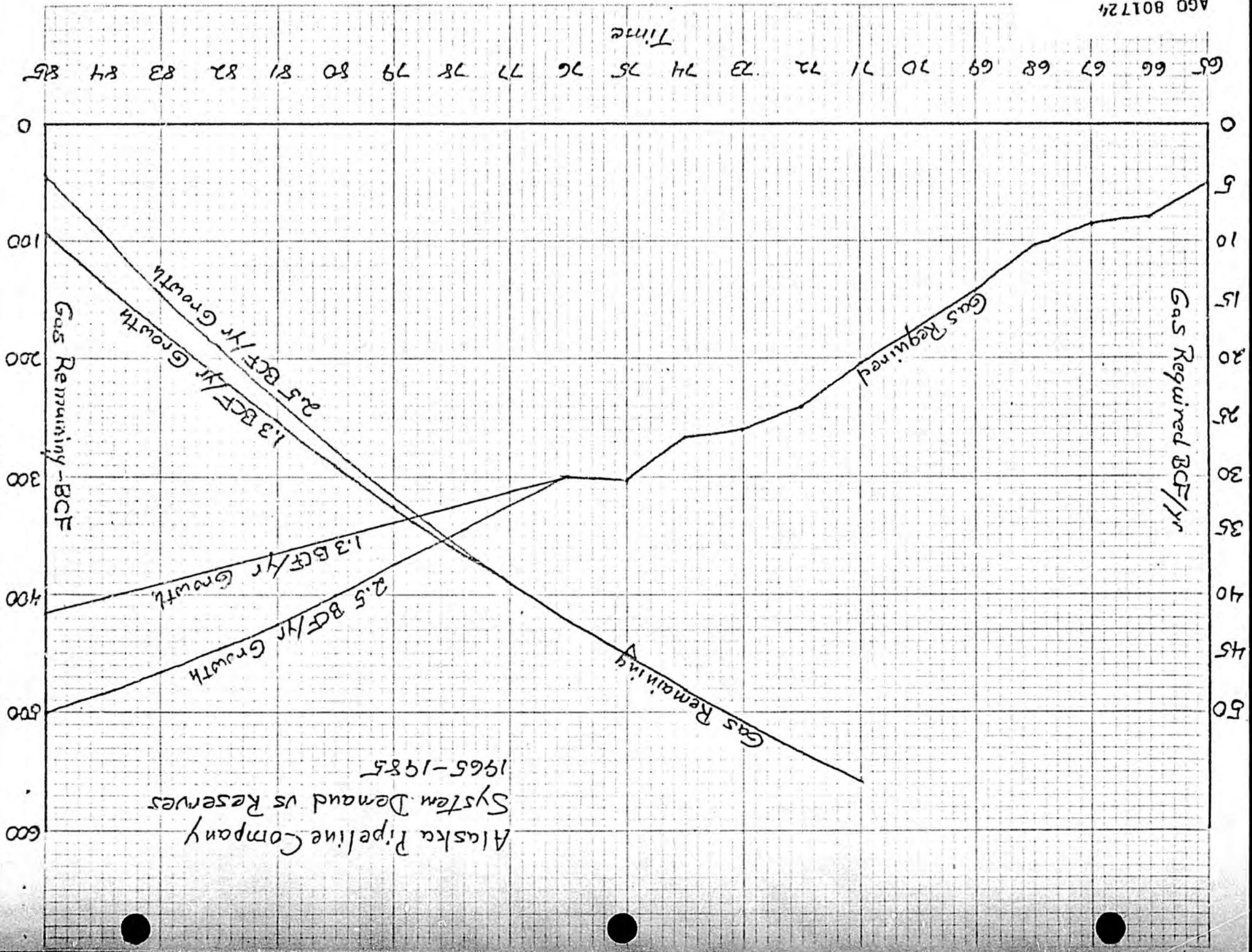
"Anchorage" reserve depletion while at the same time it affects deliverability and precludes long range company and customer planning.

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

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

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

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



Alaska Pipeline Company
System Demand vs Reserves
1965-1985

RECEIVED
MAY 05 1976

ALASKA ROYALTY
OIL & GAS BOARD

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

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE CONCURRENT RESOLUTION NO. 142

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

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

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

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

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

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

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

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

MEMORANDUM
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

TO:

The Honorable Jay S. Hammond
Office of the Governor



DATE : April 30, 1976

FROM:

Guy R. Martin
Commissioner

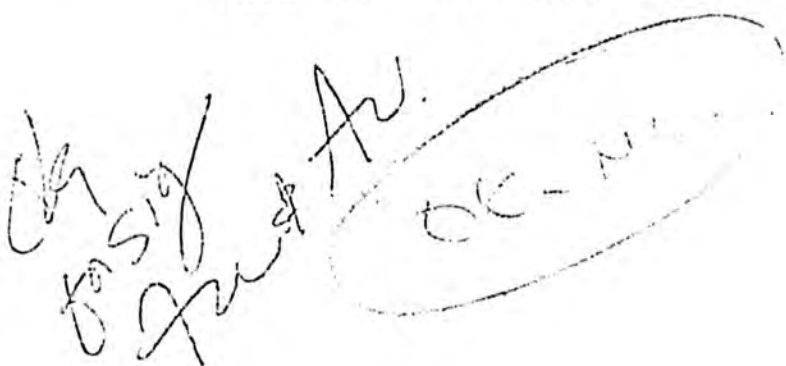


SUBJECT: Transmittal of Alaska
Royalty Gas Sale No. 76-1

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

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

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



April 30, 1976

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

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

Dear Mr. Speaker:

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

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

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

AGO 801727

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

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

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

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

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

April 1976

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

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

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

Sincerely,

Jay S. Hammond
Governor

Attachment

Natural Resources/WCF/dk/tdg

CC: [unclear]

Findings and Conclusions for Non-Competitive Sale

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

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

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

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

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

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

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

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

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million

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impossible

* and that
price of
commission

school

Jo-Ann
Lesh
for 4/18/77

received
4/27/77

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.

① ② ③

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.

Argument that competitive bidding would drive up the price to the detriment of the consumer, if an Alaskan company was the successful bidder. It appears that the Alaskan consumer is now being asked to pay the higher price (10¢ + 10¢) charged APC by Phillips by virtue of flow-through regard- less of the fact that this is a negotiated sale.

→ That argument is not totally accurate as per margins comments.

but added cost maybe to the Alaska public

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

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

Date April 26, 1976

APPROVED

[Handwritten signature]

[Handwritten signature]

[Handwritten signature]

Disapproved

Approval to Waive Competitive Bidding

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

Date April 26, 1976

Approved

[Handwritten signatures]

Disapproved

TELEGRAM

PACIFIC ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

RECEIVED PM 5 03

IPNAFUB AHG

1-0349800089 03/29/76

TWX PAC LGHT LSA

2 15 LOS ANGELES, CA MARCH 29, 1976

PMS MR. GUY MARTIN, CHAIRMAN

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

7580

POUCH M

JUNEAU, ALASKA 99801

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

PACIFIC ALASKA LNG COMPANY

P. VER PLANCK

1956 EST

RECEIVED
MAR 30 1976
ALASKA ROYALTY
OIL & GAS BOARD

PACIFIC ALASKA LNG COMPANY



720 West Eighth Street

Los Angeles, California

Mailing address:

P.O. Box 54288 Terminal Annex

Los Angeles, Calif. 90054

March 5, 1976

RECEIVED
MAR 09 1976

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

ALASKA POLICY
OIL & GAS BOARD

Dear Mr. Martin:

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

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

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

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

Harvey A. Proctor

President

AGO 801737

PACIFIC ALASKA LNG COMPANY

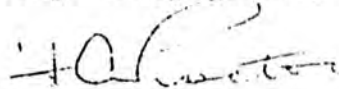
Mr. Guy R. Martin
March 5, 1976
Page 2

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

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

Thank you for your consideration.

Very truly yours,



H. A. Proctor, President



PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004 918 661-6600

RECEIVED
MAR 09 1975

NATURAL RESOURCES GROUP
Lands Division

March 5, 1976

State Royalty Gas
North Cook Inlet Field

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

ALASKA ROYALTY
OIL & GAS BOARD

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

RECEIVED
MAR 9 1976

Department of
Natural Resources

Dear Mr. Martin:

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

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

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

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

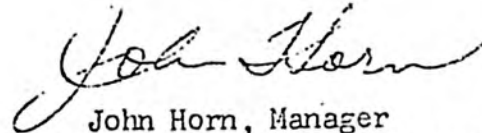
The above proposal is subject to the completion of a mutually agreeable contract between the State of Alaska and Phillips. This offer is open until July 1, 1976.

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

March 5, 1976
Page 2

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

Very truly yours,



John Horn, Manager
Gas and LNG Sales Branch

JH:bla

AGO 801740

*Draft by APC of April 7, 1966
with comments by _____?*

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

1115
APR 12 1966

ALASKA PIPELINE COMPANY
OIL & GAS BOARD

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

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

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

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

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

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

NOW

APC
new pipeline

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

OK

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

*Point of Delivery 2.
Between APC
& PRC or APC
& state. State point of delivery should be platform.*

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

*OK
Exchange + Pipeline*

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

*OK
jurisdiction*

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

Additional investment terms to be negotiated between APC and Phillips

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

Is such land available? Why "without charge"?

Specify standards

State also has right to inspect

from upstream flange of pipeline to platform

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

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

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

OK

3-2-1985

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

This Agreement was executed on _____, 1976.

for the State of Alaska

for Alaska Pipeline Company

by _____

by _____



ALASKA PIPELINE COMPANY

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

April 9, 1976

RECEIVED
APR 12 1976

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

Department of
Natural Resources

Dear Bill:

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

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

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

Cordially,

Dale Teel
Dale Teel
President

cc: Board members 1/13/76 AK

DT:jdH

Enclosure

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

RECEIVED
APR 12 1975

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801744

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

APR 12 1971

OIL & GAS BO

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

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

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

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

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

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

NOW THEREFORE, the State and APC agree as follows:

1. The State agrees that it will give notice to Phillips that it elects to take its royalty gas in kind within one year of the date of such notice (but not sooner than six months following such notice except at the consent of Phillips), upon APC's completion of negotiations for exchanging or APC's completion of its pipeline connection in the alternative. Whether taken by exchanging or by literal transfer, APC will pay to the State, for remittance to Phillips, an amount calculated to cover Phillips' reasonable costs for dehydrating and transporting the gas from its offshore platform at the North Cook Inlet Gas Field to its liquefaction plant on the North Kenai Road near Kenai, Alaska. In addition, APC will pay to the State the wellhead price in effect as wellhead value for calculation of severance taxes payable by Phillips to the State from year to year, amended as of June 1 of each year to June 1, 1984, provided

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

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

2. The State and APC agree that the quantity and quality of gas purchased by APC hereunder shall be at the sole determination of Phillips, provided that APC shall be entitled to receive, at a mutually agreeable point of delivery at or near the Phillips liquefaction plant, gas of the quality and at the pressure existing in Phillips' pipeline, and in daily volume of one-eighth (1/8th) the total volume delivered by Phillips during the preceding day, except that by mutual agreement other delivery volumes may be in effect from time to time if necessary and desirable to suit the mutual interests of Phillips and APC.
3. This Agreement shall not serve to predispose APC's opportunity to develop an exchange agreement with Union, it being agreed that such an exchange agreement may be desirable and preferable to APC's installing of the pipeline and compressors which otherwise would be required.
4. This Agreement shall not be used to require Phillips to submit to any form of regulation by the Alaska Public Utilities Commission or by any other administrative or legislative body or agency, whether federal, or state, or other which would not be applicable if this Agreement did not exist. In the event of such regulation being asserted and implemented, then this Agreement shall terminate and become null and void.
5. This Agreement shall not be used to require Phillips to make additional investment except on terms to which Phillips and APC may agree, it being understood that in the event additional investment by Phillips should become necessary in order for Phillips to meet its contractual obligations as to production and transportation of gas from its North Cook Inlet Gas Field to its liquefaction plant and in the further event that APC is unwilling or unable to participate in or to reimburse Phillips as reasonably necessary for that investment, then this Agreement shall terminate and become null and void, or in the alternative at its option, APC shall agree to reduce deliveries hereunder as necessary to enable Phillips to meet its contractual obligations without making such additional investment.

15. It is doubtful that the State could transfer the existing transport situation with Phillips to another party without Phillips consent. The State lease provides that when the Lessor elects to take its royalty in-kind, the Lessee shall deliver it free of charge on said land or at such place as Lessor and Lessee mutually agree upon. Further, the transport charge itself may be open to negotiation between Phillips and Alaska Pipeline.

16. The Phillips-Marathon contract with Tokyo Gas and Tokyo Electric expires June 1, 1984, unless extended. The State of Alaska North Cook Inlet royalty gas availability is dependent upon continued production from Phillips platform. At present, production from the North Cook Inlet gas field is not certain beyond June 1, 1984.

CONCLUSIONS

The growth of population and increased commercial activity of the Anchorage area and its environs served by Alaska Pipeline and its distribution affiliate Alaska Gas and Service is consuming the gas reserves of that system at a rate greater than originally anticipated. A source of additional gas reserves to that system could be made available from the State's royalty gas share of the production from the North Cook Inlet Unit gas field which is now being liquefied by the Phillips-Marathon LNG and exported to Japan. Alaska Pipeline has offered to take this gas as it becomes available through production for the LNG plant and pay the State the same price that the State would otherwise receive from Phillips for that gas. The sale is necessarily dependent on reasonable exchange or transportation arrangements being consummated between Phillips and Alaska Pipeline.

Under these circumstances it is in the best interest of the State of Alaska to take the North Cook Inlet Unit royalty gas in kind and sell the gas to Alaska Pipeline for use in the Cook Inlet area served by that system.

DECISION

Pursuant to the authority vested in the Commissioner of the Department of Natural Resources, under AS 38.05.180-183 and AS 38.06.010-080, and under the Alaska Oil and Gas Leasing Regulations pursuant thereto, and with the concurrence of the Alaska Royalty Oil and Gas Development Advisory Board, I do hereby:

- (a) determine that it is in the public interest to take the State of Alaska royalty share of gas production from the North Cook Inlet Unit gas field in-kind;
- (b) determine that it is in the public interest to enter into a negotiated sale of the North Cook Inlet Unit gas field royalty gas to Alaska Pipeline.

Date:

Commissioner DNR

Approved:

Alaska Royalty Oil & Gas Development Advisory Board

Date:

6. APC shall install and operate, at its cost, all gas metering and compression equipment required hereunder, if any, on land provided by the State (or Phillips) without charge to APC. If such metering equipment is installed and operated by APC, it shall conform to recognized industry standards and shall be available for inspection and verification by the State (or Phillips) at all reasonable times. In the event APC develops an exchange agreement such that no metering equipment is required hereunder, then APC and the State agree to accept the metering performed by Phillips (and by Union or others), subject to APC's right of inspection and verification at all reasonable times.
7. The State shall not be deemed to be in control of gas taken by APC hereunder whether by exchange or otherwise, and APC shall not be deemed to be in control of gas it receives except from the downstream flange of its metering equipment, if any is installed.
8. It is the intent of this Agreement that APC shall receive all of the royalty gas produced by Phillips during the term hereof, each day of such production. Failure of APC to receive such gas each day, except with the consent of Phillips and the State or by force majeure, shall require APC to forfeit its right to subsequent receipt of that gas not taken. Recurring or continuing failure of APC to receive such gas, without such consent and not due to force majeure or other reasonable cause, or failure of APC to make timely payment therefor, may serve as the basis for termination of this Agreement by the State at its option.
9. This contract shall become binding on APC the day of its approval by the legislature and shall terminate on June 1, 1984 or earlier as provided herein, except that it may be extended indefinitely by mutual agreement. APC shall not be required to take delivery of gas hereunder prior to one year after the effective date hereof if an agreement is reached for exchange as contemplated in paragraphs (1) and (3) hereof, or 18 months from the effective date hereof if an exchange agreement is not obtained and it thus becomes necessary for APC to install a pipeline and compressors in order to receive gas hereunder.

This Agreement was executed on _____, 1976.

for the State of Alaska

for Alaska Pipeline Company

by _____

by _____

DEPARTMENT OF NATURAL RESOURCES
Division of Oil and Gas

RECEIVED
APR 14 1975

TO: Guy R. Martin
Commissioner

ALASKA ROYALTY
OIL & GAS BOARD

Attn: Bill Fackler *WCF*
Deputy Commissioner

DATE : April 9, 1976

FROM: O. K. Gilbreth, Jr. *OKG*
Director

SUBJECT: North Cook Inlet Royalty Gas
for 10 MMCF/D Take or Pay Contract
for Alaska Pipeline Company

To furnish the Alaska Pipeline Company 10 MMCF/D it will be necessary to commit by individual leases since the entire field is unitized.

The most recent sales data for North Cook Inlet state royalty gas has averaged 16.007 MMCF/D for the past year. The following tabulation shows how this average equates back (Col. 5) to each Tract (Col. 1) and Lease No. (Col. 2) based on acreage Participation (Col. 4).

Column No. (1)	(2)	(3)	(4)	(5)	(6)	(7)
Tract No.	Lease No.	No. Acres	Percent Lse. Participation	Royalty Gas - 12 month average - MMCF/D Tracks All	Tracks 2,3,7	Tracks 2,3,7,8
2	ADL-17589	4375.5	44.7324	7.1603	7.1603	7.1603
3	ADL-17590	640.0	6.5430	1.0473	1.0473	1.0473
7	ADL-18740	800.0	8.1787	1.3092	1.3092	1.3092
8	ADL-18741	640.0	6.5430	1.0473	-	1.0473
11	ADL-37831	3326.0	34.0029	5.4428	-	-
	Totals	9781.5	100.0000	16.0069	9.5168	10.5641
	Variations \pm 10 MMCF/D				- .4832	+ .5641
	Peak Month - MMCF/D			19.409	11.5390	12.8090
	Variation \pm 10 MMCF/D				+ 1.5390	+ 2.8090
	Low Month - MMCF/D			9.954	5.9180	6.5690
	Monthly variation \pm 10 MMCF/D				- 4.0820	- 3.4310

Column 6 shows the summation of tracts 2,3 and 7 come the closest to a 10 MMCF/D total with 9.5168 MMCF/D for a variation difference of -483,200 CF/D. The summation of tracts 2,3,7 and 8 are also shown, but result in a slightly larger variation of +564,100 CF/D.

We have shown the maximum high and low variations which may be expected by inclusion of the Peak month and Low month data under Columns 5, 6 and 7. This shows that a monthly variation of from +1,539,000 CF/D to - 4,082,000 CF/D may result from tracts 2,3 and 7 (Col. 6).

A copy of Exhibit "A" from the unit agreement is attached for your convenience.

Attachment

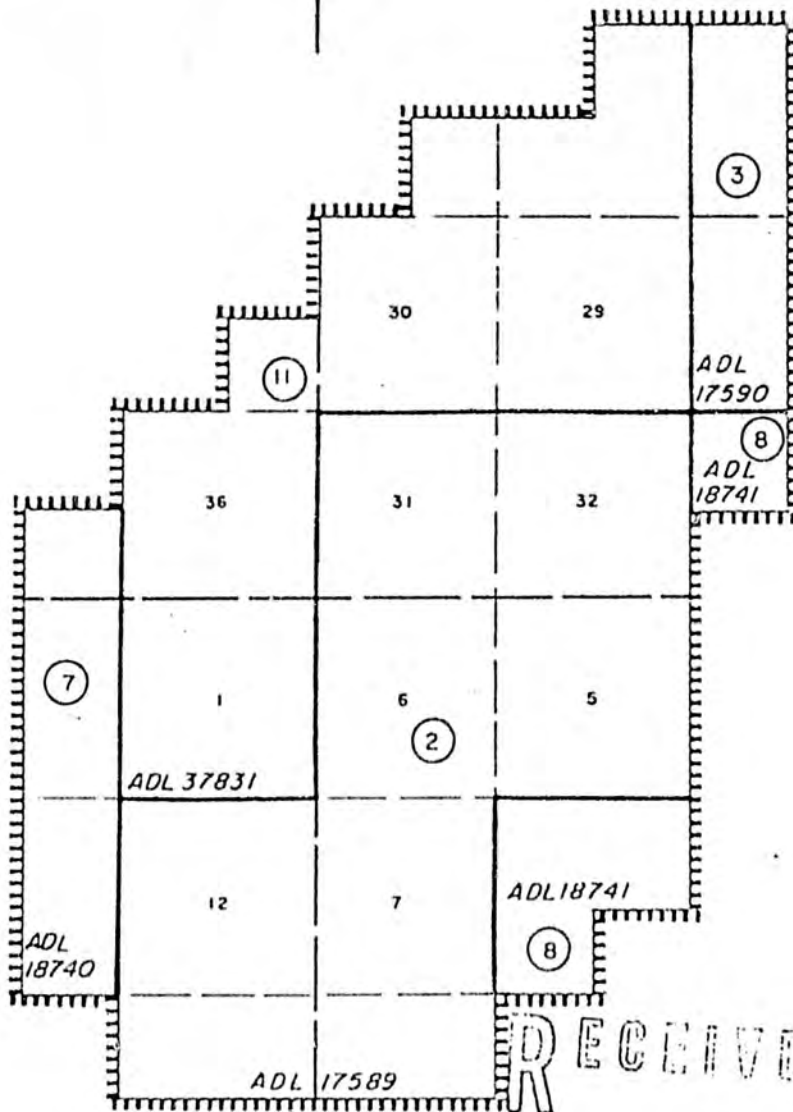
*cc: all members
Board 4-14-76
OK*

R 10 W

R 9 W

T 12 N
T 11 N

T 12 N
T 11 N



R 10 W

R 9 W

RECEIVED
MAY 1 1972
DIVISION OF OIL AND GAS
ANCHORAGE, ALASKA

(Contracted 2-1-72)

ADL 17589
ADL 17590
ADL 18740
ADL 18741
ADL 37831

LEGEND

- Unit Boundary
- Tract Boundary
- ③ Tract Number

AGO 801752

EXHIBIT "A"
TO ACCOMPANY

CONTRACTED
NORTH COOK INLET
UNIT AGREEMENT
COOK INLET BASIN, ALASKA

Scale 1" = 1 mi

Feb. '72

Board memo
4-5-76 DK

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.

ALASKA PIPELINE COMPANY



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

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

ALASKA PIPELINE COMPANY



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

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

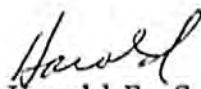
business decision, yet one that has been costly to the owners of the Company. Common sense tells us that a similar occurrence in the future could result in a new management team.

- (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

HFS: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.

PROPOSAL

Alaska Pipeline Company and its distribution affiliate Alaska Gas and Service, Division of Alaska Interstate Company have requested the right to purchase the State of Alaska's royalty share (1/8 or 12 1/2%) of the North Cook Inlet gas field operated by Phillips Petroleum Company.

Alaska Pipeline Company supports their request with the following reasons.

1. Without this gas, Alaska Pipeline Company may not be able to continue serving the Bernice Lake power plant of Chugach Electric Association, or, if an alternate source of gas is found, the cost to Alaska Pipeline's customers is likely to be substantially more than the purchase of State royalty gas. This purchase will be of material benefit to Alaska Pipeline's residential and commercial gas customers and of even greater benefit to Chugach Electric Association and all its customers from Homer to Talkeetna. More than 50 percent of Alaska's population would be affected either as gas consumers or as power customers.

2. Alaska Pipeline is prepared to accept delivery of this gas immediately, on an "if and as available" basis, and at the same price the State would receive for this gas which is being liquefied and shipped to Japan.

Assuming that delivery to Alaska Pipeline can be made by exchange or displacement, there would be no necessity for capital expenditure

for new pipelines or other facilities at present. If additional pipeline facilities or compression becomes necessary to maintain delivery, Alaska Pipeline would participate in such cost.

3. Alaska Pipeline recognizes that deliverability of North Cook Inlet royalty gas is dependent upon the Phillips Marathon LNG plant use. They have adequate deliverability under contract from the Kenai gas field so that deliverability from the North Cook Inlet gas field is not a problem and that differences in flow rate can be adjusted or compensated within their system.

Based on current production rates, Alaska Pipeline assumes that an average of 15,000 MCF per day of North Cook Inlet royalty gas would be available. This amounts to approximately 5.5 BCF per year or a total of 75 BCF over the 15 year period desired by Alaska Pipeline. 82.5

FINDINGS

1. Alaska Pipeline Company's Nikiski contract with Union-Marathon for 10 BCF expires May 1, 1977. This gas supply is used to service the North Kenai Road area including the Bernice Lake power plant owned by Chugach Electric Association which consumes approximately 90 percent of the total daily volume.

2. The increased load placed on the Bernice Lake generating facilities while waiting on repair of Chugach's submarine cable across Knik Arm and construction of an alternate land line to Wasilla greatly increased gas consumption which may result in

exhaustion of the Nikiski contract reserves in 1976 prior to the end of contract.

3. The need to replace the diminished gas reserves of the Nikiski contract and the desirability to augment the gas reserves of the Anchorage contract has led Alaska Pipeline to write Union, Marathon, Phillips and Shell seeking an additional 75 BCF of gas reserves over a 15 year period with no favorable results to date.

4. North Cook Inlet royalty gas is similar in composition and quality to Kenai field gas and therefore interchangeable with each other in any proposition. Gas from the two fields is blended as feedstock to the Phillips-Marathon LNG plant.

5. The necessary pipeline systems now exist to allow an exchange to be made so that Alaska Pipeline could receive the royalty gas equivalent at its Kenai gas field connection.

6. The deliverability of North Cook Inlet royalty gas is dependent on LNG plant use activity and therefore would not be a constant volume.

7. Alaska Pipeline's Anchorage contract provides sufficient deliverability and also is interruptible so that Alaska Pipeline has sufficient flexibility to receive North Cook Inlet royalty gas on an "if and as deliverable" basis.

8. Alaska Pipeline could construct a pipeline to deliver the royalty gas to its pipeline to Anchorage if the proposed gas exchange is not possible.

9. In the event that additional pipeline facilities or compression is necessary to maintain delivery of North Cook Inlet royalty gas, Alaska Pipeline would participate in such cost.

10. Alaska Pipeline proposes to pay to the State the same price which the State otherwise would have received from Phillips' for its use of North Cook Inlet royalty gas for the duration of the Phillips-Marathon LNG export to Japan and thereafter not less than

(1) the average price in effect during the last full year prior to termination of the export contract, and not less than

(2) the price in effect, from year to year, for gas purchased by Alaska Pipeline at the Kenai gas field (from Union-Marathon).

11. Alaska Pipeline proposes to purchase 1/8th of the production of the North Cook Inlet gas field, day by day and year by year. They understand that at current production rates, approximately 15,000 MCF/D, or 5.5 BCF/year, would be available. Alaska Pipeline would not require any particular amount by day, month, year, or in total; or could take a specified amount if the operators so desired.

12. Present production from the North Cook Inlet gas field is 44.2 BCF per year (1974). This gas is 70 percent of the feedstock for the Phillips-Marathon LNG plant which is contracted for export to Japan. To maintain the present contract requirements it will be necessary for Phillips to increase the gas production from the North Cook Inlet gas field by an amount equal to the present State royalty gas volume plus an amount to compensate for the additional royalty on the increased production. Thus the present annual production of 44.2 BCF would have to be increased to approximately 51 BCF per year to maintain contractual requirements plus the volume of royalty gas requested by Alaska Pipeline. The increased production would increase the State royalty volume to approximately 17,500 MCF per day.

Present information indicates the field reserves are adequate for the increased production but the field life will be shortened by the amount of the increased production of course.

13. The pipeline from the North Cook Inlet gas field platforms to the LNG plant is wholly owned by Phillips. The State of Alaska royalty value is received at the wellhead minus a transportation charge of 5.55 cents per MCF to the LNG plant. This point of taking means that the State receives royalty value on all gas used by Phillips for plant fuel, shrinkage, etc.

14. Transport of gas for Alaska Pipeline from the North Cook Inlet platform to shore might be construed as qualifying the pipeline for Alaska Public Utilities Commission jurisdiction. This situation would be objectionable to Phillips.

Suggested Royalty Gas Sale Contract Provisions

Price

Alaska Pipeline agrees to pay the State the same price which the State would have otherwise received from Phillips for export of the North Cook Inlet royalty gas to Japan for the duration of that export including any escalations in (±) price received by Phillips, and not less than the highest price paid in the area by any buyer to any seller of gas of similar quality.

Quantity & Deliverability

Alaska Pipeline recognizes that deliverability of North Cook Inlet gas field royalty gas is dependent upon Phillips-Marathon LNG plant consumption and that a uniform daily production cannot be specified by the State. Alaska Pipeline agrees to take or pay for a total volume of 50 BCF of natural gas on an if and as deliverable basis.

DRAFT

Phillips Petroleum Company opposes the request for the following reasons:

1. Phillips worked diligently to provide a market for North Cook Inlet gas. No markets for the gas were found in Alaska or on the West Coast of the United States. The only possible market was export of LNG to Japan.
2. Phillips developed the North Cook Inlet gas field at considerable risk and expense for wells, platform, pipelines, liquefaction plant and LNG tankers. All these facilities were designed to utilize all of the gas production from the field.
3. The increased gas production to supply this new market resulted in additional income to the State through royalty and taxes, also substantially increased the tax base and local tax income of the Kenai Borough and town of Kenai.
4. Phillips has negotiated several price increases with their customers resulting in a three fold increase from the original price. Each increase was shared with the State by an increase in the wellhead price used as the basis for royalty payments. While the delivered

price increased about three times the wellhead price increased approximately five times. It is the highest price received by the State for its royalty gas.

5. The taking of the North Cook Inlet royalty gas in kind and separately disposing of it to a third party will impose an economic hardship on Phillips. Such action will necessitate increased production to meet contract requirements and cause earlier abandonment of the platform, pipeline, liquefaction and transportation facilities due to early depletion of the gas reserves. Additional wells will probably be required to meet delivery requirements and compression equipment will be necessary at an earlier date resulting in added costs to Phillips with no increased benefits to Phillips or the State.

Handwritten: 4/5-74 DK ()



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

April 2, 1976

RECEIVED
APR -5 1976

Department of
Natural Resources

Mr. Guy T. Martin
Commissioner of Natural Resources
11th Floor, State Office Building
Pouch M
Juneau, Alaska 99817

Dear Commissioner Martin:

The purpose of this letter is to confirm our oral proposal made to the Alaska Royalty Oil and Gas Development Advisory Board during its March 30/31 meeting in Juneau.

The proposal can be outlined as follows:

1. The State take North Cook Inlet royalty gas in kind and sell such gas to AGAS.
2. AGAS will take delivery of the gas at the platform. This presumes that--
 - (a) an arrangement can be made whereby, for suitable compensation, Phillips will transport the gas via their existing system to a point adjacent to the LNG plant.
 - (b) the APUC waives jurisdiction over the Phillips facilities to the extent that they may otherwise come under regulation due to the transport of the "royalty" gas.
3. The price will be equal to the Phillips price for royalty gas exported to Japan or equal to the highest price paid in the Cook Inlet area for similar quality gas.
4. The proposal is to cover the "life of the contract" and will terminate on or about June 1, 1984.
5. AGAS will take or pay

This presumes that--

- (a) it may be agreed with the State that royalty will be taken in kind for resale to AGAS on a selective lease by lease basis so that the volume in question will approximate AGAS' North Road requirements or (see (b))

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APR 06 1975

ALASKA ROYALTY
OIL & GAS BOARD

See Oil & Gas
Memo 4/9/77 ✓

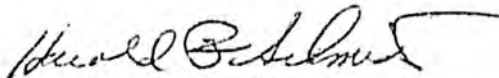
ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

Commissioner Guy T. Martin
Continuation Sheet #2
April 2, 1976

- (b) if suitable exchange arrangements can be made with others or if AGAS chooses to build the pipeline connection to its Anchorage line--it may be agreed with the State that all of the royalty be taken in kind for resale to AGAS.
 - (c) The notice date regarding the State taking royalty in kind be so arranged as to permit AGAS a reasonable length of time to make exchange arrangement with others or to build the required pipeline facilities on a reasoned schedule.
6. The volume of gas expected to be taken in kind for resale to AGAS over the life of the contract is approximately 40 BCF with the actual amount being dependent upon the date of commencement, the arrangement agreed to under #5 above and the actual rate at which the field is produced.
7. It is understood that a deliverability feature is not required in this agreement.

Very truly yours,



Harold F. Schmidt
Senior Vice President

dh



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 22, 1976

RECEIVED
MAR 22 1976

Department of
Natural Resources

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

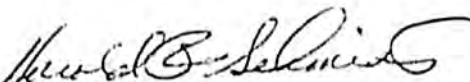
Dear Bill:

By using reserves out of the Anchorage contract rather than new reserves we have been able to contract for a one year only extension of service on the North Kenai Road. While we are still hoping to have the North Cook Inlet royalty committed to us during this legislative session we have relieved the supply situation temporarily. It should also be noted that Homer Electric Association now has an offer from Kenai Utility Service Corporation and should no longer present a problem with respect to the royalty gas. Copy is enclosed.

Whatever the outcome of our negotiations with Union and Marathon on exchanging versus pipelining, or for some additional gas for the North Kenai Road area, we need to and are prepared to contract for the royalty gas for the life of production. This gas would supplement our present supply for Anchorage which otherwise will soon become inadequate.

We hope the Royalty Board will take action at its next meeting. We expect to attend.

Very truly yours,


Harold F. Schmidt
Senior Vice President

RECEIVED
MAR 24 1975

HFS:jdj

Enclosure

ALASKA ROYALTY
OIL & GAS BOARD



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 22, 1976

Mr. Guy T. Martin
Commissioner of Natural Resources
11th Floor, State Office Building
Pouch M
Juneau, AK 99811

RECEIVED
MAR 26 1975

RECEIVED
MAR 24 1976

Department of
ALASKA ROYALTY Natural Resources
OIL & GAS BOARD

Dear Commissioner Martin:

Thank you for your letter of March 17, 1976. We would greatly appreciate it if you could please send us at once copies of the requests for North Cook Inlet Royalty Gas which you have received from Homer Electric Association, Phillips Petroleum, and Pacific Alaska LNG, together with copies of the response(s) made by the State.

We do not propose to enter a "competitive bid", nor is it timely or proper to debate the relative merits of a pipeline compared to exchanging gas when the need is for an urgent decision on committing the gas to us during this session of the legislature. We have presented our case in full to the best of our information and ability, over a period of several months. We agreed to accept the State's request for a Cook Inlet area favored nations clause and we agreed to accept a take or pay provision, neither of which to us appeared to be necessary or appropriate in the circumstances.

We are distressed by your prediction that our offer to purchase this gas is not likely to be presented to this session of the legislature, and by your having indicated that each party must "present its complete case". We know that lower priced gas is available to Homer (but not to us) and that Homer cannot be considered a bona fide contender for this gas. Copy of a letter on this is enclosed. We know that Pacific Alaska LNG already has (indirectly) caused us to have to pay nearly 100% more for gas at the Kenai gas field, and that they too cannot be considered a bona fide contender at present for this gas. We are aware that Phillips would prefer to continue taking this gas for export to Japan, but they are prepared to cooperate to deliver it to us if the State will so decide.

We have now arranged that when our present supply of gas for the North Kenai Road is exhausted in the next month or so we will begin taking gas there which originally was intended for the Anchorage area. It is a stop-gap measure and cannot be considered to be anything but that. We must soon make a decision as to our public responsibility to continue or not to continue such operation.

ALASKA PIPELINE COMPANY



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

Mr. Guy T. Martin
March 22, 1976
Page Two

As you know, in 1972 we acquired acreage in the Susitna Valley in the hope of exploring for additional gas, and in 1974 we commenced a \$2.5 million exploratory well, together with an independent partner (Amarex, Inc.). We still hope to continue such exploration, but the State's actions have discouraged our partner from risking further investment in Alaska: legislation to tax reserves in place, criminal prosecution on allegations of ecological damage (which are groundless, to our knowledge and opinion) and the threat of confiscatory production taxes are a compelling disincentive to such further risks. We now have no alternative but to try to stretch our existing reserves as far as possible or to pay what the traffic will bear for additional reserves from existing gas sources. Unfortunately rate making decisions at the Alaska Public Utilities Commission have stalled the Municipality of Anchorage from assembling its waste heat recovery plant which would save 1/2 of the gas now being wasted. This matter has been appealed to the courts. The Commission has acted to inhibit us from purchasing any gas except State royalty gas by refusing to grant flow through tariffs to cover higher priced other new gas, and has refused to reconsider our protest of that decision.

About all we can do, other than pointing out the seriousness of our situation to you, is to consider enforcing conservation of our gas reserves by terminating our contract to serve the Chugach Bernice Lake power plant and to begin interrupting Chugach's other plants since Chugach has a generous reserve of gas at Beluga and can burn oil in Anchorage and at Bernice Lake.

We will attend the March 30 meeting of the Royalty Board, and we can only hope that on further review you will recognize that our proposal is the one and only bona fide offer and that it is clearly in the public interest that we be allowed to purchase the North Cook Inlet royalty gas at the earliest opportunity.

Very truly yours,

Dale Teel
President

DT:jdh

cc: Honorable Jay Hammond, Governor of Alaska, via Mr. Bill Gordon
Honorable George Sullivan, Mayor of Anchorage
Mr. L. J. Schultz, Manager of Chugach Electric Association
Mr. Bill Rhodes, Manager of Homer Electric Association
Mr. Oscar L. Thomas, Vice President of Kenai Utility Service
Alaska Public Utilities Commission
All Royalty Board Members

AGO 801770

Attachments: Comm()ner Martin's Letter of March 1,
Oscar Thomas' Letter of March 17, H. F. Schmidt's Letter to B. Fackler

March 17, 1976

RECEIVED
MAR 24 1975

Mr. Bill Rhodes, General Manager
Homer Electric Association, Inc.
P. O. Box 255
Homer, Alaska 99603

ALASKA ROYALTY
OIL & GAS BOARD

Dear Bill:

Reference is made to our recent conversation regarding a possible natural gas sales agreement between K.U.S.Co. and H.E.A. The purpose of the agreement would be to provide fuel for power generation at a site approximately 6.5 miles north of Wildwood access road on the Kenai Spur Road.

We are of the present opinion that the feasibility exists to provide fuel gas for your proposed generating facilities at a cost considerably below that of any alternate sources known to us. In general, we propose that such an undertaking could be accomplished as follows:

1. The sale would be made under the rates and conditions outlined in Schedule III of our published Tariff, a current copy of which is enclosed herewith. The volume of 4,000 MCF of gas per day mentioned in our discussion represents a total annual volume of 1,460,000 MCF. Computed on a monthly basis the daily sales volume would carry an annual cost of \$704,380.00, or an average weighted cost of 48.24¢/MCF. It is noteworthy that if the cost of royalty gas, which might be obtainable from the State of Alaska, was set at 56¢/MCF the differential would be 7.76¢/MCF, or approximately 16%. The annual cost differential would equal some \$113,150.00. Although our rates are subject to regulation by the Alaska Public Utilities Commission it is my personal belief that, all things being equal, the rates quoted herein could be sustained throughout the life of our existing gas supply contract which terminates in 1987.
2. Service to your facility would involve a requirement for capital expenditures estimated at \$475,000.00 to \$500,000.00 (at projected 1977 costs). We would require a non-interest bearing advance-on-construction in the total amount of the initial investment which would be subject to refund in its entirety. The refund would be made at the rate of 10% of the total revenues derived from your account in those calendar years when such revenues equalled or exceeded \$700,000.00. The refund provision would, of course, become inoperative

AGO 801771

Mr. Bill Rhodes, General Manager
March 17, 1976
Page 2

at such time as the initial advance had been returned. Referring back to our illustrated rates and the suggested cost of royalty gas, the annual savings of \$113,150.00 combined with a yearly \$70,000.00 refund on the construction advance relates to a 2.73 year pay-out, exclusive of the cost of money.

3. The service facilities installed would remain under our ownership with maintenance and operating costs to be born by us.

4. Resale of gas would be prohibited, as would the extraneous use of gas for purposes other than power generation.

5. Point of delivery would be at the downstream flange of a block valve located on the downstream side of a metering run located on your site. Delivery pressure would be 200 P.S.I.G.

6. You may recall our conversation with Mr. Dale Teel, President of Alaska Gas and Service Co. regarding a waiver which would allow us to serve you in his certificated area. He has since confirmed that he would support, before the A.P.U.C., an agreement reached between K.U.S.Co. and H.E.A. that would culminate in your withdrawal from competition for the Cook Inlet royalty gas. Such support would undoubtedly satisfy any objections the A.P.U.C. might put forth before granting us the necessary authorization to proceed.

Some of the provisions suggested herein are unique in our experience. Consequently, final commitment to this proposal, or any similar plan, would necessarily involve approval by our Board of Directors.

There are other alternatives which could be considered in connection with the utilization of our currently unused gas reserves. At your convenience we will be most happy to discuss these with you or to further explore the possibilities outlined herein.

Very truly yours,

KENAI UTILITY SERVICE CORPORATION

Oscar L. Thomas, Vice-President

OLT:jc

Enc.

cc: J. M. Covington
Dale Teel

AGO 801772

March 17, 1976

Mr. Dale Teel
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Mr. Teel:

I appreciate the letter confirming your statements at the February 23, Board meeting. While we share your desire to resolve this issue in a timely manner, a review of the situation indicates a number of items which must be settled first before the Board can proceed.

The Board now has four requests for the North Cook Inlet field royalty gas; Alaska Pipeline Company, Homer Electric Association, Phillips Petroleum and Pacific Alaska LNG. AS 38.05.183 requires the sale of royalty be made to the highest responsible bidder unless the Commissioner with written approval of the Board determines that the best interest of the State does not require it. In this event, the Commissioner must publish the specific findings and conclusions supporting that decision.

The Board must decide the answers to the following questions among others: what are the relative merits of a competitive bid sale compared to a negotiated sale? Which sale is in the best interest of the State? Is there another source of gas supply which could be used? What is the optimum volume of gas to be sold from the State's viewpoint? What are the relative merits of an additional 30 mile pipeline compared to an exchange of gas?

It is obviously essential that each interested party present its complete case to the Board so that the record will reflect all pertinent information. The Board's findings and conclusions will be made based on that record, and this process is unlikely to be carried on in the best public interest under severe time constraints.

AGO 801773

Mr. Dale Teel
March 17, 1976

Page Two

The Board must have sufficient time to consider all aspects of this sale in order to make the best decision possible given its assigned statutory priorities. A review of the problems that remain to be resolved indicate that it is unlikely that a sale can be accomplished in time to be presented to this session of the Legislature. We intend to keep working toward that goal, but believe that a good decision is more in the State's interest than a hurried decision.

I want to reiterate my direct assurances to you at the last Royalty Board meeting that an adequate gas supply for Anchorage and all Alaskan consumers is the highest present priority for this Administration. It will continue to be so as we develop this sale. Working not only in the context of royalty gas, but regarding other short-term supply possibilities, it is our intent to see that your supply difficulties are fully and successfully addressed. I look forward to working with you over the coming months on this matter.

Yours truly,


Guy R. Martin
Commissioner

GRM:dk

AGO 801774



Alaska Gas and Service Company

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

March 20, 1976

Senator Mike Colletta
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Colletta:

The amendment to exempt taxes on reserves dedicated to regulated public utilities is contained in SB 699, by the Rule Committee by request. Our attorney, Paul Robison, has prepared a legal memorandum on the propriety and necessity for making this exemption to the reserves tax and a copy of it is enclosed to you.

We hope passage of this bill can be given early consideration, and we will be available for further information if desired.

Very truly yours,

Dale Teel
President

dh

Enclosure

DIVISION OF ALASKA INTERSTATE COMPANY

AGO 801775

TO

JUSTIFYING THE EXEMPTION OF RESERVES OF REGULATED
UTILITIES FROM THE TAX ON OIL AND GAS RESERVES AND SHOW-
ING THAT SUCH EXEMPTION NOT ONLY MEETS THE TESTS OF
CONSTITUTIONALITY BUT IS CLEARLY IN THE PUBLIC INTEREST

The proposed Amendment	Page 1
Discussion and cases concerning U.S. Commerce Clause	" 4
Discussion and cases concerning Equal Protection Clauses	" 4 - 5
Discussion and cases re Specific Exemptions of Public Utilities	" 5 - 7
Alaska Court Decisions are Consistent with the Above	" 7 - 8
The Amendment is Consistent with Alaska Precedents	" 9
Broad Public Purpose Justifies the Amendment	" 10 - 11
Practical Necessities for the Amendment	" 11 - 13

PAUL F. ROBISON
KENNETH McCASKEY
ROBERT H. REYNOLDS
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JUSTIFYING THE EXEMPTION OF RESERVES OF REGULATED UTILITIES FROM THE TAX ON OIL AND GAS RESERVES AND SHOWING THAT SUCH EXEMPTION NOT ONLY MEETS THE TESTS OF CONSTITUTIONALITY BUT IS CLEARLY IN THE PUBLIC INTEREST

The exemption of:

"any oil or gas reserves committed to or produced for use or resale by public utilities which are regulated by the Alaska Public Utilities Commission"

as a new sub-section (5) under AS 43.58.020, does not violate the United States Constitution or the Alaska Constitution and is consistent with the legislative policy contained in extant revenue and taxation laws pertaining to the oil and gas industry in Alaska.

An inquiry of constitutionality has arisen with regard to the above proposed exemption.

Our review of the questions leads us to conclude that there are no federal constitutional questions raised by such proposed legislative act, and the only question posed is whether or not such amendment would violate the Commerce Clause or Equal Protection clause, Article I, §8 of, and the Fourteenth Amendment to the Constitution of the United States, and Article I, §1 or Article IX, §4 of the Alaska Constitution.

Although the power of the State to act in this area free from federal restraint is discussed rather fully immediately hereafter, the second question concerning equal protection is of much greater interest and concern to the Legislature and is discussed commencing on page 4.

CONCERNING THE COMMERCE CLAUSE OF THE UNITED STATES CONSTITUTION

Clearly, there is no violation of the commerce clause, because as stated in Modern Constitutional Law, Antieau Volume II

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"States and their political subdivisions" realty located there, even though it is owned and used by a firm engaged therein solely in interstate commerce. Comparably, tangible personal property that has acquired a situs there can be taxed by such a state without violating the commerce clause.

In taxing the real and personal property situated and used within its borders, a State may employ any reasonable means of reaching its full or actual value as part of a going concern." (Citing Pullman Company vs. Richardson 261 U.S. 330, 67 L Ed 682, 43 S Ct. 366 (1923); Railway Express Agency, Inc. vs. Virginia 358 U.S. 434, 3L Ed 2d 450, 79 S Ct. 411, (1959) and Adams Express Company vs. Ohio State Auditor, 166 U.S. 185, 41 L Ed 965, 17 Sct. 604 (1897)).

At Section 10:54, p. 119 the treatise says:

"Again, in upholding a state tax upon the storage and withdrawal of gasoline which came into a state from interstate commerce and was shortly thereafter to be used to power interstate vehicles, the Supreme Court observed: "Here the tax is imposed on the successive exercise of . . . the storage and withdrawal from storage of the gasoline. Both powers are completely exercised before use of the gasoline in interstate commerce begins." Nashville, C & St. L.R.Co. v. Wallace (1933) 288 US 249, 77 L Ed 730, 738, 53 S Ct. 345, 87 ALR 1191.

On another occasion, the Supreme Court ruled valid Wyoming's tax of 4 cents per gallon upon all gasoline used in the state, when applied to an airline that brought in the gasoline, kept it in tanks at an airfield, and withdrew it as needed for its planes. "A State," said the court, "may validly tax the 'use' to which gasoline is put in withdrawing it from storage within the State, and placing it in the tanks of the planes, notwithstanding that its ultimate function is to generate motive power for carrying on interstate commerce." Edelman v Boeing Air Transport (1933 289 US 249, 77 L Ed 1155, 1157, 53 S Ct. 591.

Although at this writing no state can tax the use of gasoline or oil as the power moving interstate commerce through the state, any state can tax gasoline or oil as property so long as it is part of the common mass of property within the state, and can by excise tax reach any handling or use of the gasoline or oil up to the moment it begins powering interstate commerce. (Emphasis added.)

In, Institute on Oil & Gas Law & Taxation, Seventh Annual Southwestern Legal Foundation, Matthew Bender & Co. 1956 in a treatise entitled "The Commerce Clause and the States' Power to Tax the Oil & Gas Industry" by Professor of Law Paul J. Hartman of Vanderbilt University, p. 387 at 449, it states:

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to tax any subject of its jurisdiction is an incident of sovereignty, and is one of the residuary powers possessed by each state as a consequence of the delegation by the people of certain enumerated powers to the Federal Government." Citing McCullach v. Maryland 4 Wheat 316 (U.S. 1819).

At pp. 395-396 it sets forth:

"1. Property Taxes on Oil and Gas Transported in Interstate Commerce

After oil and gas have been produced and are being marketed, they may encounter a property tax. The criterion used by the (U.S. Supreme) Court to determine the validity of property taxes on oil and gas transported across state lines has been made to depend to a very considerable extent on whether the tax was imposed before interstate movement had begun, or after it had ceased, or during certain interruptions of that movement. The tests of tax validity have, in most instances, been mechanical with but little consideration given to the economic consequences of the tax in question. It is believed that the cases we shall examine will support that proposition.

In the property tax case of Coe v. Errol, 116 U.S. 517 (1886), the Court combined in one sentence an expression of its desire for a dividing line between a taxable local activity and non-taxable interstate commerce, and a determination of where that line should be, when it said of the tax in question:

"There must be a point of time when they [taxed logs] cease to be governed exclusively by the domestic law and begin to be governed and protected by the national law of commercial regulation, and that moment seems to us to be a legitimate one for this purpose, in which they commence their final movement for transportation from the State of their origin to that of their destination."

"The principles expressed in Coe v. Errol have influenced judicial thinking in the field of state taxation virtually ever since. The doctrine of this case, of course, was coexistent with the idea that manufacture and production were not interstate commerce even though all the products were transported beyond the borders of the producing state and with no realistic separation between the production and the beginning of transportation." Hope Natural Gas Co. v. Hall, 274 U.S. 284 (1927) (production of gas); Utah Power & Light Co. v. Pfost, 286 U.S. 165 (1938); Oliver Mining Co. v. Lord, 282 U.S. 172 (1923); Heisler v. Thomas Colliery Co., 260 U.S. 245 (1922).

However, after the production process was completed and the commodities had started their interstate transportation, the Court has uniformly forbidden the states to impose a property tax on the commodities while in transit. Hughes Brothers Timber Co. v. Minnesota, 272 U.S. 69 (1926), Champlain Realty Co. v. Brattleboro, 260 U.S. 366 (1922); Western Oil Refining Co. v. Lipscomb, 244 U.S. 346 (1917).

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In 71 Am Jr. 2d. Sec. 426. p. 729-730 it states:

"With respect to state taxation of natural gas, or taxes based upon the production, transportation, or distribution thereof, a state may impose a tax upon the value at the wells of natural gas produced within its limits, although the gas is transported into other states for consumption."

Clearly, there is no federal constitutional question under the commerce clause, and as will be developed in what follows there is no impediment to the proposed amendment under:

EQUAL PROTECTION CLAUSES OF THE STATE OR FEDERAL CONSTITUTIONS

In 71 Am Jur 2d, Sec. 310, p. 624 it states:

"The power of the legislature to exempt from taxation, although of wide scope, is restricted by fundamental federal constitutional limitations. There is, however, nothing in the Federal Constitution to prevent a state from granting exemptions from taxation, so long as the grant does not violate fundamental rights secured by the Constitution. The power of a state to exempt from taxation is only precluded by the Fourteenth Amendment, where such power is arbitrarily exercised." (Emphasis added.)

The proposed amendment is not arbitrary, and is consistent with the principles governing the legislative prerogatives as will be seen by a consideration of the Alaska Constitution, the authorities in point, and the case law interpreting it.

In 84 C.J.S., Sec. 216, p. 414, it is said:

"Hence, where not prohibited or restricted in its exercise by constitutional provisions, the legislature of a state has full power to exempt any persons or corporations or classes of property from taxation, but only from taxes within its jurisdiction. The legislature has power to limit the exemption on any terms or conditions whatsoever, according to its views of public policy or expediency, subject only to the limitation that the exemption and the classification on which it is based shall be reasonable and not arbitrary."

Consistent with this stated authority, the Constitution of Alaska, Article IX, provides:

"Section 4. Exemptions. The real and personal property of the State or its political subdivision shall be exempt from taxation under conditions and exceptions which may be provided by law. All, or any portion of, property used exclusively for non-profit religious, charitable, cemetery, or educational purposes, as defined by law, shall be exempt from taxation. Other exemptions of like or different kind may be granted by general law. All valid existing exemptions shall be retained until otherwise provided by law."

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To the extent that equal protection or equality and uniformity may be impliedly contained in this constitutional grant of authority to the legislature, 84 C.J.S., Sec. 221, p. 427 states:

"Although exemptions of persons or property under some constitutional provisions relating to taxation and exemption have been held to violate constitutional provisions with respect to equality and uniformity, constitutional provisions with respect to equality and uniformity, although restricting and limiting the exercise of the power to exempt, do not prohibit the creation of reasonable exemptions,"

"However, the constitutional requirement is violated wherever particular persons or properties, selected arbitrarily from a class on which the burden of taxation is imposed, have been exempted therefrom,⁹⁷ and has been held violated if the exemption does not serve a public purpose.⁹⁸

AS TO SPECIFIC EXEMPTIONS OF PUBLIC UTILITIES

The basic observation of fact and law contained at p. 5 of The Economics of Regulation, Chas. F. Phillips, Jr., published by Richard D. Irwin, Inc. (1969) is important:

"The position of the regulated industries in the American economy is unique. In contrast to most other industrialized countries which have nationalized these industries, we have relied on private ownership, controlled by state and federal agencies, to provide services which are more or less essential to the economy and which are public in their nature." Argued Justice Harlan in Smyth v. Ames: "A railroad is a public highway, and none the less so because constructed and maintained through the agency of a corporation deriving its existence and powers from the State It performs a function of the State". And Justice Brandeis, in the Southwestern Bell Telephone Co. v. Missouri Public Service Comm. case, remarked that "the company is the substitute for the State in the performance of the public service, thus becoming a public servant."

The cases cited are the classic U.S. Supreme Court cases of Smyth v. Ames, 169 U.S. 466, 544 (1898) and Missouri ex rel Southwestern Bell Telephone Co. v. Missouri Public Service Comm. 262 U.S. 276, 291 (1923).

The same has been recognized of a natural gas company by the California Public Utilities Commission in Re: Southern California Gas Co. 35 PUR 3d 300 (1960) in which the headnote 7 states:

"A public utility is created for public purposes and performs a function of the state; it acquires the status of a quasi trustee, p. 309."

The public purpose or public use classification of public utilities has been carried through to the area of taxation. In City of

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the Court said at p. 663:

"That the use of essential public utility property in the operation of the utility is a public use cannot be gainsaid. . . . Public utilities are created to render service to the public and for the service a charge is made. Any incidental use allied to the main public purpose is likewise public use." (Emphasis added).

The headnote (5) at p. 657 concludes that:

"Use of essential public utility property in operation of a utility is a "public use" within statutory and constitutional provisions relating to exemption of property from taxation." (Emphasis added.)

In a case directly in point with the rationale of the proposed amendment, Utah Power & Light Co. v. Emmet Pfost, U.S. Supreme Court, 286 U.S. 165, 76 L. Ed. 1038, 52 S.Ct. 548 (1932) upheld an Idaho statute which levied a license tax on production of electricity, but which exempted energy used for pumping water for irrigation purposes on lands within the State. The Supreme Court said the exemption was "not precluded by the equal protection clause of the Fourteenth Amendment". (p. 186).

The appeal to the U.S. Supreme Court was from the District Court which upheld the reasonableness of the classification embodied in the exemption based on an earlier decision of the Idaho Supreme Court, Williams v. Baldrige, 48 Idaho 618, 284 Pac. 203 (1930). The Williams case involved a similar Idaho statute which granted to producers of electrical energy an exemption from the general property tax of property used in producing or transmitting power for pumping water for irrigation purposes. The Idaho court said: "The exemption is made to apply to the property of all power companies used in developing or transmitting electrical energy for pumping water for irrigation purposes with certain exceptions. The pumping method is expensive. By minimizing such expense, land, otherwise unfit for cultivation, is made available for settlement. It is well recognized that where the plenary power of the Legislature to exempt from taxation has not been limited by a constitutional provision, it may exercise this power to encourage private initiative and thereby further the public welfare. A classification for

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purposes of exemption must not be arbitrary. In view of the climatic conditions in this State and the necessities of agriculture, we do not believe that a tax exemption statute designed to permit wider use of electrical energy for irrigation purposes raises a classification so arbitrary and discriminatory as to be merely capricious." (Emphasis added).

ALASKA COURT DECISIONS ARE CONSISTENT WITH THE ABOVE STATEMENTS OF AUTHORITY AND CASE LAW

In the case of In the Matter of Delinquent Tax Roll of The City of Anchorage, 1954, 16 Alaska Reports 286 (1956) the Federal District Court held:

"Classification of property under statute exempting from taxation public utility district and association operating utilities under an arrangement with the Rural Electrification Administration, is a reasonable classification." (headnote 4).

"Statute exempting from taxation public utility district and association operating utilities under arrangement with the Rural Electrification Administration was not in violation of territorial organic act which requires only that all taxes shall be uniform upon same class of subjects." (headnote 6).

This decision was reversed in City of Anchorage v. Chugach Electric Association, 17 Alaska Reports 481, 252 F. 2d 412 (1958), but not on the basis of the classification or tax exemption, but on the finding that the legislature had not carried the exemption over into a subsequent amendment of the tax statutes. (See page 494)

As to the question of public purpose, in the case of DeArmond v. Alaska State Development Corporation, 376 P 2d 717 (1962) the legislative act and the appropriation of funds for the development corporation were subject to the public purpose analysis.

The case headnotes state:

1. "The phrase "public purpose" within constitutional provision prohibiting the levy of a tax or appropriation of public money except for a public purpose represents a concept which is not capable of precise definition, and is a concept which will change as conditions create changing public needs, and whether a public purpose is being served must be decided as each case arises and in light of particular facts and circum-

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stances of each case. Const. Art, 9, §6."

2. "Where the legislature has found that a public purpose will be served by expenditure or transfer of public funds or use of public credit, the Supreme Court will not set aside finding of legislature unless it clearly appears that such finding is arbitrary and without any reasonable basis in fact. Const. Art 9, §6."

The Alaska Supreme Court reaffirmed these statements in the case of Walker vs. State Mortgage Association, 416 P 2d 245 (1966).

Again, in the case of Suber vs. Alaska State Bond Commission 414 P 2d 546 (1966), the Alaska Supreme Court ruled as to public purpose:

"Courts will not interfere with Legislature's exercise of discretion in choosing means to effect a public purpose unless it is clearly shown that legislative determination that a public purpose will be served by means chosen is arbitrary and without any reasonable basis in fact." (headnote 5)

And as to equal protection, the Court ruled:

"No denial of equal protection occurs in regard to legislative enactment if a rational basis for classification contained in the enactment may reasonably be conceived." (headnote 8).

"Demands of equal protection do not require that there be perfect equality and uniformity, or that the entire field of governmental action be covered by one legislative enactment." (headnote 9).

Equating the requirements of equal protection to the 14th Amendment, the Alaska Supreme Court in 12th Century Investment Company vs. City of Juneau, 359 P 2d 783 (1961) ruled:

"The equal protection clause of 14th Amendment does not prohibit inequality in taxation which is not shown to be result of intentional or systematic undervaluation of some but not all of taxed property in single class, USCA Const. Amend. 14" (headnote 3).

"Equal protection does not compel adoption of iron rule of equal taxation; it does not forbid differences in tax burdens founded upon substantive and reasonable differences between objects taxed. USCA Const. Amendment 14." (headnote 4.)

The Alaska Supreme Court reaffirmed these statements in the later case of Hoblit vs. Greater Anchorage Area Borough, 473, P 2d 630 (1970) at Page 632.

PROPOSED AMENDMENT IS CONSISTENT WITH ALASKA LEGISLATIVE POLICY

Not only does the foregoing legal discussion clearly sustain the separate classification of public utilities as a result of their performance of a public purpose, it is a classification and distinction consistently accorded to public utilities by the Alaska Legislature in the entire scheme of taxation of the oil and gas industry.

Here follows a listing of the oil and gas taxes showing the consistent legislative policy in taxing public utility functions:

<u>Kind of Tax</u>	<u>Description</u>	<u>Status of Public Utilities Regulations</u>
Property Tax, Oil and gas, ad valorem (AS 43.56.010.210)	State Annual tax at 20 mils of value of property for exploring, producing oil or gas, transporting oil by pipeline:	Exempt: retail distribution of natural gas and pipeline systems operated as utility regulated by APUC are exempted by AS 43.56.210(6)
Property Tax ad valorem (AS 43.58.010-200)	State Annual Tax at 20 mils of value of levee on property having proven reserves of oil or gas	Exemption Proposed and justified herein
Motor Fuel Oil Tax (AS 43.40.010-100)	Tax per gallon of fuel sold, delivered or transferred.	Exempt- Fuel used in power plants of public utilities to generate electric energy for sale to general public exempted from tax by (AS 43.40.100)

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It is not in the public interest to discourage the acquisition, development, and holding of natural gas reserves by public utilities by taxing such reserves. The public welfare will be served by inducements to public utility companies which are engaged in transmission and distribution of natural gas to the ultimate consumers and to the electric utilities to acquire and hold reserves. The following article from Alaska Construction and Oil is worthy:

"America's natural gas shortage is a dismal picture which is only beginning to be perceived in its true dimensions by the American public.

There are now in the United States approximately 40 million homes housing 135 million gas consumers who, for all practical purposes, are incapable of escaping from exclusive reliance upon natural gas.

Virtually 2/3 of our entire population live in homes fueled by natural gas, with no alternative except going without fuel.

To many people, reference to the energy shortage produces thoughts of oil." or coal (added by writer)

Whatever may be the historical explanation for this, the importance of natural gas in the energy picture of the United States cannot be overemphasized. It provides about one-third of all the energy consumed in the nation.

In this era of environmental consciousness, gas assumes even greater importance because it is the cleanest burning of all the fossil fuels.

It is in this total context of the importance of gas that alarm can properly be sounded because of the rapid deterioration of the country's gas supply. Statistics are available in abundant measure, but reference to our experience in 1973 dramatizes the need to develop additional supplies. Whereas the country consumed in that year 22 trillion cubic feet, new discoveries accounted for only 7 trillion cubic feet, one-third of what was consumed. If we continue at this pace, the nation will have no gas in the year 1990!

This stark fact accounts for the uniform cry of those engaged in the transportation and distribution of gas that the country expedite domestic exploration, coal gasification, and the importation of liquefied natural gas (LNG)." Alaska Construction and Oil, April 1975, page 32.

There can be no more legitimate public purpose than to encourage, by all means, including tax incentives, Alaska's natural gas industry, and particularly Alaska's public utilities utilizing gas to do everything in their power to acquire and hold as much natural gas in terms of supply and reserves as they reasonably can

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to insure that this essential space heating resource and electric power generating resource will not be in short supply during the adverse winters experienced in Alaska, and at today's prices rather than at costs of several times today's prices a few years hence.

PRACTICAL NECESSITY FOR EXEMPTION OF PUBLIC UTILITIES FROM
THE TAX ON THEIR GAS RESERVES.

Although the reserves tax on regulated Public Utilities may produce only 1 to 2 million dollars per year in State Revenues, substantially all of this amount, when determined, will be passed on to the Utility Rate Payers unless the requested amendment is enacted. Considerable effort, some of which may be counter-productive, has already been expended by members of this Legislature to minimize public utility rates charged the consumer.

The Public Utility Commission has already granted Alaska Gas & Service Co. (ANGC) and Kenai Utility Service Corporation authority to pass this reserve tax to be paid by the utilities, on to the consumer. This will not only result in additional operating costs to these utilities (detailed computation and separate identification on customers' bills), but will result in circuitous, cumbersome, and costly re-computation and billing by the power companies (Municipality of Anchorage-ML&P, and Chugach Electric Association, Inc.) of the reserves tax collected from them by the gas utilities for gas purchased for electrical power generation. The electric utilities, through tax flow through provisions either existing or yet to be approved by the Alaska Public Utilities Commission, will have to perform detailed accounting computations and itemized billing to collect this portion of the reserves tax from their individual electric consumers.

We have not explored the extent of the adverse effect of the pass-on of this tax to the Kenai Native Association in their generation and supply of electricity to their Wildwood facilities with gas purchased from Kenai Utility Service Corporation on which they too would pay the reserves tax.

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Proceeding to the next day

the impact on electric utilities and their rate payers, consider the fact that Chugach Electric Association which, if the exemption is not granted, will also have to pay and collect from its customers the taxes on its Beluga gas reserves which are also used in generating power for some or all of its customers in the Anchorage, Eagle River, Palmer, Wasilla, Talkeetna, Seward, Hope, Moose Pass, Sterling, Homer, Seldovia and Whittier areas.

It is worthy of note that should gas become available to serve Fairbanks, Kodiak or other areas while this tax is in effect, users there as well as their electric rate payers would be equally affected.

The writer is not familiar with the effect and impact of this tax on the community of Barrow and leaves it to their representatives to so determine. Hopefully, the legislators who have read this far will now consider the further and seemingly impossible dilemma facing the public utilities and the Alaska Public Utilities Commission if they are not given the exemption here sought.

The reserves tax first impacts the producer. Marathon-Union as to Alaska Gas & Service's and Kenai Utility Service Corporation's and Standard Oil of California as to Chugach Electric Association's reserves. In computing the tax they are given credit as to certain other taxes they have paid. AS 43.58.030, 43.58.180 and 43.55.018. These credits inure to the benefit of the utilities named herein and their rate payers to the extent such credits are available during the first two years the tax is collected. However, we have been advised by the Department of Revenue and the Oil and Gas Division of the Department of Natural Resources that these producers will continue to receive credits under 43.58.180 in future years until the full amount of the reserve tax has been offset. We have not been able to learn and understand how this will work and have absolutely no idea whether these future credits can and will be passed on to the public utilities in adjustments to cost of future gas purchases. If it does not occur it is unfair to all of the rate payers who will have paid the reserves tax the first

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two years.

But what if these utilities do receive future years credits over the life of the gas fields or until the full amount of the reserves tax has been offset? Can the utilities simply treat it as an overall reduction in operating expense (cost of gas)? If so, new customers who did not pay the tax during the first two years when it was collected from them will participate in the benefit of the passed through credits at the expense of the rate payers who actually paid it. If the Commission or a court in an action by a rate payer who paid the tax initially requires the utilities to keep records of the names and amounts of the first customers who paid the tax for the first two years and give credits or refunds to them the enormity of the exercise and its expense over a period of say 15 years would conceivably equal the amount of the credits or refunds and the cost of this service would then be borne by all new rate payers who would receive no benefit therefrom along with the old rate payers. This leaves, without discussion, the discouraging problem of dealing with credits or refunds accruing to the original tax paying rate payer who has discontinued service, moved, died, or if a business entity, ceased to exist.

Relief by the Legislature from this nightmare is earnestly solicited by enactment of the Amendment appearing at the beginning of this Memorandum.

ROBISON, McCASKEY, REYNOLDS & FRANKEL

By Paul F. Robison
Paul F. Robison

March 17, 1976.

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March 9, 1976

Mr. Guy Martin
Commissioner of Natural Resources
State Office Building
Juneau, Alaska

Dear Commissioner Martin:

We wish to confirm to you that we have assented (at the Board's Meeting on February 23) to the "take or pay" requirement for purchase of royalty gas, on the condition that it would be available for the life of production rather than just to June of 1984. ✓

We are not able to confirm with Marathon that they have considered or will consider extending our contract by more than one year. We certainly will continue negotiating with them and hope that some way can be found to avoid an emergency in service to the Chugach Bernice Lake power plant. ✓

We have discussed Homer's interest in purchasing gas for a new power plant with Mr. Oscar Thomas, who is the Vice President and General Manager of Kenai Utility Service Corporation, and further confirmed the comments we made by letter of February 27. For the reasons given, we cannot believe Homer is a bona fide competitor for North Cook Inlet royalty gas and we cannot do more than to assure them that we would utilize this gas for service to Bernice Lake whether or not they purchase it from Chugach; and that if they build the new power plant in our service area, we would also utilize this gas to serve such a new plant. We cannot guarantee any particular price for the gas, however, because it is subject to the decision of the Alaska Public Utilities Commission.

We hope the Royalty Board will act soon to resolve this matter.

Very truly yours,

Dale Teel
President

RECEIVED
MAR 11 1976

dh

Department of
Natural Resources

RECEIVED
MAR 12 1976

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801790



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

February 27, 1976

RECEIVED
MAR 2 1976
Department of
Natural Resources

Mr. Guy Martin
Commissioner of Natural Resources
State Office Building
Juneau, Alaska

Dear Commissioner Martin:

We were very surprised that Homer Electric Association appeared at the February 23 meeting of the Royalty Board and represented that they would be equally or more qualified to be the purchaser of North Cook Inlet royalty gas. We have written them to ask that they reconsider and withdraw from this matter and to reassure them that we would utilize the royalty gas to serve the Bernice Lake power plant whether or not Homer may be successful in purchasing it from Chugach Electric and/or to serve the additional unit if Homer is successful in obtaining funding for such a unit.

It has come to our attention that Homer could purchase gas from Kenai Utility Service Corporation (KUSCo) within the city limits of Kenai or on the premises of "Wildwood Station", which now belongs to the Kenai Native Association. KUSCo has adequate reserves and deliverability to provide this service and now has a filed tariff (SCHEDULE III - INTERRUPTIBLE POWER PLANT SERVICE) in effect which would provide Homer's requirements at less than 50¢ per MCF as compared to 60¢ or more for royalty gas from the North Cook Inlet gas field. In fact, KUSCo will forfeit these reserves back to the producers if no sale is effected.

It would appear that Homer's requirement for fuel for an additional generating unit would be met almost ideally by gas from KUSCo. A copy of KUSCo's Schedule III is enclosed as information.

We have attempted to purchase gas from KUSCO, but are not able to do so because their contract specifies that it is for use at Kenai (rather than resale at wholesale). We believe that the facts in this matter do not admit any bona fide "competitiveness" from Homer for State royalty gas, and that the public interest requires that we be given priority consideration. Homer cannot make use of any gas at present, nor in fact can it now commit to do so at some future date since such commitment would be contingent upon its purchase of the Bernice Lake power plant and/or its purchase of an additional generating unit. Homer has lower priced gas available from KUSCo. Homer has no experience in the handling of high pressure natural gas.

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

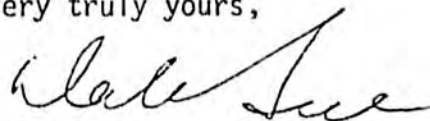
Mr. Guy Martin
February 27, 1976
Continuation Sheet #2

KUSCo's cost of gas is fixed by contract until 1986, at a very favorable price. With the known recent increases in price and demand for Alaskan natural gas and the increases which may reasonably be expected in the future, it appears to us that the customers of Homer are eminently better served by utilizing a source of gas that has a known cost for the next ten years. In our own situation, by averaging this relatively small amount of higher priced gas into the lower cost of our present supply, our customers will not be adversely affected by the higher priced royalty gas to the extent that customers of Homer would be.

We ask the Royalty Board not to allow Homer's last minute appearance to delay the negotiations of royalty gas to us, and that the sale be presented for approval by the legislature this session.

We will attend the March 2 meeting of the Royalty Board, to answer any further questions.

Very truly yours,



Dale Teel
President

dh

Enclosure

cc: Bill Rhodes

JUN 10 1975

KENAI UTILITY SERVICE CORPORATION

State of Alaska
Public Utilities Commission

KENAI UTILITY SERVICE CORPORATION

SCHEDULE III - INTERRUPTIBLE POWER PLANT SERVICE

(I)

AVAILABILITY: To natural gas service used for the generation of electricity or steam as central station service.

1. Once instituted, application of this schedule shall continue for not less than twelve (12) consecutive months.
2. Service under this schedule may be interrupted on not less than two (2) hours notice, and for not more than ten (10) days in any calendar month, during the period October through March.
3. While receiving service under this schedule, the customer shall maintain standby fuel and facilities, in the interest of public health and welfare, so that curtailment or interruption of service hereunder will be compatible with customer's power plant operation.

CHARACTER OF SERVICE: Natural gas having a heating value which is approximately 1,000 BTU per cubic foot.

MEASUREMENT: All deliveries shall be metered volumetrically and corrected to a base of 14.65 psia and 60° F. assuming absolute pressure of 14.7 psia.

MONTHLY RATE:

For the first	1,500 MCF or less per month	\$1,100.00
For the next	8,500 MCF per month	\$ 0.59/MCF
For the next	40,000 MCF per month	\$ 0.54/MCF
For the next	50,000 MCF per month	\$ 0.49/MCF
For the next	200,000 MCF per month	\$ 0.44/MCF
For all over	300,000 MCF per month	\$ 0.39/MCF

SUMMER SEASONAL DISCOUNT: During the months of April through September, a seasonal discount of \$0.05 per MCF will be allowed, provided however, that such discount shall apply only to the first 150,000 MCF per month, and provided further that the monthly minimum bill shall be not less than \$1,100.00

SERVICE REGULATIONS: Service supplied hereunder is subject to the orders of regulatory bodies having jurisdiction, and to the Company's Rules and Regulations currently on file.

Tariff Advice No. 6Effective: July 20, 1975Issued by: KENAI UTILITY SERVICE CORPORATION AGO 801793By: [Signature] Title: Vice-President



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-8551
TELEX 25-187

February 25, 1976

RECEIVED
MAR 1 1976

Mr. Bill Rhodes
Homer Electric Association, Inc.
P. O. Box 255
Homer, AK 99603

Department of
Natural Resources

Dear Bill:

I believe our mutual interests generally and, especially our mutual interest in the State royalty gas from the North Cook Inlet are thwarted by the appearance of our being in competition for this gas, as at the Royalty Board meeting of February 23. I also believe that if we could resolve this matter between ourselves, the Board was (and is) ready to approve the committing of this gas to us for the life of the field, and to so recommend for early approval in this session of the legislature. I fear that if we do not resolve the matter, then the Board (or the legislature) may not act in time for us to begin taking this gas prior to the termination of our present contract with Union-Marathon, and thus there would be a necessity to interrupt gas service to the Bernice Lake power plant. As you know, this plant burned oil for the first ten years and it is still equipped to burn oil upon such interruptions of gas. But the price of oil is now much greater than our price for gas, and the availability of oil may not be assured even at that price.

Service to this plant requires 50% to 100% of the royalty gas available on a daily basis, and we have from the outset been representing that we would utilize the royalty gas to maintain this service. Thus there is in fact no competition between us for the North Cook Inlet royalty gas except as to any "handling charge" we would require for making the sale. As you know, we now have "postage stamp" rates (uniform throughout our service area). All of our prior filed rates for power plants have been extinguished, and replaced by special contracts. The special contracts must be filed with the Alaska Public Utilities Commission, and thus our "handling charge" is subject to the approval of the Commission. We already have obtained approval from the Commission to commingle royalty gas with Kenai Field gas and to "flow through" the increased average cost of gas to our customers throughout our "postage stamp" distribution system. To the extent that you may take portions (or all) of the royalty gas from us, we should exclude its increased cost from the calculation of "flow through" to our other customers, in order not to compound any cost increases. This would require us to depart from the "postage stamp" rate design, as to our sale to you only.



Mr. Bill Rhodes
February 25, 1976
Page Two

We believe that the urgency and importance of our reaching early and appropriate agreement with the State are such that we should ask you to withdraw your request to purchase this royalty gas. To encourage you to do so, we would assure you that if you are successful in purchasing the existing Bernice Lake power plant from Chugach Electric Association and if you are further successful in obtaining funding to build additional generation facilities to serve Pacific Alaska LNG Company, we would commit to you the gas necessary for this generation out of the State royalty gas we are attempting to purchase. Thus you would be assured of reasonable pricing for fuel for these requirements. We are experienced in the handling, measurement, and pressure regulation of natural gas, and we believe our record of operating as well as our APUC Certificate of Public Convenience and Necessity fully qualify us to provide natural gas service to you.

We expect that because of our existing organization and expertise, your cost for fuel from us, including any "profit" to us, may be less than for your purchasing this gas directly and handling it. Your investment for pipelines and connections, odorization, measurement, and pressure and temperature regulation would be substantial. It would require compliance with the Pipeline Safety Act and perhaps a Certificate from the APUC. The safe handling of gas requires competent engineering and operations. We have this capability. Moreover, we are well suited to obtain gas for your requirements in excess of the availability (or the deliverability) of royalty gas, since we have a relatively large reserve at the Kenai gas field and we are continually negotiating for additional gas supplies.

I cannot over-emphasize the adverse effects of allowing the appearance of competition to preclude the earliest possible conclusion of negotiating the sale of the North Cook Inlet royalty gas to us. Personally, I would not expect early action by Chugach to sell the Bernice Lake plant to you. Several times in the past we have negotiated with Homer, even to the point of having a contract cleared with the respective attorneys, only to have REA threaten to withhold further financing if Homer were to begin generating its own power. Similarly, I would not expect that Pacific Alaska LNG Company can act early (by 1979) to utilize the royalty not taken at Bernice Lake. In contrast, we could begin taking most of the royalty gas almost immediately, and certainly we could take all of it upon completing a pipeline intertie in one year or less. If, because of the apparent competition, sale of this royalty gas were to be submitted to a bidding process, the result might be an even higher price than the present royalty payment and an ultimate sale to a third party (even Phillips) who would not be oriented to solving either our short term or long term needs, or Homer's.



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3800 SPENARD ROAD
P. O. BOX 8188 ANCHORAGE, ALASKA 99508 / PHONE (907) 277-2881
TELEX 85-187

Mr. Bill Rhodes
February 25, 1976
Page Three

I hope that we can reach agreement prior to the meeting of the Royalty Board next Wednesday, March 3. I believe that if you could withdraw from this matter by letter or by so indicating on a copy of this letter, we could expect to obtain this royalty gas at the earliest opportunity, which is in our mutual interest for both the short term and the long term.

Very truly yours,

Dale Teel
President

DT:jdh

bcc: Bill Fackler

AGO 801796



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

RECEIVED February 3, 1976
FEB 09 1975

ALASKA ROYALTY
OIL & GAS BOARD

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

RECEIVED
FEB - 6 1976

Department of
Natural Resources

Dear Bill:

We are continuing our negotiations with the various producers for a supply of natural gas to serve our customers on the North Kenai Road. It now appears that we will be able to continue purchasing from Union-Marathon for the duration of the term of the contract, which is to May 1, 1977. After the remaining reserve quantity has been taken (within a few months from now), we would expect to be paying them the price we offered for state Royalty Gas -- 55.8¢ per MCF.

We have not resolved the longer future of a gas supply for the Kenai Road area, however, and we are continuing negotiations toward that objective.

As to our purchasing Royalty Gas, we have concluded that we probably will have to build a pipeline to move this gas into our pipeline to Anchorage rather than to rely on the paper exchanges we had visualized earlier. This in turn leads us to require a longer term than was proposed by the Royalty Board at the December meeting, since it is impractical for us to try to amortize such a pipeline over the 7 years or less which would be available to June of 1984. For this reason, we ask that the Board should reconsider and allow our purchase of Royalty Gas to continue for the life of production from the North Cook Inlet Gas Field.

We also can foresee the strong desirability or necessity of providing that if we are at times unable to take the full quantity of this Royalty Gas, no penalty should attach to such inability except that we would forfeit the right to receive any gas we were unable to take from day to day. We realize that the producer (Phillips) would have to assent to such a provision and we have not obtained such assent as yet. However, we hope that it can be obtained without undue difficulty.

AGO 801797

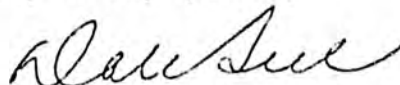
Mr. Bill Fackler
Page #2

While we are continuing our efforts to obtain more gas for the North Kenai Road area directly from the producers, and while we are optimistic about the prospect for success in these efforts, our need for obtaining the Royalty Gas is not diminished. Accordingly, we request that the changes we are proposing above be considered by the Royalty Board at its meeting on February 23.

We also would ask that you confirm the Royalty Board's support of our request to the Alaska Public Utilities Commission with respect to its jurisdiction over Phillips and Phillips' facilities, as Phillips has discussed in their letter of January 9, 1976 (copy enclosed). The need for such support was discussed at the Royalty Board's December meeting, and we would hope that you can so confirm to the Commission at the earliest opportunity. The sooner a waiver is received from the Commission the better will be our prospect of concluding the various negotiations and proceeding toward the necessary pipeline construction.

We will plan to attend the next meeting of the Royalty Board unless we are otherwise advised in the meantime.

Very truly yours,



Dale Teel
President

DT:dh

Enclosure

cc: Mr. John Horn, Phillips
Mr. Bart Emery, Marathon
Mr. Larry Bradford, Union
Mr. Roger Kempel, City

RECEIVED
FEB 09 1975

AGO 801798

ALASKA ROYALTY
OIL & GAS BOARD

→ Transcript of minutes, p 40 + 43, attached were provided by Jo Ann Leahr 4/14/77 as satisfying the reference for Bd. support for a waiver from APUC for Phillips pipeline & fac.



PHILLIPS PETROLEUM COMPANY
 BARTLESVILLE, OKLAHOMA 74004 918 661-6600

NATURAL RESOURCES GROUP
 Gas and Gas Liquids Division

January 9, 1976

North Cook Inlet Field
 Royalty Gas

File: 1-No-20-76-G&GL

Mr. Dale Teel
 Alaska Gas & Service Company
 P. O. Box 6288
 Anchorage, Alaska 99502

Dear Dale:

Relative to Alaska Pipe Line's efforts to acquire the State's royalty gas from the North Cook Inlet Field operated by Phillips for purposes of good order, we set forth below certain matters, the satisfactory resolution of which is a necessary prerequisite to any participation by Phillips.

1. The 5.55¢ per Mcf is not an appropriate price differential for the gas. This 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. It does not, however, represent what we believe the appropriate differential for the arrangement you contemplate. We are willing to enter into negotiations with you in an effort to arrive at a satisfactory number.
2. Neither Phillips nor any of its facilities can be subjected to possibility of being classified as a public utility by the Alaska Public Utility Commission. The utility aspects of any exchange of gas involving North Cook Inlet gas or facilities must be resolved to the satisfaction of Phillips prior to Phillips entering any agreements.
3. Since Marathon Oil Company would be involved in any exchange of North Cook Inlet Field gas, it would be APL's responsibility to work out these arrangements with Marathon.

Where are the differences?

The above doubtless will not be the only complicating matters to arise, however, we will work with you in an effort to mutually resolve additional problems as they develop.

Very truly yours, AGO 801799

John Horn
 JOHN HORN

A. H. I. I. D

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:

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 LNG 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 analogous to the Phillips Pipeline.

Mr. Martin:

Fred, is it your view that, if jurisdiction ^{distinct} applied, 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 determination 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

-43-

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 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.

AGO 801801

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M - JUNEAU 99811

Alaska Royalty Oil & Gas Development Advisory Board

January 12, 1976

Mr. Dale Teel
Alaska Pipeline Company
P.O. Box 6288
Anchorage, Alaska 99502

RECEIVED
JAN 20 1976

Department of
Natural Resources

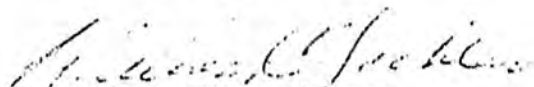
Dear Mr. Teel:

At the January 7, 1976 meeting of the Alaska Royalty Oil and Gas Development Advisory Board I was instructed to write you concerning evidence of your efforts to obtain a gas supply from the local gas producers to replace the "Nikiski" contract.

You will remember that this point was discussed by several members of the Board with you at the December meeting. The Board desires copies of your solicitations to the local producers and their replies to your requests.

I hope that this will not be a great inconvenience to you and that we may expect an early response.

Yours Truly,


William C. Fackler
Executive Director

cc: Board Members

RECEIVED
JAN 20 1976

ALASKA
OIL & GAS BOARD

See enclosures:

Alaska Pipeline Company to Union
Alaska Pipeline Company to Marathon
Letter from Marathon
Letter from Phillips

AGO 801802



PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA 74004 918 601-6800

NATURAL RESOURCES GROUP
Gas and Gas Liquids Division

January 9, 1976

North Cook Inlet Field
Royalty Gas

File: 1-Ho-20-76-G&GL

Mr. Dale Teel
Alaska Gas & Service Company
P. O. Box 6288
Anchorage, Alaska 99502

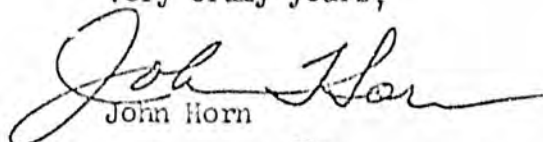
Dear Dale:

Relative to Alaska Pipe Line's efforts to acquire the State's royalty gas from the North Cook Inlet Field operated by Phillips for purposes of good order, we set forth below certain matters, the satisfactory resolution of which is a necessary prerequisite to any participation by Phillips.

1. The 5.55¢ per Mcf is not an appropriate place differential for the gas. This 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. It does not, however, represent what we believe the appropriate differential for the arrangement you contemplate. We are willing to enter into negotiations with you in an effort to arrive at a satisfactory number.
2. Neither Phillips nor any of its facilities can be subjected to possibility of being classified as a public utility by the Alaska Public Utility Commission. The utility aspects of any exchange of gas involving North Cook Inlet gas or facilities must be resolved to the satisfaction of Phillips prior to Phillips entering any agreements.
3. Since Marathon Oil Company would be involved in any exchange of North Cook Inlet Field gas, it would be APL's responsibility to work out these arrangements with Marathon. APC's

The above doubtless will not be the only complicating matters to arise, however, we will work with you in an effort to mutually resolve additional problems as they develop.

Very truly yours,


John Horn

JH:bla

AGO 801803

Alaska Royalty Oil & Gas Development Advisory Board

January 2, 1976

Mr. Dale Teel
Alaska Pipeline Company
P.O. Box 6288
Anchorage, Alaska 99502

Dear Mr. Teel:

The Royalty Board has received your letter of December 12 with proposal revision of pages 3 & 4 of your "Draft for Discussion Purposes" dated December 7. The same letter suggested January 2 as a most probable date for your return from vacation.

*W. C. Fackler
1-5-76*

In the interest of continued progress in this matter, I am enclosing a copy of the Board provisions included in the Commissioner's proposal for the sale of North Cook Inlet field royalty gas.

Following your review, the Board would appreciate your comments on the provisions.

Yours Truly,



William C. Fackler
Executive Director

Enclosure

AGO 801804

"Commissioner's Proposal in Concept" was supported by John Tash of Royalty Board as being the above mentioned "Board provisions included in the Commissioner's proposal for the sale of North Cook Inlet field royalty gas"

See also
April 26, 1976

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

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

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

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

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

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

6. The contract shall not be effective until

-all necessary permits and authorizations by governing bodies are obtained

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

-six month's notice required under lease

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

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

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

Requires consent of the board.

2. Commissioner determines that it would not be in the best interest of the State to sell the North Cook Inlet field royalty gas by competitive bid.

- a. Requires prior written approval by board.
- b. Requires Commissioner make public in writing the specific findings and conclusions upon which that determination is based.



**Marathon
Oil Company**

Findlay Ohio 45840
Telephone 419/422 2121

December 19, 1975

Mr. Dale Teel, President
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Dale:

RE: GAS SUPPLY FOR THE
NORTH KENAI ROAD AREA

This will acknowledge receipt of your letter dated December 12, 1975, and the attachments thereto, in connection with the above referenced subject.

Marathon is not presently in a position to discuss a long term commitment of up to 50 BCF of our Cook Inlet Area gas reserves.

We are fully aware of your supply situation on the North Kenai Road and we are willing to enter into a new short-term contract with you similar to our existing contract of May 1, 1967, with appropriate changes to fit current circumstances and subject to the following general quantity and price provisions: ✓

1. The contract expiration date would be May 1, 1978, or until the seller has delivered a total additional five (5) BCF of gas, whichever occurs first. If your company were to contract for one-half of this volume from some other company, this volume would be reduced by one-half or to 2-1/2 BCF. ✓
2. The price for the additional gas would be 55.8¢ per MCF in accordance with your offer. This price would become effective for gas taken after your present commitment of ten (10) BCF has been delivered. ✓

Alaska Pipeline Company
December 19, 1975
Page 2

We recognize that the foregoing proposal will not solve your long-term supply problem, but we feel it will provide you sufficient time to further consider your supply situation.

If the foregoing proposal is of interest to you, I would be glad to meet with you sometime during the week commencing January 12, 1976, to discuss this matter further. Please let me know as soon as possible if you desire such a meeting.

Yours very truly,

W. B. Emery II

W. B. Emery II

WBEKK:sm

AGO 801810



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

December 12, 1975

DUPLICATE
ORIGINAL

Mr. Bart Emery
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840

Dear Bart:

The State of Alaska Oil and Gas Royalty Board has voted to authorize the Commissioner of Natural Resources (Guy Martin) to negotiate the sale of North Cook Inlet Gas Field royalty gas to us, subject to final approval at the Board's January meeting and then approval of the legislature.

(Sandwich)
I have sent Sam informally copies of all correspondence, etc. in this matter except the enclosed preliminary drafts of proposed memoranda of agreement (APC with Union as operator, and APC with State); letters of support by City and Chugach; and the material I obtained at the Board meeting of December 10.

Board member (Dr.) Arlon Tussing (University of Alaska Economist) questioned whether or not we had diligently tried to get gas from "others," and I expect he will inquire further on this point at the January meeting. The vote was unanimous, with that reservation. Accordingly, I am writing now to ask whether or not Marathon would be willing to offer us our requirements up to 50 BCF over a period prior to June 1, 1984. Deliverability would be up to 15 MMCFD; take or pay at 10 MMCFD; delivery at any combination of the Kenai master meter and the three existing taps on your Kenai to Nikiski pipeline; at the price of 55.8¢ per MCF 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, adjusted yearly on the anniversary date of the contract, provided that we would have the option to terminate on one year's notice upon paying such higher price.

This same proposition was mentioned to John Horn of Phillips verbally, and his response was that since the royalty purchase (by others than us) would not be eliminated by such a decision, he would prefer to see us proceed to

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

Mr. Bart Emery
December 12, 1975
Page 2

take the royalty. If you, or Union, would prefer to sell to us at these terms, from either of you individually or as equal partners, rather than for us to take this 50 BCF of North Cook royalty, I would like to discuss it further with you at the earliest opportunity. If you are not interested in this proposition, I would like to have it of record in order to have an answer for Dr. Tussing. Also, we would have to work out a short term and long term solution to a gas supply for the North Kenai Road area: we expect to be out of the present 10 BCF in April 1976, but even without delay or opposition we may not be lined up for North Cook Inlet gas before that date or maybe even six months after that date. I would propose for your consideration that we should "borrow" gas from the "Anchorage" contract, on the basis that we would repay through exchange from royalty gas in the ratio of 2 to 1, or, if we do not get gas to exchange, we would need to have one year's extension of the Nikiski contract at the present price etc., but agree that all deliveries we take from you during that period would reduce the "Anchorage" reserve dedication by 200% of the amount of deliveries actually taken at the pipeline taps on the North Kenai Road. In this way we could live with our existing rate structure but would have compelling reason to resolve the supply situation as soon as possible.

I hope that we can get together with Sam and Al here to work out the "exchange" for royalty gas as an operating problem in the event that is the course to be taken. In the event of getting a supply from you instead of royalty gas, I would like to have a meeting with you at the earliest available date in order to be ready at the January meeting of the Royalty Board (or sooner).

Season's greetings to you - it seems December just isn't my month to relax these days, remembering last year and the prior contract anniversary dates.

Cordially,

Dale Teel
President

DT/j

cc: Sam Sandusky

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

Mr. Bart Emery
December 12, 1975
Page 3

Enclosures

- *Memorandum with Union as Operator (Draft Proposal)
- *Memorandum with State of Alaska (Draft Proposal)
Letter of December 6 from Phillips Petroleum Company
Commissioner's Presentation to Royalty Board, December 10
- *With transmittal letter dated December 7

AGO 801813



ALASKA PIPELINE COMPANY

P. O. BOX 6285
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

December 12, 1975

DUPLICATE
ORIGINAL

Mr. Larry Bradford
Union Oil Company of California
P. O. Box 7600
Union Oil Center
Los Angeles, California 90017

Dear Larry:

✓ The State of Alaska Oil and Gas Royalty Board has voted to authorize the Commissioner of Natural Resources (Guy Martin) to negotiate the sale of North Cook Inlet Gas Field royalty gas to us, subject to final approval at the Board's January meeting and then approval of the legislature.

Union?
I have sent Gene ^(Griffin - Union) informally copies of all correspondence, etc. in this matter except the enclosed preliminary drafts of proposed memoranda of agreement (APC with Union as operator, and APC with State); letters of support by City and Chugach; and the material I obtained at the Board meeting of December 10.

✓ Board member (Dr.) Arlon Tussing (University of Alaska Economist) questioned whether or not we had diligently tried to get gas from "others," and I expect he will inquire further on this point at the January meeting. The vote was unanimous, with that reservation. Accordingly, I am writing now to ask whether or not Union would be willing to offer us our requirements up to 50 BCF over a period prior to June 1, 1984. Deliverability would be up to 15 MMCFD; take or pay at 10 MMCFD; delivery at any combination of the Kenai master meter and the three existing taps on your Kenai to Nikiski pipeline; at the price of 55.8¢ per MCF 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, adjusted yearly on the anniversary date of the contract, provided that we would have the option to terminate on one year's notice upon paying such higher price.

This same proposition was mentioned to John Horn of Phillips verbally, and his response was that since the royalty purchase (by others than us) would not be eliminated by such a decision, he would prefer to see us proceed to

AGO 801814

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

Mr. Larry Bradford
December 12, 1975
Page 2

take the royalty. If you, or Marathon, would prefer to sell to us at these terms, from either of you individually or as equal partners, rather than for us to take this 50 BCF of North Cook royalty, I would like to discuss it further with you at the earliest opportunity. If you are not interested in this proposition, I would like to have it of record in order to have an answer for Dr. Tussing. Also, we would have to work out a short term and long term solution to a gas supply for the North Kenai Road area: we expect to be out of the present 10 BCF in April 1976, but even without delay or opposition we may not be lined up for North Cook Inlet gas before that date or maybe even six months after that date. I would propose for your consideration that we should "borrow" gas from the "Anchorage" contract, on the basis that we would repay through exchange from royalty gas in the ratio of 2 to 1, or, if we do not get gas to exchange, we would need to have one year's extension of the Nikiski contract at the present price etc., but agree that all deliveries we take from you during that period would reduce the "Anchorage" reserve dedication by 200% of the amount of deliveries actually taken at the pipeline taps on the North Kenai Road. In this way we could live with our existing rate structure but would have compelling reason to resolve the supply situation as soon as possible.

I hope that we can get together with Gene here to work out the "exchange" for royalty gas as an operating problem in the event that is the course to be taken. In the event of getting a supply from you instead of royalty gas, I would like to have a meeting with you at the earliest available date in order to be ready at the January meeting of the Royalty Board (or sooner).

Season's greetings to you - it seems December just isn't my month to relax these days, remembering last year and the prior contract anniversary dates.

Cordially,

Dale Teel
President

DT/j
cc; Gene Griffin

AGO 801815

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

Mr. Larry Bradford
December 12, 1975
Page 3

Enclosures

- *Memorandum with Union as Operator (Draft Proposal)
- *Memorandum with State of Alaska (Draft Proposal)
- Letter of December 6 from Phillips Petroleum Company
- Commissioner's Presentation to Royalty Board, December 10

- *With transmittal letter dated December 7



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

December 12, 1975

Mr. Guy Martin
Commissioner of Natural Resources
State of Alaska
Juneau, Alaska

Dear Commissioner Martin:

I have revised pages 3 and 4 of the "Draft for Discussion Purposes," dated December 7 to reflect my understanding of the resolution of the Royalty Board on December 10, and to update the pricing which was given to me that day by Mr. John Horn of Phillips.

I will be available here until December 18 and expect to be back about January 2 (maybe December 29) and hope we can make some further progress either by telephone, mail, or a further meeting.

As you will see, I have copied Union, Marathon and Phillips in order to keep them apprised of developments in this matter.

Very truly yours,

Dale Teel
President

DT/j

cc: Bradford, Griffin (Union)
Emery, Sandusky (Marathon)
Horn, Swetnam (Phillips)

RECEIVED
DEC 16 1975

ALASKA ROYALTY
OIL & GAS BOARD

RECEIVED
DEC 15 1975

Department of
Natural Resources

- 4. It is of the essence of this Agreement that no regulatory jurisdiction of the Alaska Public Utilities Commission or other regulatory authority shall attach to Phillips or to Union as a consequence of the sale of the State royalty gas to APC under this Agreement, it being clearly understood that the utilization of "exchange" rather than literal transfer of the State royalty gas is done at the request of and for the convenience of the State and APC and not at the request of or for the benefit of either Union or Phillips. It is further understood and agreed that in the event this agreement is ever interpreted or used by the Alaska Public Utilities Commission or any other administrative or legislative or judicial body or agency, whether federal, state, or other, to assert and implement such regulatory jurisdiction, then this agreement shall terminate and become null and void.
- 5. At the date of the Agreement, the following are in effect with respect to royalty gas:

Price at wellhead:	50.25¢ per MCF	
Charge for delivery from North Cook Inlet Gas Field to Phillips LNG Plant on the North Kenai Road	<u>5.55¢</u>	
Total	55.80¢ per MCF	

Note: these prices are only estimates - subject to verification

In the event a higher wellhead price than stated above is paid in the Cook Inlet Area (as defined in APC's contract with Union as amended effective December 18, 1974), by any purchaser for a similar sale of gas of similar quality, APC shall have the option (a) to meet such higher wellhead price as of the anniversary date of deliveries under this contract, and continue purchasing the royalty gas, or (b) to give the State one year's notice of termination of this Agreement, it being understood that during said notice period APC shall nevertheless continue to purchase whatever amount of royalty gas may be available to APC as described herein, at the higher price.

- 6. The Agreement shall be binding upon its execution and the approval of the legislature of the State of Alaska, but deliveries hereunder shall not commence until the date (a), all the gas reserves available to APC from Union by the terms of APC's

contract with Union dated May 1, 1967 have been purchased by APC or (b), May 1, 1977, whichever shall occur first.

Unless terminated as provided herein, this Agreement shall continue in effect until June 1, 1984.

for Alaska Pipeline Company
Its _____

For the State of Alaska
Its _____



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

December 7, 1975

RECEIVED
DEC 8 1975
**ALASKA ROYALTY
OIL & GAS BOARD**

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

Dear Commissioner Martin:

Enclosed are 10 copies of my drafts of the elements of proposed general provisions which could be embodied in contracts for our purchase of State royalty gas from the North Cook Inlet Gas Field. I do not want to represent that these drafts have had legal consideration, but only that they indicate my ideas of the intent of contracts which would have to be negotiated.

I believe that we should and can hope that Union and Phillips will agree that the transaction as described offers great benefit to the majority of Alaskans without unreasonable or unfair impact on them.

We must hope that the general context and intent of these drafts can be endorsed by the State so that we can obtain a final decision in time to assure uninterrupted service to our customers on the North Kenai Road.

I will be arriving in Juneau Monday night and be available for discussion of our position on Tuesday and Wednesday.

Very truly yours,

Dale Teel
President

DT:jdh

Enclosures

cc: Each member of the Royalty Board
Alaska Public Utilities Commission
Municipality of Anchorage
Chugach Electric Association, Inc.

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

NORTH COOK INLET STATE ROYALTY GAS
SALE TO ALASKA PIPELINE COMPANY
("Anchorage Natural Gas")

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

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

WHEREAS, Union as Operator of the Kenai Gas Field and the gas transmission line in the North Kenai Road now supplies APC's total requirements for natural gas at the Kenai Gas Field and at three (3) pipeline taps on the North Kenai Road and will continue to do so subject to terms and conditions of APC's various contracts and agreements with Union which contemplate or would allow APC's purchasing variable amounts of this royalty gas on an "if and as available" basis, and

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

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

NOW THEREFORE, the State and APC agree as follows:

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 2 -

1. The State will report to APC each month the amount of royalty gas produced by Phillips during the prior month, together with a schedule showing the amount of such gas produced each day of the prior month.
2. Within one month following receipt of the data from the State (per paragraph (1) above), APC will obtain from Union an analysis of the amount of royalty gas which shall be deemed by all parties to have been sold to APC by the State, and APC shall pay therefor to the State within 30 days thereafter, at the price which otherwise would have been payable to the State by Phillips, and pay to Phillips the transportation charge thereon which otherwise would have been in effect received by Phillips for delivery of North Cook Inlet gas to the Phillips LNG plant on the North Kenai Road.
3. It is the intent of APC and the State that APC will pay the State for and will be deemed to have received from the State whatever quantity of gas (from 0% to 100% of the total quantity of royalty gas produced by Phillips) which Union shall determine to be appropriate in the circumstances and to be supportable by meter readings and calculations which Union and APC and the State will maintain on file, and available for release to any interested party on request. It is the further intent of the State and APC that the determination of how much of the State's total royalty share of natural gas produced from the North Cook Inlet Gas Field by Phillips can be deemed to have been sold to APC will be the responsibility of Union, as Operator of the Kenai Gas Field and the gas transmission line in the North Kenai Road.

In making said determination, Union shall use reasonable discretion and judgment in balancing and accounting for gas supplied to APC from the Kenai Gas Field and from the North Cook Inlet Gas Field. No other responsibility shall derive to Union as a result of this Agreement, nor shall this Agreement be used to impose any obligation on Union which would cause increased operating expense to Union or to impose any obligation on Phillips which would require Phillips to add investment for transmission (or compression) without compensation therefor which is reasonable and acceptable to Phillips. In the event such investment becomes necessary for Phillips, APC would have the option either (a) to participate equitably in that investment, or (b) to agree to compensate Phillips at an agreed price per MCF or per month, or (c) to terminate its taking of royalty gas within one year of the date when these options are presented to APC for decision.

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 3 -

4. It is of the essence of this Agreement that no regulatory jurisdiction of the Alaska Public Utilities Commission or other regulatory authority shall attach to Phillips or to Union as a consequence of the sale of the State royalty gas to APC under this Agreement, it being clearly understood that the utilization of "exchange" rather than literal transfer of the State royalty gas is done at the request of and for the convenience of the State and APC and not at the request of or for the benefit of either Union or Phillips. It is further understood and agreed that in the event this agreement is ever interpreted or used by the Alaska Public Utilities Commission or any other administrative or legislative or judicial body or agency, whether federal, state, or other, to assert and implement such regulatory jurisdiction, then this agreement shall terminate and become null and void.
5. At the date of the Agreement, the following are in effect with respect to royalty gas:

Price at wellhead:	45¢ per MCF	Note: these prices are only estimates-- subject to verification
Charge for delivery from North Cook Inlet Gas Field to Phillips LNG Plant on the North Kenai Road	<u>5.45¢</u>	
Total	50.45¢ per MCF	

In the event Phillips may offer the State a higher wellhead price than stated above, as a result of repricing of gas exported as liquid (LNG) to Japan, APC shall have the option (a) to meet such higher wellhead price and continue purchasing the royalty gas, or (b) to give the State one year's notice of termination of this Agreement, it being understood that during said notice period APC shall nevertheless continue to purchase whatever amount of royalty gas may be available to APC as described herein, at the higher price offered by Phillips.

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 4 -

In the event Phillips' export of North Cook Inlet gas as LNG to Japan is terminated and Phillips continues to produce gas at the North Kenai Gas Field for any other disposition, then the price of royalty gas sold to APC hereunder shall be not less than the average price during the year prior to the termination, nor less than the average price paid by APC for gas it purchased from others during the prior year (which after December 31, 1985 will be the "area price" as defined in APC's contract with Union as amended effective December 18, 1974).

6. The Agreement shall be binding upon its execution and the approval of the legislature of the State of Alaska, but deliveries hereunder shall not commence until the date (a), all the gas reserves available to APC from Union by the terms of APC's contract with Union dated May 1, 1967 have been purchased by APC or (b), May 1, 1977.

Unless terminated as provided herein, this Agreement shall continue in effect until the end of commercial production of natural gas from the North Cook Inlet Gas Field or the end of commercial production of natural gas from the Kenai Gas Field, whichever shall occur first.

For Alaska Pipeline Company
Its _____

For the State of Alaska
Its _____

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

MEMORANDUM OF UNDERSTANDING

This memorandum reflects the intent of Union Oil Company of California ("Union") as Operator of the Kenai Gas Field and a gas transmission line in the North Kenai Road for the interest of both Union and Marathon Oil Company ("Marathon") with respect to the natural gas requirements of Alaska Pipeline Company ("APC") at the Kenai Gas Field and from three (3) pipeline taps in the North Kenai Road. Union-Marathon have supplied this service under contracts as amended from time to time, since the first advent of natural gas service in Alaska in 1961. The parties recognize that APC has applied for and expects to purchase the State of Alaska's 1/8th (one-eighth) royalty share of gas produced at the North Cook Inlet Gas Field by Phillips Petroleum Company, which is brought to the North Kenai Road by Phillips' pipeline for liquefaction and export to Japan. Since Phillips' pipeline is interconnected with Union-Marathon's pipeline at or near the North Kenai Road, and since the composition of North Cook Inlet gas is virtually identical to Kenai field gas, the sale of this royalty gas can in effect be accomplished by "exchanges" such that literal delivery of this gas need not be made.

Existing meters can be utilized to account for the amount of North Cook Inlet gas field production and thus the amount of royalty gas; together with data from other meters, displacement or "exchanges" can be postulated by accounting rather than any additional metering or literal physical transfer of North Cook Inlet gas to APC.

Union as Operator is agreeable to providing an analysis of data furnished to Union by the State of Alaska (or Phillips) and by APC and from Union's various meters, and calculating the net result of the displacement or "exchanges" which APC's purchase of State royalty gas will entail.

Union will analyze the data furnished to them each month and advise the various parties (Marathon, Phillips, State of Alaska, U.S.G.S., and APC) of the amount of North Cook Inlet gas which is to be deemed by all parties to have been taken by APC from the State of Alaska for payment purposes. Union, as Operator of the Kenai gas field, will advise these parties and will calculate the net quantity of gas which is to be deemed to have been taken from the Kenai gas field.

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 2 -

The parties understand and agree that neither this memorandum nor any other aspect of APC's purchasing State royalty gas shall incur for Union any responsibility whatsoever, other than the derivation and calculation of the amount of State royalty gas for which APC is to make payment to the State of Alaska.

As Operator of the Kenai Gas Field and the Kenai North Road gas transmission line, Union will continue delivering gas to APC at the Kenai gas field and at the three (3) pipeline taps now existing, and will rely on APC to cause the State of Alaska (Phillips) to operate as necessary so that no additional deliverability (demand) is imposed, above the contractual amount of 160,000 MCF per day plus the excess, if any, of State royalty gas above the amount of gas taken by APC at the three pipeline taps on the North Kenai Road. As Operator, Union would be free to work out whatever production scheduling it deems appropriate, directly with Phillips, so that no additional operating expense will accrue to Union; however, Union will not impose any unreasonable schedule on Phillips.

At such times as Phillips may be unable to meet the production scheduling desired by Union, then APC agrees to accept whatever production scheduling may be mutually satisfactory to Union and Phillips; and if no such production scheduling can be agreed upon or cannot be made by Phillips, then and to that extent neither Phillips nor Union shall become liable in consequence. It is the good faith of APC and Union 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 or Union, provided however, that in the event royalty gas available to APC is less than 10,000 MCF per day, then Union will provide the difference for a period of not less than one year. APC would expect to have the option, in the event investment is necessary for Phillips to continue delivering State royalty gas, to participate equitably in that investment, or to pay a mutually acceptable price per MCF or per month therefor, or to terminate its taking of the State royalty gas.

APC will pay to Union, for its services as Operator in this arrangement, the amount of per MCF of State royalty gas purchased hereby, but not less than per month, plus the price Union may elect to apply to any gas taken at the three pipeline taps and not returned by exchange within one year of such delivery.

DT/js

AGO 801826



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6386 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-3331
TELEX 28-197

Alaska Public Utilities Commission
December 2, 1975
Page 2

This special contract is also consistent with and was anticipated in our informal discussions with various members of the Commission and its staff in connection with our proposed purchase of State royalty gas from the North Cook gas field. Our presentations to the State of Alaska Oil and Gas Royalty Board of October 10 and November 10 in support of this proposal also anticipated this special contract with Chugach and the extinguishment of Rate PI. We believe that our application to purchase this royalty gas may be considered or decided by the Royalty Board on December 10, as to policy rather than detailed or final action. This special contract and our tariff Section 708 are key elements for that transaction.

We believe that both the municipality and Chugach will affirmatively support our application for the royalty gas, and we would also hope that the Commission will do so also, prior to the December 10 meeting.

For all the reasons given, we request that the Commission should give emergency attention to and acceptance of the enclosed special contract with Chugach and to the reinstatement of Section 708 of our tariffs, so that our position to the Royalty Board will be clearly established prior to the meeting of December 10.

Very truly yours,

Dale Teel
President

DT/js

cc: Mr. L. J. Schultz, General Manager
Chugach Electric Association
Mr. Roger Kempel, Attorney
Municipality of Anchorage
Mr. Guy Martin ✓
Commissioner of Natural Resources

AGO 801828

TO: Guy R. Martin
Commissioner

DATE : November 19, 1975

FROM: William C. Fackler
Deputy Commissioner

SUBJECT: Analysis of North Cook Inlet
Royalty Gas Proposal by
Alaska Natural Gas

Anchorage Natural Gas (ANG) proposes that State take North Cook Inlet Field gas royalty in-kind and sell to ANG at same rate as State now receives in royalty payments from Phillips.

Daily volume dependent on LNG plant use but ANG used average of 15 mmcf/d, total of 75 bcf for contract over 15 year period as basis for proposal.

Reference ANG brochure "Summary" page 1.

1. ANG will take delivery immediately on "if and as available" basis and pay price State now receives.

This statement is apparently based on assumption that ANG will simply replace State and receive gas at LNG plant gate with payment to State at present royalty rate of 50.45 cents per MCF at the plant gate. This price includes a 5.45¢ per MCF transport charge from platform to LNG plant.

There are two problem areas.

- a. Transport of ANG gas for resale from platform to shore might be construed as qualifying the pipeline for APUC jurisdiction. If so, PPCO would ^{probably} object. Also 5.45¢ per M transport charge

might be reviewed for applicability under current costs.

- b. It is doubtful that the State would contract with ANG at a fixed price for 15 years. Contract terms should provide for price equal to highest price paid in area for gas of similar quality to assure that State is not receiving less than they would otherwise receive. Present royalty value on North Cook Inlet gas field is highest value received for gas by State.
2. ANG would use North Cook Inlet gas throughout system. Since present Nikiski contract was for total volume of ¹⁰ bcf over ten year period ending May 1, 1977, it is apparent that new amount desired (75 bcf) is basically an addition to reserves and not for North Kenai Road customers. Bernice Lake paid \$.657 mmbtu in 1972 (1974 Alaska Power Survey p. 52) almost 4 times the fuel cost of Beluga power generation. Chugach Electric Association owns both facilities and has been operating Bernice Lake at capacity until the Knik Arm submarine cable between Beluga and Anchorage is repaired. Probably Bernice Lake station will be reduced to standby or peak load power source. Since

Bernice Lake uses 90% of the Nikiski gas contract this will greatly reduce the depletion of that gas supply.

ANG summary does not list price paid for Nikiski contract gas. If price is similar to that of Anchorage contract gas, Bernice Lake indicated cost of 65.7¢ per MMBTU allows a healthy margin for ANG for the short distance involved.

3. ANG purchase of North Cook Inlet royalty will benefit ANG customers to the extent that it will increase remaining reserves committed to ANG. The price will be higher than present price paid to Union Marathon for Anchorage contract gas and will raise the price to the consumer by that increment. * The benefit to Chugach Electric CEA customers seems doubtful since CEA Beluga contract is at a 16¢ MMBTU rate which is 1/4 of the rate charged by ANG at Bernice Lake. 64p

* Unless, of course, you roll in prices as was already suggested by APC in their letter/memo of August 20, 1975-

ANG asserts that the North Cook Inlet royalty gas at present royalty price would be a lower cost than the other alternatives explored by ANG, the alternative prices are not available for comparison.

III. Proposed Price, Escalation, Total Volume, Annual Volume, Contract Term, Deliverability and Transportation.

a. Price and Escalations

"ANG proposes to pay to the State the same price which the State would have otherwise received from Phillips export of the North Cook Inlet royalty gas to Japan for the duration of that export and thereafter not less than"

Price paid to State should not be less than

- (1) price which the State would have otherwise received from Phillip's export of the North Cook Inlet royalty gas to Japan including any future escalations in price received by Phillips.
- (2) the highest price paid in the area by any buyer to any seller of gas of similar quality.

b. Total Volume, Annual Volume, Contract Term, Deliverability

ANG does not require specific deliverability. Proposes to purchase 1/8th of the production of the North Cook Inlet gas field, day by day and year by year or "if and as deliverable".

Contract term, total volume and annual volume depend on Phillips production from the North Cook Inlet gas field and the State should not specify amounts. Term should not be open end however. Phillips contract with Tokyo Gas & Tokyo Electric expires 6-1-84 unless extended. Contract term for State should not exceed terms of Phillips' contract, also should include proviso to protect State if Phillips production is terminated for any reason. *Consider a 10 yr term for 50 bcf?*

c. Transportation

ANG proposes that transportation of royalty gas from platform to LNG plant site be done by Phillips for the present charge of 5.45¢ per MCF. ANG expects to contribute its proportionate share of additional transportation cost or compression cost with option of contributing capital or higher transport charge.

Phillips has raised the issue of APUC classifying gas pipeline as a utility if it transports gas for a third party for resale. Phillips indicated they would not transport gas if this situation arose.

It seems doubtful that the State could transfer the present transport situation with Phillips to another party without Phillips consent. The State lease provides that when the 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). Further, the transport charge itself may be open to negotiation between Phillips and ANG.

In the event that the State does contract with ANG for the purchase of its royalty gas, the point of taking and transportation charges could become key issues. The possibility of selling the State's royalty gas to ANG with the result of higher transport charges reducing the net value to the State should be avoided.

ANCHORAGE NATURAL GAS

Anchorage Natural Gas has an immediate problem coupled with a potential long range problem.

A. The immediate problem is Anchorage Natural Gas's ten billion cubic feet per year Nikiski contract gas will be used up within a few months and they have not been able to find another source for this eight million cubic feet per day demand. (Bernice Power Plant services the liquid natural gas and ammonia plants plus other areas; they are the major user.)

* They have tried to contract for 75 billion cubic feet (15 million cubic feet per day) over 15 years with no luck.

B. The long range problem is the need to have more committed gas reserves for future consumer needs and to avoid financial problems that will result from a shortage of gas.

Solutions

SHORT RANGE PROBLEM (Need gas now)

* Obtain State's royalty gas from the north Cook Inlet gas field. Twelve and one half percent of the average yearly production from this field would be about 5.5 billion cubic feet per year or approximately 75 billion cubic feet over 15 years. This would give Anchorage Natural Gas up to 15 million cubic feet per day, enough to satisfy the eight million cubic feet per day for Kenai and a surplus for building up reserves.*

LONG RANGE PROBLEM (Need more gas reserves for future)

1. Obtain more reserves by exploration. They have undertaken this, but so far have a dry hole at \$ 500,000 cost. *their share.*

2. Obtain reserves by using royalty gas and extending the reserves in their existing contracts. They are proposing this. *Present proposal will only add 1 yr at best - no solution to long range. ANG will have to make new contract for large amount similar to*

*The north Cook Inlet field is the only source they can tap since their contract for the Kenai field (with Union-Marathon) stipulates if royalty gas is used it will reduce the existing 550 billion cubic feet contract.

present contract and price will certainly be higher.

PROS AND CONS OF THE
ANCHORAGE NATURAL GAS PROPOSAL

Pro

1. If Anchorage Natural Gas does not acquire gas for its Nikiski contract loss, Bernice Power Plant will probably switch ^{back} to oil with higher costs to consumers and added environmental problems with oil burning. doubtful - can use only light distillate
Royalty gas to Anchorage Natural Gas would help hold costs down and ease potential environmental problems.*

2. Royalty gas will help Anchorage Natural Gas's long range gas reserves. They will only need eight million cubic feet per day for the Kenai problem and can apply the other seven million to strengthen the overall reserve problem. *Over 15 yrs might add 1 yrs supply.*

3. After a precedent is set, additional royalty gas may become available to strengthen the long term reserve picture for Anchorage Natural Gas.

Only if deliverable from other than Kenai gas field

4. Committing royalty gas at reasonable prices will help keep our consumers from paying future high energy costs resulting from outside shortages.

5. This decision should encourage additional exploration for Gas reserves in the Cooks Inlet.

Con

The petroleum industry does not like it. It ^{will} ~~may~~ create an economic

hardship upon Phillips Petroleum Company by taking some of their feedstocks to the Kenai Liquid Natural Gas Plant. It will also set a precedent.

Phillips will have to increase production by amount of royalty will shorten life of field by that amount - might need additional well
The oil industry will not be able to assume that it has 100% of gas

reserves to cost for long term projects.

*If Anchorage Natural Gas faces a long term gas shortage problem, they may have to cut off the military--switching them to oil? *1990!*

SUMMARY

Operational problems of Anchorage Natural Gas are going to directly affect the Alaskan consumer since it is a major supplier of energy to the public. Our public gas suppliers, such as Anchorage Natural Gas, need adequate gas supplies for as long a period as possible. It is disturbing to find that present ^{dedicated} reserves will not last over 15 years and the Alaskan consumer may be forced into paying competitive California prices for its own gas, or not being able to obtain the gas since it could all be committed to other states.

ANG is a profit making corporation well able to make additional contracts for increased supply of gas as they have in the past. This play is economic and not desperate need for reserves. The Alaskan consumer will have to pay competitive prices for additional gas unless subsidized by state through royalty gas prices or regulatory control similar to past experience with FPC (low prices - no gas)

The Case for Committing
Alaska State Royalty Gas
from the North Cook Inlet
gas field to Alaska Pipeline
Company ("Anchorage Natural
Gas")

Presented to the Royalty Board
on November 10, 1975

TAB
NUMBER

TABLE OF CONTENTS

- I ANG's Need for Additional Gas Reserves
- II Reasons for Requesting North Cook Inlet
Royalty Gas
- III Proposed Price, Escalations, Total Volume,
Annual Volume, Contract Term, Deliverability,
Transportation
- IV Question of (hypothetical) "possible subsidization
of Anchorage gas consumers at state taxpayers'
expense"
- V Copies of Prior Correspondence
- VI General and Miscellaneous Comments

Introduction

Alaska Pipeline Company and its distribution affiliate Alaska Gas and Service Company, Division of Alaska Interstate Company, collectively known as "Anchorage Natural Gas" have requested to purchase the State's 1/8 royalty share of the North Cook Inlet gas field, which is operated by Phillips Petroleum Company. In response, Anchorage Natural Gas has been requested to appear on November 10, 1975 to discuss this matter with the Royalty Board. This memorandum is submitted as advance information to the Royalty Board and for their convenience in considering the matter.

Summary

Anchorage Natural Gas (ANG) is the most logical choice of any potential purchaser of North Cook Inlet royalty gas, because:

1. ANG is prepared to accept delivery of this gas immediately, on an "if and as available" basis, and at the same price the State now receives for this gas while it is being liquefied and shipped to Japan.

Assuming that delivery to ANG can be made by "exchange," there would be no necessity for capital expenditure for new pipelines or other facilities at present.

2. ANG would utilize this gas as part of its gas supply for its entire service area, from Kalifonsky to Eklutna, and thereby be able to provide improved assurance of the availability of natural gas to all its customers, and at lower cost to ratepayers than is possible through any other alternative known to ANG.
3. Without this gas, ANG may not be able to continue serving the Bernice Lake power plant of Chugach Electric Association, or, if an alternate source is found, then the cost to ANG's customers is likely to be very substantially more than would apply to purchase of State royalty gas. Thus, ANG's purchase of State royalty gas will be of material benefit to ANG's residential and commercial gas customers, and of even greater benefit to Chugach Electric Association and all its customers from Homer to Talkeetna. More than 50% of Alaska's population would be affected, either as gas consumers or as power customers, and thus nearly all of Alaska's taxpayers would be benefited.

For the reasons given, ANG requests the Royalty Board to give ANG highest priority as a prospective purchaser of State royalty gas from the North Cook Inlet gas field, and to recommend such an arrangement for priority action in the next legislative session. Export of this gas, whether to Japan or elsewhere, is not in the best interest of Alaska's citizens.

I. ANG's Need for Additional Gas Reserves

ANG has two gas supply contracts at present. First, the "Anchorage" contract has committed a total of 550 BCF (billion cubic feet) from January 1, 1972 through December 31, 1992, delivered at a master meter in the Kenai gas field. This contract provides 160 million cubic feet per day of deliverability through 1985, and thereafter a deliverability of 1-1/3 times the "average daily" reserves remaining. The price for this gas is:

22¢ per MCF through December 31, 1975

24¢ per MCF 1/1/76 through 12/31/80

27¢ per MCF 1/1/81 through 12/31/85

* "Area Price" 1/1/86 through end of contract

(1) * Area Price is related to sales to third parties in the vicinity of Cook Inlet, as defined by the contract.

In addition to the foregoing contractual price schedules, ANG pays 19.5¢ per MCF for deliverability of 160 million cubic feet per day, escalated each January 1 by the ratio of the Wholesale Price Index (WPI) for November 1975 divided by the WPI of November 1974. Thus, effective January 1, 1976 ANG will pay 24¢ plus 19.5¢ plus the (estimated 1¢) WPI escalation or 44.5¢ per MCF, for a deliverability of 160 million cfd and take-or-pay of 72 million per day (annual average).

(2) ANG's second gas contract (both are with Union and Marathon as equal partners) is called the "Nikiski" contract. It provided 10 million cfd of deliverability, 10 BCF of reserves, and was for 10 years ending May 1, 1977. Delivery is at ANG's choice of three pipeline taps on Union-Marathon's 20" pipeline between the Kenai gas field and the industrial area on the North Kenai Road. At the current level of sales, the 10 BCF of reserves will be exhausted in 1976, prior to the end of the contract term. ANG has several hundred residential and commercial customers on the North Kenai Road, but by far the greater share (90% or more) of this gas is sold to the Bernice Lake power plant of Chugach Electric Association.

Because of the impending early exhaustion of the "Nikiski" contract reserves, and because of the need to obtain additional reserves for the "Anchorage" area, ANG wrote to Union, Marathon, Phillips, and Shell to inquire for a total of 75 BCF over a 15 year period. The only written response was from Shell, who said they had no uncommitted gas available for sale to ANG. Phillips responded in a telephone conversation that since the North Cook Inlet gas was in part potentially committed to

Northwest Natural (Portland) and since both Portland and Pacific Lighting (Los Angeles) were "negotiating" for the State royalty from this field, Phillips could not offer any to us. No response has been received from Union or Marathon other than an informal reaction that 75 BCF is an unreasonably large amount of reserves for us to request in the circumstances.

The information that the gas companies in Portland and Los Angeles are attempting to obtain the State royalty gas from the North Cook Inlet gas field accentuated ANG's interest in the royalty gas and its approaches to the Alaska Department of Natural Resources which has led to this presentation.

ANG's information is that a wellhead value of 45¢ per MCF applies to Phillips' purchase of State royalty gas for its LNG export to Japan. This price is net of 5.45¢ per MCF transportation cost from the platform to the LNG plant, so that a price of 50.45¢ per MCF is in effect for gas delivered at the LNG plant. This is the price ANG contemplates paying for royalty gas from the North Cook Inlet gas field.

ANG has made several other efforts to obtain additional gas reserves. First, it has tried to purchase surplus gas which is now committed to the gas company at the City of Kenai, with no indication of interest in response. Second, ANG inquired to purchase gas now being flared at the Swanson River oil field as a safety measure. This was declined as being "temporary." Third, ANG is negotiating to purchase gas from a well which is controlled by Mike Halbouty ("West Fork"). The deliverability and reserves from this well are probably negligible in relation to ANG's requirements, however.

ANG is aware of the "going price" for intrastate gas sales in areas such as Texas, and has hoped that it could avoid such pricing and make the best possible purchase by applying for the North Cook Inlet royalty gas, as it has done.

Quite apart from the urgent need for gas to replace the "Nikiski" contract, ANG must maintain a supply of reserves related to the term outstanding on its long term financing. When the reserve life falls below the financing term remaining, ANG will have to pre-pay installments on this long term debt, as it had to do in 1970-71 prior to obtaining the current reserve commitment.

The tables and graphs attached present the historical trends and the range of future gas sales. It is clear that if present trends continue, ANG will face pre-payment in 1980 and thereafter unless additional supplies can be secured. It is with that fact in mind that ANG has formed a subsidiary corporation, Gas Supply Corporation of Alaska ("GASCOA"), to explore for natural gas in the vicinity of Anchorage. ANG has invested more than \$500,000 to date in this activity, and has drilled (with others) an exploratory well on acreage at the mouth of the Big Susitna River. Although this well was plugged and abandoned, it did not condemn the area, and further exploration is contemplated as time and financing permit.

ANG cannot be complacent about its future need for gas, even without considering the exhaustion of its "Nikiski" contract reserve commitment. But that urgent problem requires early and positive action, because the gas supply there will last less than a year. The North Cook Inlet royalty gas is seen to be the ideal and only realistic solution to that immediate problem, and helpful to ANG's long term reserves needs as well.

II. Reasons for Requesting North Cook Inlet Royalty Gas

North Cook Inlet royalty gas is interchangeable with Kenai gas field gas, as may be seen by the fact that the two streams are blended (in a 70/30 ratio) as feedstock to the Phillips-Marathon LNG plant on the North Kenai Road. Both fields are essentially pure methane. All the necessary pipeline systems exist to allow an "exchange" to be made so that ANG could "receive" the royalty gas at the Kenai gas field. Such exchanges already are being made by the operators (Phillips, Marathon, Union). ANG can easily agree to "take" whatever royalty gas may be produced at the North Cook Inlet gas field, day by day, without requiring any investment by either of these operators. At the times such deliveries from the North Cook Inlet gas field might be limited temporarily by production facilities or by pipeline facilities, ANG could "work within" (exchange correspondingly less) that limitation, day by day. Alternatively, ANG could readily agree to take the full 1/8th royalty share each and every day if that were preferred by the operators (Phillips, Marathon, Union). When pipeline facilities from the North Cook Inlet may permanently limit its capacity to deliver the royalty gas, ANG could participate in the cost of compressors or additional pipeline necessary to maintain the delivery.

While the "exchange" described above is the only rational and reasonable method of implementing ANG's purchase of royalty gas, ANG could, if necessary, construct a pipeline to deliver the royalty gas into its pipeline to Anchorage. Obviously it would appear to be unnecessary and ludicrous for ANG to be hauling royalty gas south along the North Kenai Road while Union-Marathon is hauling identical gas north along the same road. Thus the "exchange" would be in the public interest, and in the mutual best concern of all the operators.

No other royalty gas is so readily available or really available at all, to ANG. Royalty at the Kenai gas field cannot be taken by ANG to advantage, since this was considered and such limitations are contained in ANG's contract at the Kenai gas field. If ANG does not take North Cook Inlet royalty gas it will be exported to Japan or to Portland or to Los Angeles. ANG's use of this gas to serve its Alaskan gas customers cannot be regarded as being less appropriate than these export arrangements, provided ANG pays no less than exporting the gas would have paid.

III. Proposed Price, Escalations, Total Volume,
Annual Volume, Contract Term, Deliverability, and
Transportation

(a) Price and Escalations

ANG proposes to pay to the State the same price which the State otherwise would have received from (Phillips') export of the North Cook Inlet royalty gas to Japan, for the duration of that export and thereafter not less than

- (1) the average price in effect during the last full year prior to termination of the export contract, and not less than
- (2) the price in effect, from year to year, for gas purchased by ANG at the Kenai gas field (from Union-Marathon)

(b) Total Volume, Annual Volume, Contract Term, Deliverability

ANG proposes to purchase 1/8th of the production of the North Cook Inlet gas field, day by day and year by year. ANG understands that at current production rates, approximately 15,000 MCF per day, or 5.5 BCF/year, would be available. AGAS would not, however, require any particular amount by day or by month or by year or in total. ANG contemplates that its commitment to purchase North Cook Inlet royalty gas would be for the life of production and probably at least 15 years, so that about 75 BCF would be available. ANG also understands that at present the maximum daily royalty production is about 20,000 MCF, related to a condition in which North Cook Inlet gas is supplying the entire input to the LNG plant, which would be unusual and temporary, since the contractual arrangement is for 70% North Cook Inlet gas and 30% Kenai gas to the plant.

ANG has adequate deliverability under contract at the Kenai gas field, and contractual ability to interrupt, so that it does not require a deliverability feature to be part of an agreement to purchase royalty gas -- ANG can take royalty gas on an "if and as available" basis. If, for the convenience of the operators (Phillips or Marathon or Union), a specified daily quantity should be desired, such as 15,000 to 20,000 MCF per day, ANG could so agree.

(c) Transportation

ANG proposes that transportation of the royalty gas would be by Phillips, to the LNG plant site, at the present amount which is understood to be 5.45¢ per MCF. ANG understands that as field pressure will decline during the life of the field, compression will become necessary and will cause additional cost for transportation. ANG further recognizes that compression may also become necessary as a result of increased throughput at the LNG plant whether as a result of increased plant loading or as a result of expansion of the LNG plant. ANG would expect to contribute its proportionate share of such additional transportation cost either by participating in the necessary investment or by compensating Phillips appropriately if Phillips makes the entire investment. ANG proposes that it should have the option of making the capital contribution or paying a higher transportation charge, to assure that Phillips is fairly compensated, without controversy.

IV Question of (hypothetical) "possible subsidization of Anchorage gas consumers at state taxpayers' expense" (Raised in Mr. Fackler's letter of October 15, 1975)

ANG believes that its offer, to pay the same price the State would otherwise receive from Phillips on the sale of the royalty gas for export to Japan, precludes any suggestion of "subsidization," particularly in view of ANG's further proposal to pay not less than the "area price" in the event the export to Japan is terminated. ANG further believes that it would not be in the public interest for Anchorage gas consumers to sustain a higher price for this royalty gas than would be payable on its export to Japan, although ANG understands that competitive bidding might result in a higher price than the price for export to Japan.

ANG contemplates that if the State were to deny ANG's offer to purchase the North Cook Inlet royalty gas on the terms described above, and to invite competitive bidding for this gas in the hope of realizing a higher price, severe complications might arise which would delay or prevent the consummation of such a sale. As an example, Phillips-Marathon have been attempting to sell their gas from this field to the gas company in Portland, Oregon for several years, but have not resolved the matter of jurisdiction by the Federal Power Commission (FPC) since the sale involves interstate commerce.

A sale of royalty gas in interstate commerce would have the same regulatory character, and involve the same jurisdiction by the FPC. A sale to ANG, however, does not involve the FPC in any way, being intrastate.

Aside from the regulatory problem, there easily could be other problems with an interstate sale, such as the need for additional drilling to "prove" the reserves or deliverability; additional pipeline facilities to assure delivery to the LNG plant; and possibly additional LNG storage facilities. All of these problems could require negotiation by the several parties (Phillips, Marathon, State, and the high bidder). Investment for new facilities would require time for engineering and design - which would not be required for ANG's purchase of the gas for pipelining to Anchorage and use by the Bernice Lake power plant and ANG's other customers on the North Kenai Road.

ANG believes that the possible benefits of a higher price through competitive bidding would be more than outweighed by the timeliness and appropriateness of ANG's purchasing this gas for use in Alaska, by the avoidance of regulatory problems (FPC), and by the relatively simple negotiation which ANG's proposal would entail. ANG believes that the suggestion of "subsidization" is illusory and that in fact ANG's proposal will be beneficial to all Alaskan taxpayers as well as Anchorage gas consumers, in that ANG's proposal can be implemented immediately upon approval by the Royalty Board and the legislature, if the parties can agree as described. This would result in increased production of natural gas and thus more income to the State, at the earliest possible date.

LIST OF COPIES OF CORRESPONDENCE

1. August 1, 1975 Letter to Chugach
2. August 1 Letters to Union, Marathon, Phillips, Shell
3. August 20 Letter to O.K. Gilbreth
4. August 25 Letter and Memo of August 22 to Alaska Public Utilities Commission
5. September 4 Letter from Shell Oil Company
6. September 24 Memorandum to Commissioner Martin
7. September 29 Letter to Standard Oil of California
8. September 30 Letter to Commissioner Martin
9. October 10 Letter from Standard Oil of California
10. October 15 Letter from W.C. Fackler (Invitation to Royalty Board Meeting, Nov. 10)



Alaska Gas and Service Company

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

August 1, 1975

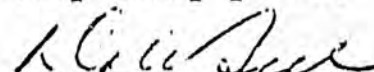
Chugach Electric Association, Inc.
8th and Gambell
Anchorage, Alaska 99501

Gentlemen:

It has just come to my attention this week that our supply of gas which we deliver to you at the Bernice Lake power plant is diminishing at a rate which is cause for serious concern and requires the earliest and best possible attention. Although our contract for the supply runs to May 1, 1977, your continuing heavy use of this plant this year may exhaust the remaining reserves during this coming winter. Based on your purchases to June 30 this year, we have well less than a one year supply remaining under contract. We assume that when you activate the new land line to Wasilla and complete your cable repairs, your requirement to operate Bernice Lake will be substantially reduced, but in the event this does not occur we could have a critical situation (as to a contractual supply only--not physical) this winter. At any rate there is an early requirement for us to make new arrangements for this supply and we wanted you to be so advised so that you could consider the availability of oil which you used during the years of operating this plant prior to its use of gas.

We have notified our suppliers regarding this matter and hopefully they may be able to expedite their consideration at least for a short term solution. As you know, however, at the moment we are operating without "flow through" provisions and in fact without a definite rate structure. It may be that we will be unable to consummate agreement for additional gas, even for a short term, until these matters are resolved. We have appealed to the APUC for reinstatement of the "flow through" provisions, and informally for a permanent rate structure, hoping for a favorable decision. We would then proceed immediately on the matter of reserves to supply Bernice Lake. But we may have to consider other action, even interruptions, due to regulatory or legal developments. We will, of course, keep you advised on this matter, and we regret that we have not had time in recent months to review such important matters with our staff continually.

Very truly yours,


Dale Teel
President

DT:lkd

AGO 801851

Alaska Public Utilities Commission

ALASKA GAS AND SERVICE COMPANY



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Union Oil Company of California
P.O. Box 7600, Union Oil Center
Los Angeles, California

Attention: Mr. Larry Bradford

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977 and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year, 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

cc: Mr. Bart Emery, Marathon, Findlay, Ohio



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Marathon Oil Company
539 South Main Street
Findlay, Ohio

Attention: Mr. Bart Emery

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

cc: Mr. Larry Bradford, Union Oil, Los Angeles

AGO 801853



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Phillips Petroleum Company
Phillips Building
Bartlesville, Oklahoma 66600

Attention: Mr. John Horn

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

AGO 801854



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Shell Oil Company
Alaska Mutual Savings Bank Building
Anchorage, Alaska

Attention: Mr. Tom Cates

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,
Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

AGO 801855



(al (Uron)

ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 20, 1975

Mr. O. K. Gilbreth, Director
Division of Oil and Gas
State of Alaska
Department of Natural Resources
3001 Porcupine Street
Anchorage, Alaska 99504

Dear Easy:

We have a gas supply contract with Union-Marathon for 10 BCF on the Kenai North Road which expires May 1, 1977. Due to accelerated sales to Chugach Electric's Bernice Lake power plant this year, it appears the entire reserve quantity could be used up within less than one year from now, and we are soliciting a replacement supply of gas to serve Chugach and our other customers on the Kenai North Road.

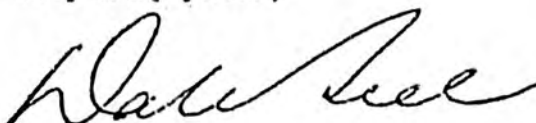
We are in a position to commit to take more than our North Road requirements, however, and would like to offer to purchase the State's royalty share of Phillips' production from North Cook Inlet, delivered to a metering point near the Phillips-Marathon LNG plant on the Kenai North Road. The excess above our Kenai North Road sales would be used to displace deliveries by Union-Marathon to us at the Kenai gas field, and thus serve to prolong the adequacy of our reserve commitment at the Kenai gas field. We are not certain as to whether or not the displacement can be made "on paper," or whether we would be required to lay a pipeline to connect into our Anchorage pipeline either at or near the Kenai gas field or at or near our compressor station east of the Kenai River.

Please consider this letter to be an application to purchase royalty gas as described, pursuant to AS 38.06.010. Since limited time is available to do any necessary construction, we hope all procedural requirements can be determined readily. We would anticipate paying the State the same price it would have received from Phillips, which we believe to be 45¢ per MCF plus 5.45¢ transportation fee, as compared to the current 41.5¢ cost of gas (and deliverability) at the Kenai gas field.

We are relying on approval by the Alaska Public Utilities Commission for us to "flow through" the increased cost of gas to Chugach's Bernice Lake power plant and to "meld" the (higher) cost royalty gas with the (lower) cost Kenai field gas, on a day-to-day basis, since the amount of royalty gas we would receive would depend on the rate of production of the Phillips-Marathon LNG plant and be outside our control. When this plant is down for any reason, we would be utilizing Kenai field gas as replacement.

Please advise regarding any questions or further procedure we should follow in presenting a formal offer to the State.

Very truly yours,



Dale Teel
President

DT:lkd

cc: Alaska Public Utilities Commission



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-8881
TELEX 25-187

August 25, 1975

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

Gentlemen:

The enclosed "Memo to File" (August 22, 1975) was prepared for discussion with the APUC or staff, in connection with our filing for reinstatement of our tariff section "708," (purchased gas cost adjustment). It illustrates the effect this section would have on various gas rates in the event we were successful in obtaining the state royalty gas which we have proposed to buy.

Also enclosed are a map of the Upper Cook Inlet and copies of our letters of August 1 and August 13 to Phillips. It is intended that the enclosures are for the information of the APUC and staff, but would not become "public" information at present.

Very truly yours,

Dale Teel
President

DT:lv
Enclosures

AGO 801858

Teel

August 22, 1975

Memo To: File

Subject: Intended Applicability and Operation
of
AGAS Tariff Section 708
Purchased Gas Cost Adjustment

AGAS now has a filing at the APUC for reinstatement of its Section 708, modified to the apparent (verbal) satisfaction of the APUC staff (Dwight MacCurdy and Bob Lindblom). AGAS is relying on approval of this filing at the earliest possible date because of its imperative need to be contracting for additional gas reserves, both for continued service to customers on the North Kenai Road (especially Chugach's Bernice Lake power plant) and to avoid (postpone) future problems with the provisions of AGAS' long term financing. AGAS' reserves to serve North Kenai Road customers could be exhausted during the winter of 1975-1976 if Chugach continues its current rate of consumption. Unless an alternate solution is developed, AGAS must require Chugach to interrupt the use of gas beginning in October 1975, through March 1976, to the maximum allowable by tariff (Schedule PI), which is 10 days per calendar month during those months.

AGAS' preferred solution is to apply for and obtain state royalty gas from Phillips' North Cook Inlet gas field, rather than to face the (unknown) price of new reserves from its present supplier (Union-Marathon) and rather than to consume, on the North Kenai Road, the reserves dedicated for the Anchorage area. Accordingly AGAS has offered the State the price of 45.0¢ plus 5.45¢ or 50.45¢ per MCF for royalty gas which the State in effect is now selling to Phillips and Phillips in turn is exporting to Japan. To do so, AGAS would expect to build about 35 miles of 8" pipeline at the earliest opportunity, along the Homer Electric power-line right-of-way, from the Phillips LNG plant to the AGAS (APC) Gudenrath compressor station. This pipeline initially could flow in reverse, supplying gas to North Kenai Road customers out of AGAS' (APC's) pipeline to Anchorage, but as soon as royalty gas becomes available, gas would flow from the North Kenai Road to the AGAS Anchorage pipeline. The amount of royalty gas is assumed to be $1/8 \times 70\% \times 140$ million cfd or 12.25 million cfd. Normally it is expected to run at a fairly steady rate, somewhat higher than 12.25, but it could go as high as 17 million, or as low as zero when the LNG plant is shut down. Thus the taking of royalty gas would introduce new dynamics into AGAS' transmission system. Similarly, as a result of these dynamics, AGAS' cost of purchased gas will be constantly varying and thus its rates to customers also will be constantly varying, depending on the mix of Kenai field gas and State royalty gas obtaining for a given month.

AGAS' tariff Section 708-Purchased Gas Cost Adjustment-was designed with the intent of application to such changing costs of gas: each month AGAS would determine its cost of gas for the prior month and would adjust its effective rates upward or downward to reflect the variation from the base price, which will be 43.5¢ after January 1, 1976.

Applying Section 708 in this way, the following examples are given:

1. Assume a summer load condition as follows:

Anchorage/Soldotna Market:	50,000,000 cf/day
North Kenai Road Market:	8,000,000 cf/day
State Royalty gas:	15,000,000 cf/day

Thus the cost of gas for this condition would be

15,000 MCF x 50.45¢ or	\$ 7,567.50
plus (58 - 15 = 43) 43,000 MCF x 43.5¢ or	<u>18,705.00</u>

Total \$26,272.50

Average cost of 58,000 MCF is 45.297¢/MCF

After 1/1/76, all rates are based on gas cost of 43.5¢ (includes 2¢ escalation of 1/1/76, per paragraph 9, page 17 of Order No. 4, U-75-30). The average cost of gas above (45.30¢) less this base price of 43.5¢, is 1.8¢ effective increase which would "flow through" to all AGAS customers per tariffs and contracts. Thus, using the illustrated average rates given on page 19 of APUC Order No. 4, and adding the 2.0¢ escalation of 1/1/76, the "flow through" effect of applying Section 708 as described would be:

Schedule A:	157.08 plus 2.0 is 159.08; plus 1.8 is 160.88; 1.1%
B:	142.48 plus 2.0 is 144.48; plus 1.8 is 146.28; 1.2%
C:	102.58 plus 2.0 is 104.58; plus 1.8 is 106.38; 1.7%
*Chugach I-5:	73.78 plus 2.0 is 75.78; plus 1.8 is 77.58; 2.4%
**Chugach PI :	51.78 plus 2.0 is 53.78; plus 1.8 is 55.58; 3.3%
City Contract:	53.48 plus 2.0 is 55.48; plus 1.8 is 57.28; 3.2%
Military:	60.20 plus 2.0 is 62.20; plus 1.8 is 64.00; 2.9%

2. Assume an average winter load condition as follows:

Anchorage/Soldotna Market:	90,000,000 cf/day
<u>1/</u> North Kenai Road Market:	10,000,000 cf/day
<u>2/</u> State Royalty gas:	10,000,000 cf/day

Thus the cost of gas for this condition would be

10,000 MCF x 50.45¢ or	\$ 5,045.00
plus (100 - 10 = 90) 90,000 MCF x 43.5¢ or	<u>39,150.00</u>
Total	\$44,195.00
Average cost of 100,000 MCF would be	44.195¢/MCF (say 44.20¢)
and rates would be 0.7¢/MCF increase over the base of 43.5¢/MCF.	

As for Condition "1" described above, the effect of 0.7¢ per MCF increase would be as follows:

Schedule A:	159.08 plus 0.7 is 159.78; 0.44%
B:	144.48 plus 0.7 is 145.18; 0.48%
C:	104.58 plus 0.7 is 105.28; 0.67%
I-5:	75.78 plus 0.7 is 76.48; 0.92%
PI:	53.78 plus 0.7 is 54.48; 1.30%
City:	55.48 plus 0.7 is 56.18; 1.25%
Military:	62.20 plus 0.7 is 62.90; 1.13%

- 1/ The North Road Market is mostly Chugach's Bernice Lake power plant, thus there will not be much increase for winter over summer.
- 2/ The LNG plant operation is typically less in winter than summer due to slower passage of the LNG ships to/from Japan.

3. Assume a peak winter condition as follows:

Anchorage/Soldotna Market:	150,000,000 cf/day
North Kenai Road Market:	12,000,000 cf/day
State Royalty gas:	15,000,000 cf/day

Thus the cost of gas for this condition would be

15,000 MCF x 50.45¢ or	\$ 7,567.50
plus (162 - 15 = 147) 147,000 MCF x 43.5¢ or	<u>63,945.00</u>
	Total \$71,512.50

Average cost of 162,000 MCF is 44.144¢, and rates would be increased 0.64¢ over the base of 43.5¢ per MCF. Effect on rates almost same as Condition "2" above.

4. Assume a summer condition such that LNG plant is at maximum operation, but Chugach Bernice Lake plant is shut down for repairs or other reason, and thus essentially all the State royalty gas would be entering the Anchorage system:

Anchorage/Soldotna Market:	40,000,000 cf/day
North Kenai Road Market:	2,000,000 cf/day
State Royalty gas:	17,000,000 cf/day

Thus the cost of gas for this condition would be

17,000 MCF x 50.45¢ or	\$ 8,576.50
plus (42 - 17 = 25) 25,000 MCF x 43.5¢ or	<u>10,875.00</u>
	Total \$19,451.50

Average cost of 42,000 MCF is 46.313¢, and rates would be 2.813¢ (say 2.80¢) over the base of 43.5¢ per MCF.

The effect on AGAS rates for this condition would be:

Schedule A:	159.08 plus 2.80¢ is 161.88; 1.76%
B:	144.48 plus 2.80¢ is 147.28; 1.94%
C:	104.58 plus 2.80¢ is 107.38; 2.68%
I-5:	75.78 plus 2.80¢ is 78.58; 3.69%
PI:	53.78 plus 2.80¢ is 56.58; 5.21%
City:	55.48 plus 2.80¢ is 58.28; 5.05%
Military:	62.20 plus 2.80¢ is 65.00; 4.50%

Condition "4" above is about the worst probable effect of royalty gas on AGAS' rates. Clearly the effect of such "worst conditions" is not such as to raise doubts as to the acceptability of applying AGAS' Section 708 to melding of State royalty gas with Kenai field gas. Only with Section 708 in effect can this melding be accomplished, and thus this Section is essential to AGAS' utilizing royalty gas (or any other new gas supply).

While the foregoing discussion indicates that APC would expect to construct a pipeline from the LNG plant site to the site of APC's Gudenrath compressor station, the more logical step would be to accomplish the "delivery" of the royalty gas by "paper exchanges" rather than physical transportation of the gas. Both North Cook Inlet gas and Kenai field gas are essentially pure (99% plus) methane and no adjustment for heating value or other quality aspect is necessary as a result of such "paper exchanges." The term "paper exchange" here means that with the consent and cooperation of all the parties involved, AGAS (APC) could pay to the State as if it were actually accepting royalty gas from the State, but in fact would continue to receive gas only as at present, at its Kalifonsky metering point, and on the North Kenai Road, produced at the Kenai gas field. The effect would be that AGAS would deduct from actual deliveries at the Kenai field meter an amount of gas equal to the royalty production for a month and would pay the Kenai gas field producers for the remainder. AGAS (APC) would continue to receive gas from these producers at the Kenai North Road at presently existing taps on their pipeline, and would add these deliveries to the "net" deliveries at the Kenai gas field for purposes of computing APC's "purchases" each month from the Kenai gas field. Then Marathon and Union Phillips could resolve the balancing of their records as follows:

The amount of Phillips' royalty production (12.5% of Phillips' total) for a given period, probably on monthly scheduling, would displace Marathon's actual delivery to the LNG plant, and Phillips would increase its otherwise "share" (70% of plant input) to compensate, during the following month, or later in the year if preferred by the parties for their convenience.

Obviously, there would be a requirement for additional production (wells in operation) and transmission by Phillips, unless for economic reasons the additional productive capacity were to be installed at the Kenai gas field with appropriate cost reimbursement being made by Phillips to Union-Marathon.

Because of the anticipated complexities of having all the parties--Marathon, Union, Phillips, State of Alaska, and AGAS (APC) affirmatively cooperate in the above "paper exchange," this memo has presumed that a new pipeline and physical movement of the gas would be necessary. Hopefully there can be a negotiation to eliminate the need for such a pipeline, however.

From the total actual "takes," at the Kenai field meter plus the taps on Union-Marathon's pipeline on the Kenai North Road, would be deducted each year, the Phillips' royalty in order to determine the net usage of Kenai field gas against the contractual total of 550 million MCF. Guaranteed deliverability, now contracted at 160,000 MCF per day, would not be improved by the "paper exchange" alternative to a pipeline, while such a pipeline could improve deliverability, but only to the extent of royalty gas being available when needed, which would be coincidental and not within our control. However, this indefinite and debated improvement on deliverability resulting from the new pipeline would not alone justify the cost of the pipeline.



SHELL OIL COMPANY

601 W. 5TH AVENUE, SUITE 810
ANCHORAGE, ALASKA 99501

September 4, 1975

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

Subject Middle Ground Shoal Field
Associated Gas Reserves

Attention Mr. Dale Teel

Gentlemen:

Thank you for your letter of August 1, 1975, inquiring into the possibility of the purchase of gas at our North Kenai Road onshore facility. Unfortunately, our gas is committed on a long term basis to another buyer in the area and, therefore, we are not in a position to consider your proposal.

Should we be so fortunate as to develop new reserves in the Anchorage Basin, we would gladly entertain your proposition.

Very truly yours,

T. S. Cate
Land Representative

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

MEMORANDUM

**TO: Mr. Guy Martin
Commissioner of Natural Resources**

FROM: Dale Teel

DATE: September 24, 1975

**SUBJECT: Alaska Pipeline Company's Request to Purchase State Royalty
Gas from the North Cook Inlet Gas Field ("Phillips")**

Alaska Pipeline Company (APC) and its affiliate Alaska Gas and Service Company ("Anchorage Natural Gas") supply natural gas to 285 customers on the North Kenai Road and to the Bernice Lake power plant of Chugach Electric Association. The gas is obtained from the industrial pipeline which supplies the LNG plant, the Ammonia/Urea plant, and gas for reinjection into the Swanson River Oil field, and comes from the Kenai gas field (Union-Marathon), under a contract which runs to May 1, 1977. Due to unexpectedly heavy usage by the Bernice Lake power plant, the reserve quantity, 10 billion cubic feet (BCF), will be used prior to May 1, 1977, and at that point the contract will terminate. A contract extension and additional commitment of reserves has been requested of Union-Marathon, or the right to receive gas on the North Kenai Road which is committed for the Anchorage area under a separate contract. There has been little if any progress made on these requests thus far.

Alaska Pipeline Company's contract with Union-Marathon has a provision that if APC were to obtain royalty gas from the Kenai gas field, then the commitment of gas reserves by Union-Marathon (originally 550 BCF) would be reduced an equal amount, and thus in effect APC is barred from negotiating for royalty gas from the Kenai gas field.

APC has inquired for a commitment of gas from Phillips, with the (telephone) response that since Phillips' obligations to the gas company of Portland, Oregon are in suspense due to hearings at the Federal Power Commission and since the gas company at Los Angeles is attempting to purchase royalty gas from the North Cook Inlet gas field, Phillips is not clear to negotiate a commitment of reserves to APC. It is known also that the Portland gas company is requesting to purchase North Cook Inlet royalty gas (discussions with Governor Hammond).

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 2 -

APC has written to the State (letter to O.K. Gilbreth, August 20, 1975, attached) requesting to purchase the North Cook Inlet royalty gas at the price of 50.45¢ per MCF, which is the price which now applies to the royalty gas which Phillips utilizes for its LNG manufacture, which is known to be 45¢ wellhead plus 5.45¢ transportation. If this gas were to be offered to APC, APC could build a pipeline from the LNG plant to deliver the gas into its pipeline to Anchorage as well as to supply its North Kenai Road customers. Such a pipeline (approximately 35 miles of 8") could be built in the right of way now occupied by Homer Electric Association's power line from the Bernice Lake power plant to "Quartz Creek." However, construction of such a pipeline should not be necessary, because existing pipeline systems could be utilized to "exchange," or "displace," gas and the transaction could be made entirely on paper, continuing actual movement as at present, without change. North Cook Inlet gas is identical to Kenai field gas (the streams are interchangeable at the LNG plant), so adjustments can be made by volume only.

APC would appear to be the ideal customer for State royalty gas because it would "blend" (by price/rate adjustments) the higher priced royalty gas into its present supply, with relatively small impact on its rates to Alaskan gas users. APC has negotiated "deliverability" with Union-Marathon so that it is in a position to take none or the full royalty share of North Cook Inlet gas without placing its suppliers (Union-Marathon) in any hardship and without having to rely on constant or steady rate production from the North Cook Inlet field. In other words, APC could take the State royalty gas from North Cook Inlet if and as it is produced, without requiring "deliverability."

The foregoing description assumes that the producers (Union, Marathon, Phillips) and the State can readily agree to the "exchange" or "displacement" as indicated. If APC were to build the new pipeline so that the royalty gas actually were to be moved from the LNG plant to APC's pipeline to Anchorage, the same general situation would obtain as for displacement, but operation would be relatively complex since gas would have to move to or from the LNG plant in the new pipeline depending on whether or not the LNG plant were running and at what rate. It is anticipated that normally there would be adequate notice available so that flow rate and directional changes would be practical - in fact displacement could be utilized even with such a pipeline, to foster best scheduling by all the parties. Such displacement actually occurs already, from time to time, although it involves only the producers (Union, Marathon, Phillips) and, of course, does not affect APC or the State at present. The proposed displacement, either with or without a new pipeline being added, should be just as practical if the parties would so agree.

DT/js
enclosure

AGD 801866

DALE TEEL
PRESIDENT

ALASKA PIPELINE COMPANY
P. O. BOX 5288
ANCHORAGE, ALASKA 99502

September 29, 1975

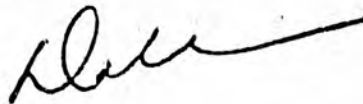
Mr. John Rowland
Standard Oil Company of California
3001 C Street
Anchorage, Alaska

Dear John:

I want to thank you for the courtesies extended to me Saturday, September 27, by Walt Larman at your Swanson River compressor plant. I met Ed Saltz there also, and renewed an acquaintance of 10 years or more ago, when he was assisting us in restoring gas service after the 1964 earthquake.

Naturally, I can't avoid thinking about possible uses for the gas now being flared as a safety measure at the plant. I can visualize various possibilities such as piping it into our pipeline to Anchorage, or to Soldotna, or to the North Kenai Road. We have a centrifugal compression unit at Mile 25 on our pipeline which might be adapted to handle this gas especially during the summer season, when it is not needed for capacity, and we have available an electric motor-driven reciprocating unit which could be installed at your plant. We need the gas and might be able to justify the 20 miles of pipeline if the gas were available "free," or nearly so, even without a commitment of deliverability or a reserves quantity -- in other words, "if and as available." I would like to continue discussion of this possibility with you at your convenience.

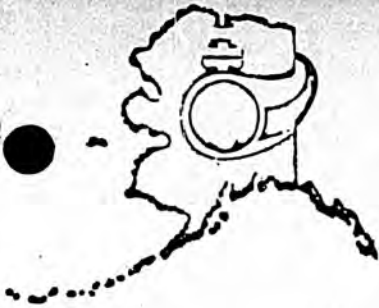
Cordially,



DT/js

AGO 801867

T Chron



ALASKA PIPELINE COMPANY

P. O. BOX 6283
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

September 30, 1975

Mr. Guy Martin
Commissioner of Natural Resources
State of Alaska
Juneau, Alaska

Dear Mr. Martin:

Confirming our discussion at the Anchorage airport on September 30, and my letter to Mr. Gilbreth of August 20, and memorandum to you of September 24, Alaska Pipeline Company is requesting to purchase the royalty share of North Cook Inlet gas field at or near the Phillips-Marathon LNG plant on the North Kenai Road, at the price used by Phillips to acquire this gas from the State for the manufacture of LNG for export to Japan or elsewhere. We believe the most reasonable method for handling the delivery and sale would be by "exchange," or "displacement," so that construction of new pipeline(s) and compression would be minimized. Since our supply at the Kenai gas field is interconnected to the North Cook Inlet gas supply at the LNG plant, for the time being it should be practical that we would take whatever amount of the North Cook Inlet royalty gas may be available day by day by displacement into our system at the Kenai gas field. Later, when additional investment would be required for transporting this royalty gas to shore, we could negotiate our participation in investment, or install our own facilities if necessary, in order to accomplish the purchase on the most reasonable basis for all concerned.

The essential aspect of our request is that we have an immediate need for additional gas on the North Kenai Road and we have a long term requirement for additional gas reserves to serve Alaskan customers in our present service area. We believe that it is in the public interest that we should be allowed to purchase this State royalty gas for local consumption rather than for this gas to be exported to Japan or elsewhere. We will begin preparing a formal

AGO 801868 A

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA


Mr. Guy Martin
September 30, 1975
Page 2

application to purchase this gas and will appreciate having your guidance as to what supporting data or format may be desired, if any, for presentation to the Royalty Board or to the legislature to satisfy statutes or regulations which apply.

Very truly yours,


Dale Teel

DT/js

cc: O. K. Gilbreth, Director 
Division of Oil and Gas

Alaska Public Utilities Commission

AG-801868-B



**Standard Oil Company of California,
Western Operations, Inc.**

P.O. Box 7-839, Anchorage, AK 99510 • Phone (907) 279-9666

J. L. Rowland
Area Supervisor
Producing Department

October 10, 1975

Mr. Dale Teel, President
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Dale:

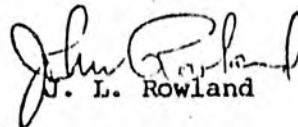
Thanks for your letter of September 29, and for your interest in our flared gas at Swanson River.

Since speaking with you, I have reviewed our gas handling capacity with our Engineering group and have determined the gas ~~phase~~ is still considered temporary. As you know, we have made several adjustments in the past year, including the installation of ~~two~~^{two} field compressors, and we are actively pursuing other remedies which will relieve our flaring problem.

It is my opinion that the laying of a 20 mile pipeline, based on the limited volumes which we foresee, would be a very high risk venture.

We do appreciate your asking about the possibilities and we'll certainly be alert to those opportunities which may become available.

Very truly yours,


J. L. Rowland

JLR:mld

AGO 801869

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M — JUNEAU 99801

JAY S. HAMMOND, Governor

October 15, 1975

Mr. Dale Teel
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Mr. Teel:

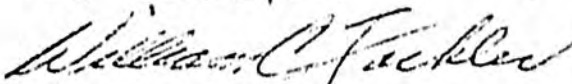
Your letter and memorandum regarding the proposal of Alaska Pipeline Company to purchase state royalty gas from the North Cook Inlet Gas Field was read into the minutes of the October 12 meeting of the Royalty Board.

The Royalty Board invites you to attend the next meeting which will be November 10, 1975, in the Alaska Division of Lands Conference Room in Anchorage beginning at 8:30 a.m. to discuss your proposal.

Items to be addressed in your presentation should be the need for additional gas reserves, reasons for requesting North Cook Inlet source of gas, price and schedule of escalation, total volume, annual volume, deliverability, term of proposal, transportation and so forth. A question has been raised as to the possibility that this proposal would be a subsidization of Anchorage gas consumers at state taxpayer's expense. You might wish to anticipate this point also in your discussion.

Please advise me if I can be of further assistance.

Very truly yours,



William C. Fackler
Deputy Commissioner

cc: Mr. Robert H. Reynolds
921 East Sixth Avenue
Anchorage, Alaska 99501

AGO 801870

LIST OF TABLES AND GRAPHS

1. Table of gas consumption
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)
2. Graph of data per Table (1)
3. Table of remaining reserves
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)
4. Graph of data per Table (3)
5. Table of life of remaining reserves
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)

Note: This is the quotient of reserves data in
Table (3) divided by consumption during
the prior year per Table (1)
6. Graph of data per Table (5)
7. Graph of North Cook Inlet gas production since 1969

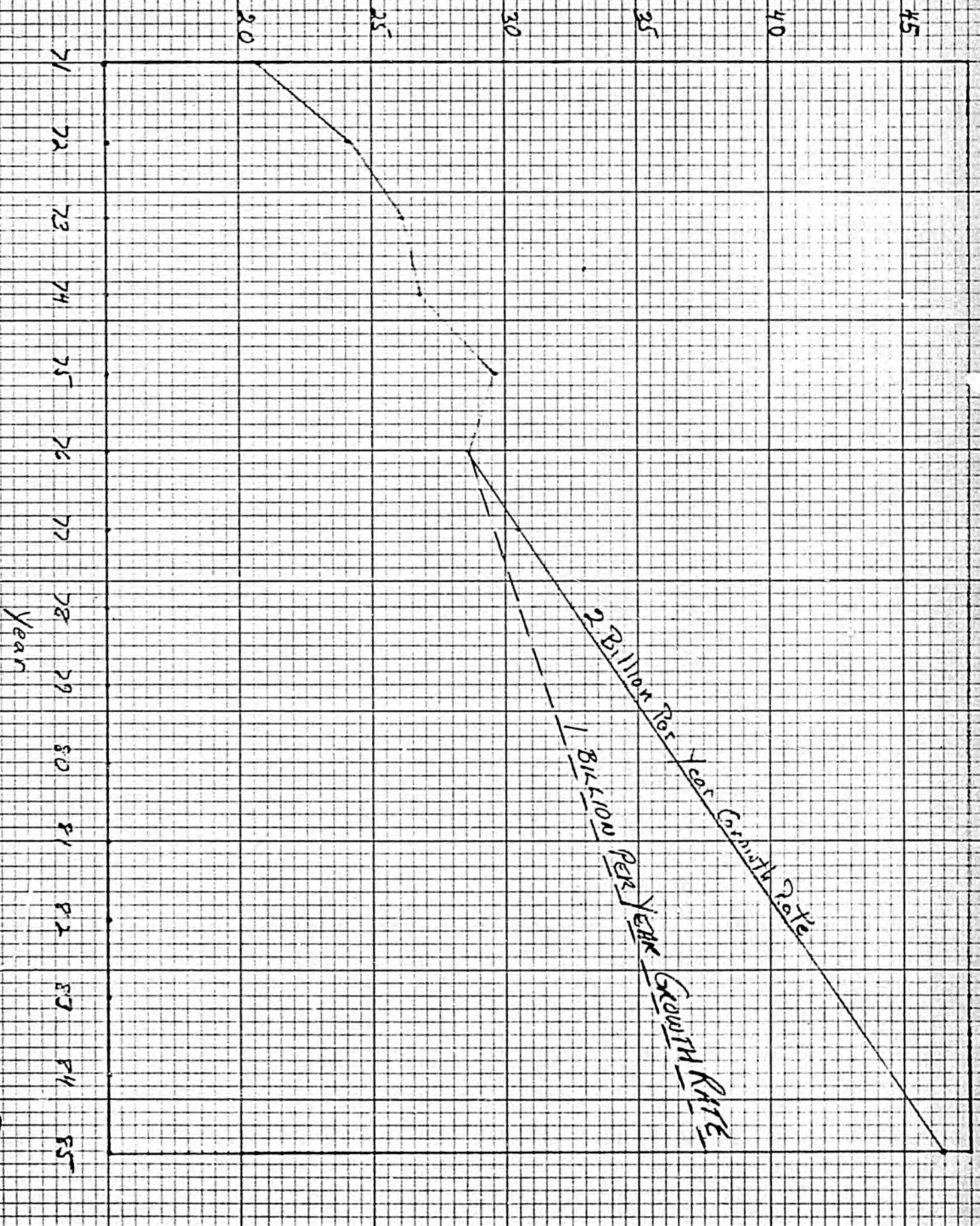
ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

Table of Gas Consumption BCF

Year	Consumption (One Billion/yr Growth Rate)	Consumption (Two Billion/yr Growth Rate)
1971	20.6	20.6
1972	24.1	24.1
1973	26.1	26.1
1974	26.7	26.7
1975	29.7	29.7
* 1976	28.5	28.5
1977	29.5	30.5
1978	30.5	32.5
1979	31.5	34.5
1980	32.5	36.5
1981	33.5	38.5
1982	34.5	40.5
1983	35.5	42.5
1984	36.5	44.5
1985	37.5	46.5

*Reflects loss of deliveries to Chugach Electric 11/4/75

Consumption - Billions of C.F. per Year

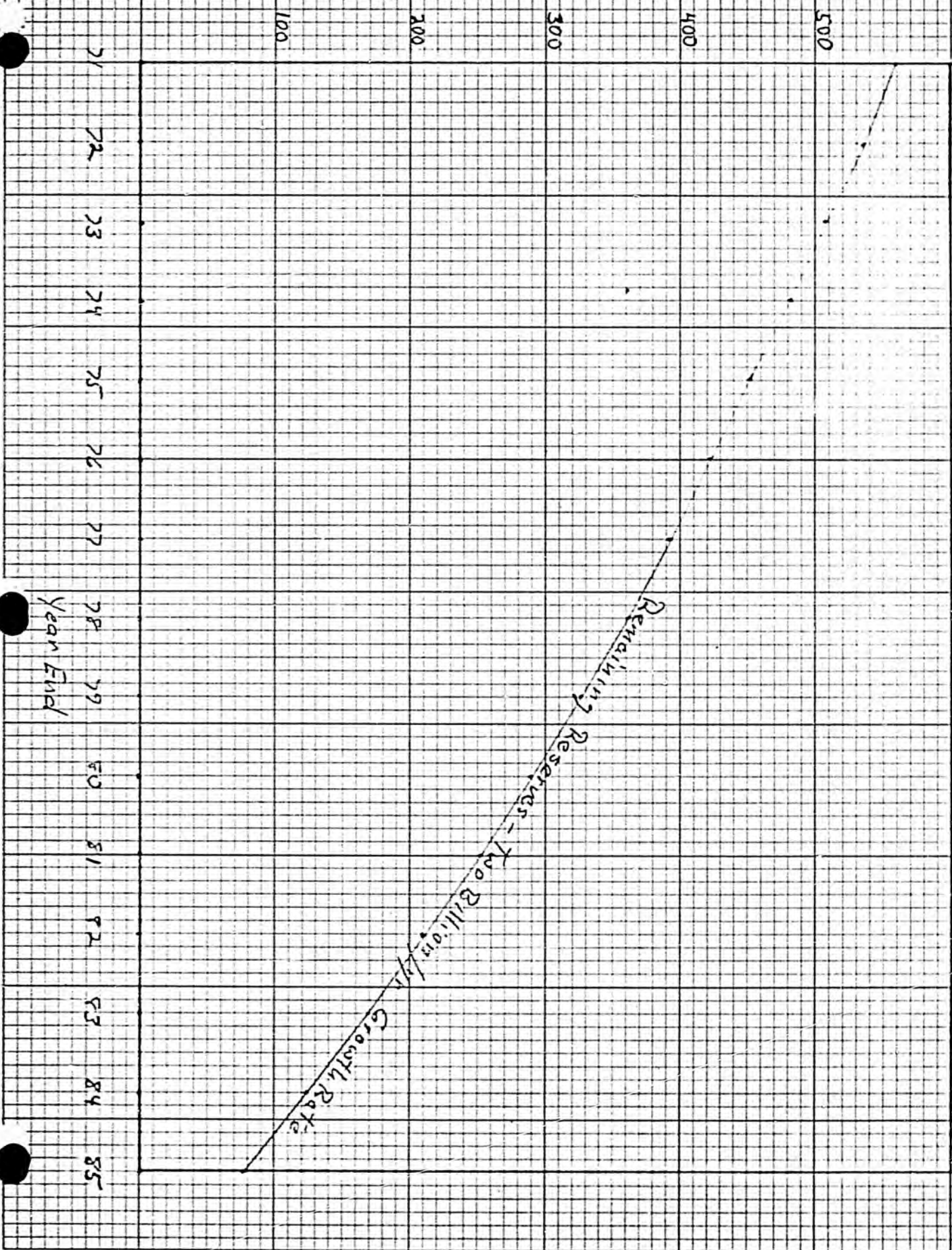


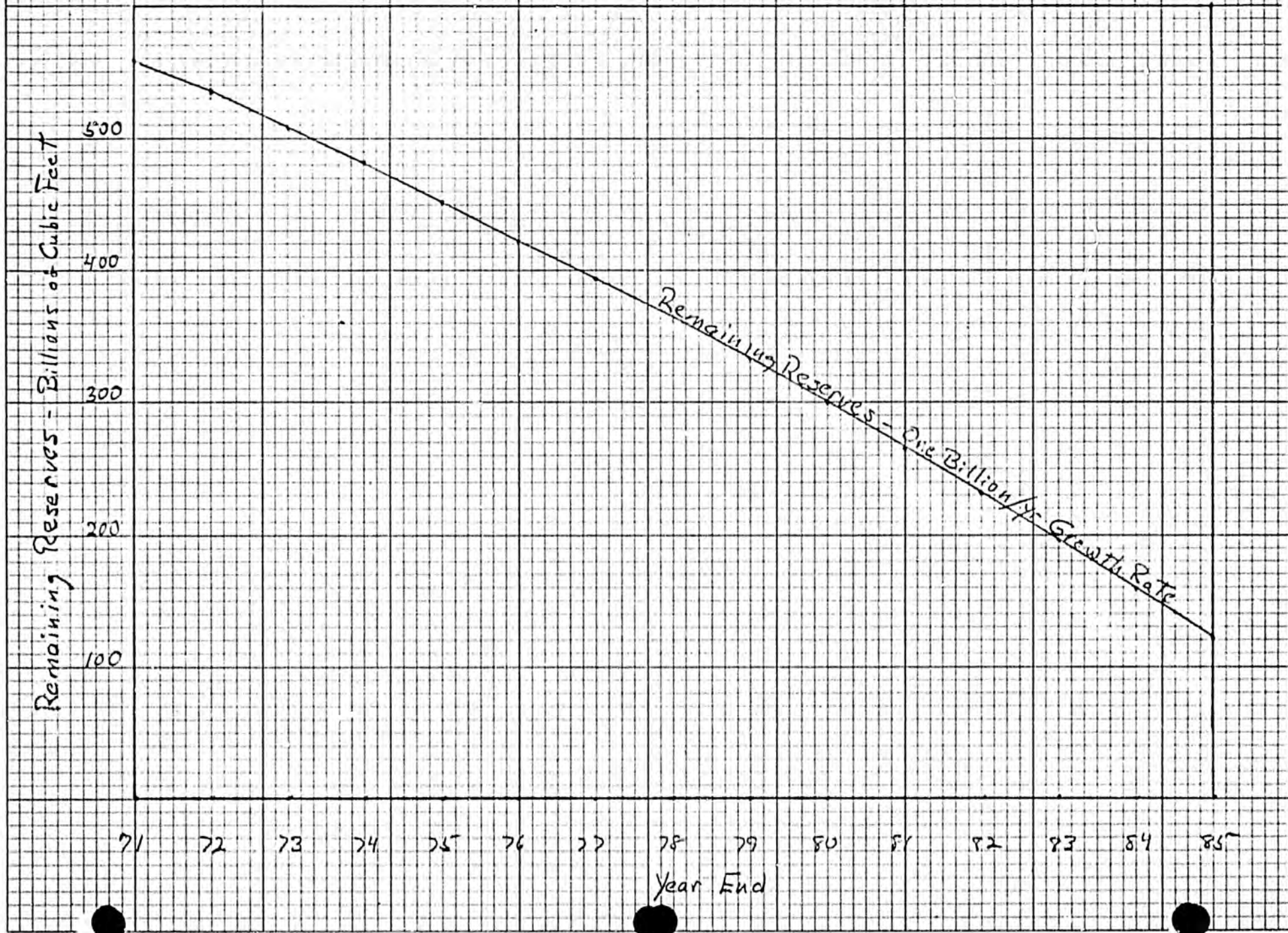
ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

Table of Remaining Reserves

Year End	^B Reserves-MCF (One Billion CF/yr Growth Rate)	^B Reserves-MCF (Two Billion cf/yr Growth Rate)
1971	559	559
1972	535	535
1973	509	509
1974	482	482
1975	452	452
1976	424	424
1977	394	393
1978	363	361
1979	332	326
1980	300	290
1981	266	251
1982	232	211
1983	196	168
1984	160	124
1985	122	77

Remaining Reserves - Billions of Cubic Feet



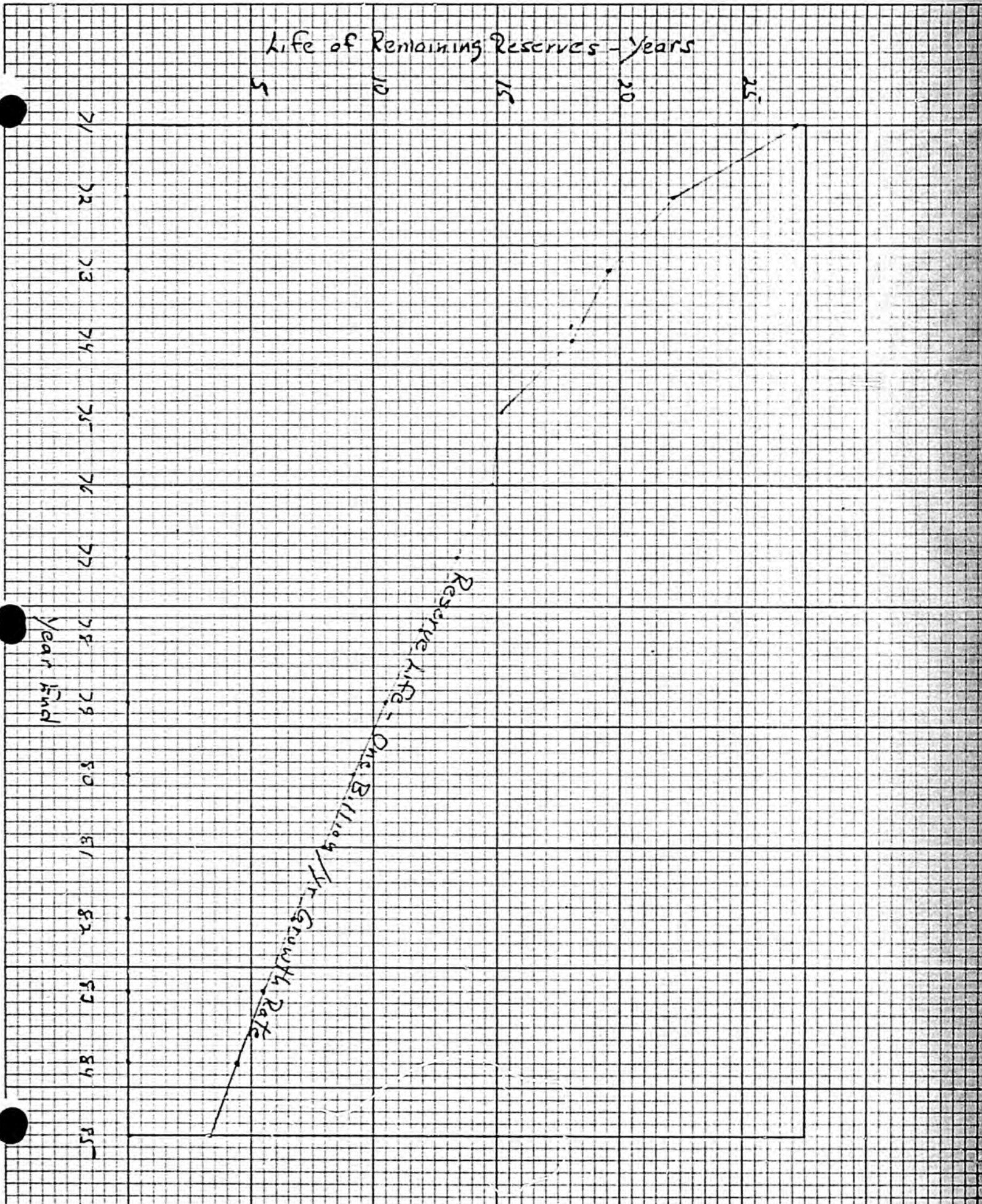


ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

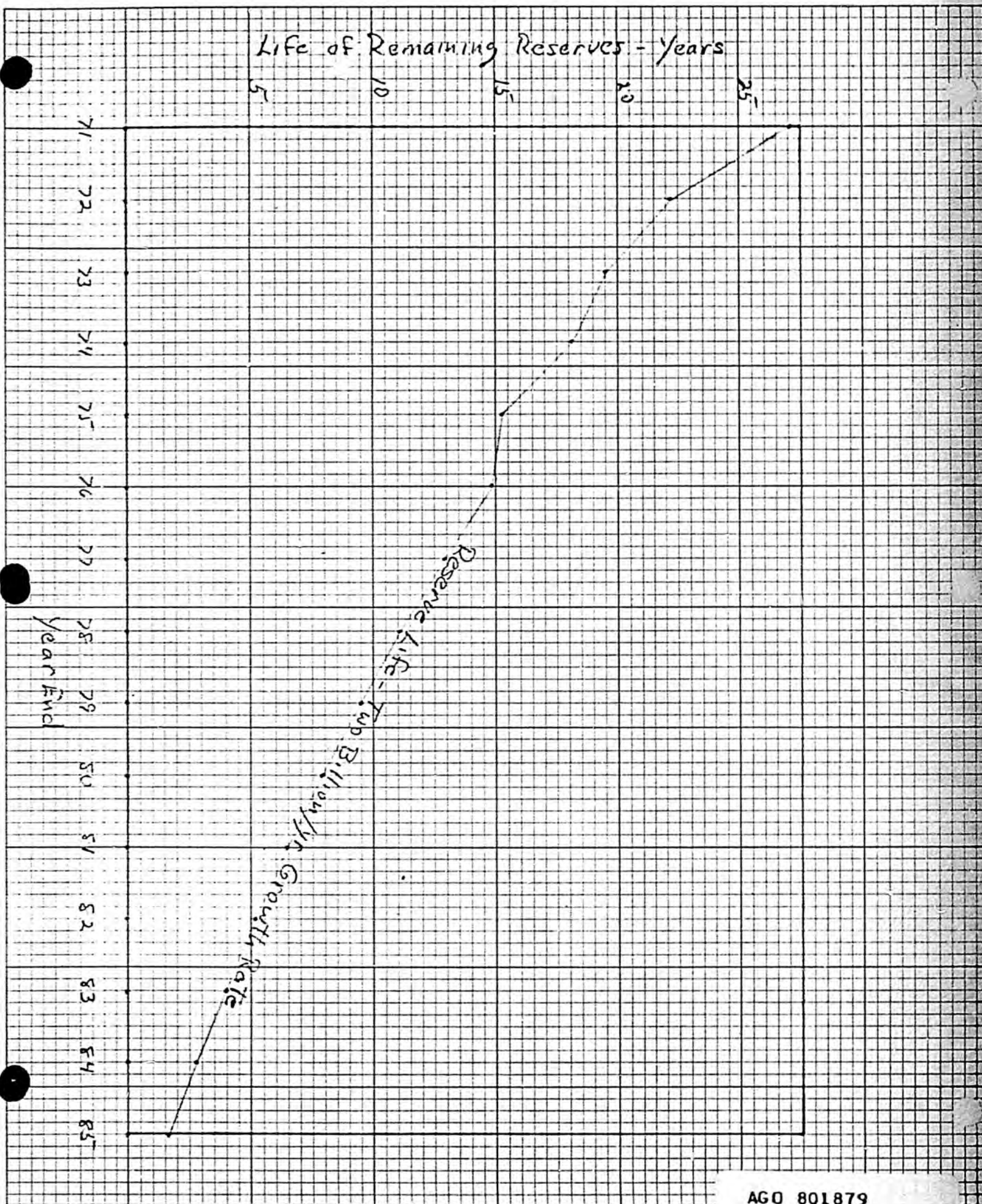
Table of Life of Remaining Reserves

Year End	Life-Years (One Billion CF/yr Growth Rate)	Life-Years (Two Billion CF/yr Growth Rate)
1971	27.1	27.1
1972	22.2	22.2
1973	19.5	19.5
1974	18.1	18.1
1975	15.2	15.2
1976	14.9	14.9
1977	13.4	12.9
1978	11.9	11.1
1979	10.5	9.5
1980	9.2	7.9
1981	7.9	6.5
1982	6.7	5.2
1983	5.5	4.0
1984	4.4	2.8
1985	3.3	1.7

Life of Remaining Reserves - Years

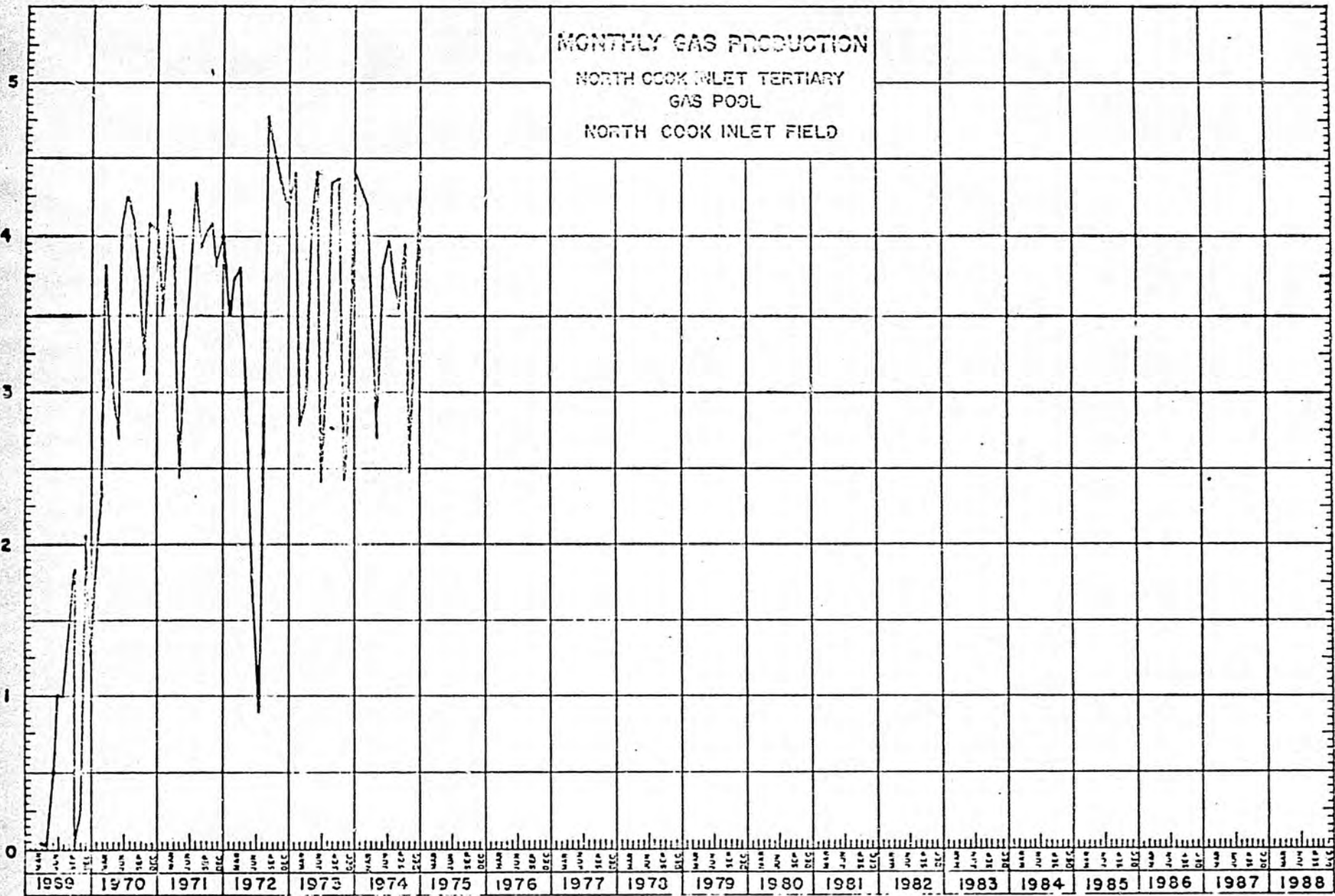


Life of Remaining Reserves - Years



BILLION CUBIC FEET PER MONTH

MONTHLY GAS PRODUCTION
NORTH COOK INLET TERTIARY
GAS POOL
NORTH COOK INLET FIELD





ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

September 30, 1975

Mr. Guy Martin
Commissioner of Natural Resources
State of Alaska
Juneau, Alaska

Dear Mr. Martin:

Confirming our discussion at the Anchorage airport on September 30, and my letter to Mr. Gilbreth of August 20, and memorandum to you of September 24, Alaska Pipeline Company is requesting to purchase the royalty share of North Cook Inlet gas field at or near the Phillips-Marathon LNG plant on the North Kenai Road, at the price used by Phillips to acquire this gas from the State for the manufacture of LNG for export to Japan or elsewhere. We believe the most reasonable method for handling the delivery and sale would be by "exchange," or "displacement," so that construction of new pipeline(s) and compression would be minimized. Since our supply at the Kenai gas field is interconnected to the North Cook Inlet gas supply at the LNG plant, for the time being it should be practical that we would take whatever amount of the North Cook Inlet royalty gas may be available day by day by displacement into our system at the Kenai gas field. Later, when additional investment would be required for transporting this royalty gas to shore, we could negotiate our participation in investment, or install our own facilities if necessary, in order to accomplish the purchase on the most reasonable basis for all concerned.

The essential aspect of our request is that we have an immediate need for additional gas on the North Kenai Road and we have a long term requirement for additional gas reserves to serve Alaskan customers in our present service area. We believe that it is in the public interest that we should be allowed to purchase this State royalty gas for local consumption rather than for this gas to be exported to Japan or elsewhere. We will begin preparing a formal

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OCT 6 1975

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801881

DEPARTMENT OF
NATURAL RESOURCES

OCT 6 1975

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JUNEAU, ALASKA

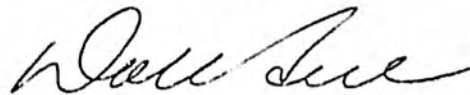
ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

Mr. Guy Martin
September 30, 1975
Page 2

application to purchase this gas and will appreciate having your guidance as to what supporting data or format may be desired, if any, for presentation to the Royalty Board or to the legislature to satisfy statutes or regulations which apply.

Very truly yours,



Dale Teel

DT/js

cc: O. K. Gilbreth, Director
Division of Oil and Gas

Alaska Public Utilities Commission

B-00



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

September 26, 1975

WES

Mr. Guy Martin
Commissioner of Natural Resources
State of Alaska
Juneau, Alaska

Dear Guy:

I have been reading of your appearances in various cities and am not surprised that we have not been able to get together for lunch or otherwise. Now I'm trying to leave the country on October 10 for two weeks. If the royalty board meets October 9 as I've heard, I could attend -- but not on the 10th. Meanwhile, I've put down some of my ideas in a memo and enclose it to you as an indication of what we have in mind on the royalty gas. We are also attempting to obtain the earliest possible restoration of the "flow through" provision of our tariffs at the Alaska Public Utilities Commission so that we will be in a position to contract at the earliest opportunity if our request is approved.

*see 12/2/75
letter to
APUC, last
paragraph.*

Sincerely,

Dale Teel
President

DT/js

cc: Alaska Public Utilities Commission

RECEIVED
SEP 29 1975

**ALASKA ROYALTY
OIL & GAS BOARD**

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

MEMORANDUM

DEPARTMENT OF
NATURAL RESOURCES

SEP 29 1975

RECEIVED
JUNEAU, ALASKA

TO: Mr. Guy Martin
Commissioner of Natural Resources

FROM: Dale Teel

DATE: September 24, 1975

SUBJECT: Alaska Pipeline Company's Request to Purchase State Royalty Gas from the North Cook Inlet Gas Field ("Phillips")

Alaska Pipeline Company (APC) and its affiliate Alaska Gas and Service Company ("Anchorage Natural Gas") supply natural gas to 285 customers on the North Kenai Road and to the Bernice Lake power plant of Chugach Electric Association. The gas is obtained from the industrial pipeline which supplies the LNG plant, the Ammonia/Urea plant, and gas for reinjection into the Swanson River Oil field, and comes from the Kenai gas field (Union-Marathon), under a contract which runs to May 1, 1977. Due to unexpectedly heavy usage by the Bernice Lake power plant, the reserve quantity, 10 billion cubic feet (BCF), will be used prior to May 1, 1977, and at that point the contract will terminate. A contract extension and additional commitment of reserves has been requested of Union-Marathon, or the right to receive gas on the North Kenai Road which is committed for the Anchorage area under a separate contract. There has been little if any progress made on these requests thus far.

Alaska Pipeline Company's contract with Union-Marathon has a provision that if APC were to obtain royalty gas from the Kenai gas field, then the commitment of gas reserves by Union-Marathon (originally 550 BCF) would be reduced an equal amount, and thus in effect APC is barred from negotiating for royalty gas from the Kenai gas field.

APC has inquired for a commitment of gas from Phillips, with the (telephone) response that since Phillips' obligations to the gas company of Portland, Oregon are in suspense due to hearings at the Federal Power Commission and since the gas company at Los Angeles is attempting to purchase royalty gas from the North Cook Inlet gas field, Phillips is not clear to negotiate a commitment of reserves to APC. It is known also that the Portland gas company is requesting to purchase North Cook Inlet royalty gas (discussions with Governor Hammond).

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SEP 29 1975

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801884

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 2 -

APC has written to the State (letter to O.K. Gilbreth, August 20, 1975, attached) requesting to purchase the North Cook Inlet royalty gas at the price of 50.45¢ per MCF, which is the price which now applies to the royalty gas which Phillips utilizes for its LNG manufacture, which is known to be 45¢ wellhead plus 5.45¢ transportation. If this gas were to be offered to APC, APC could build a pipeline from the LNG plant to deliver the gas into its pipeline to Anchorage as well as to supply its North Kenai Road customers. Such a pipeline (approximately 35 miles of 8") could be built in the right of way now occupied by Homer Electric Association's power line from the Bernice Lake power plant to "Quartz Creek." However, construction of such a pipeline should not be necessary, because existing pipeline systems could be utilized to "exchange," or "displace," gas and the transaction could be made entirely on paper, continuing actual movement as at present, without change. North Cook Inlet gas is identical to Kenai field gas (the streams are interchangeable at the LNG plant), so adjustments can be made by volume only.

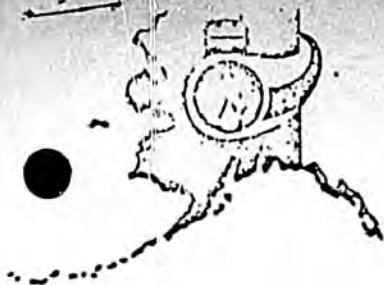
APC would appear to be the ideal customer for State royalty gas because it would "blend" (by price/rate adjustments) the higher priced royalty gas into its present supply, with relatively small impact on its rates to Alaskan gas users. APC has negotiated "deliverability" with Union-Marathon so that it is in a position to take none or the full royalty share of North Cook Inlet gas without placing its suppliers (Union-Marathon) in any hardship and without having to rely on constant or steady rate production from the North Cook Inlet field. In other words, APC could take the State royalty gas from North Cook Inlet if and as it is produced, without requiring "deliverability."

The foregoing description assumes that the producers (Union, Marathon, Phillips) and the State can readily agree to the "exchange" or "displacement" as indicated. If APC were to build the new pipeline so that the royalty gas actually were to be moved from the LNG plant to APC's pipeline to Anchorage, the same general situation would obtain as for displacement, but operation would be relatively complex since gas would have to move to or from the LNG plant in the new pipeline depending on whether or not the LNG plant were running and at what rate. It is anticipated that normally there would be adequate notice available so that flow rate and directional changes would be practical - in fact displacement could be utilized even with such a pipeline, to foster best scheduling by all the parties. Such displacement actually occurs already, from time to time, although it involves only the producers (Union, Marathon, Phillips) and, of course, does not affect APC or the State at present. The proposed displacement, either with or without a new pipeline being added, should be just as practical if the parties would so agree.

DT/js
enclosure

cc: Alaska Public Utilities Commission

AGO 801885



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 20, 1975

COPIES SENT TO:

Paul Robison
Sebe Eastland
Harold Schmidt
O. C. Honig

Mr. O. K. Gilbreth, Director
Division of Oil and Gas
State of Alaska
Department of Natural Resources
3001 Porcupine Street
Anchorage, Alaska 99504

Dear Easy:

We have a gas supply contract with Union-Marathon for 10 BCF on the Kenai North Road which expires May 1, 1977. Due to accelerated sales to Chugach Electric's Bernice Lake power plant this year, it appears the entire reserve quantity could be used up within less than one year from now, and we are soliciting a replacement supply of gas to serve Chugach and our other customers on the Kenai North Road.

We are in a position to commit to take more than our North Road requirements, however, and would like to offer to purchase the State's royalty share of Phillips' production from North Cook Inlet, delivered to a metering point near the Phillips-Marathon LNG plant on the Kenai North Road. The excess above our Kenai North Road sales would be used to displace deliveries by Union-Marathon to us at the Kenai gas field, and thus serve to prolong the adequacy of our reserve commitment at the Kenai gas field. We are not certain as to whether or not the displacement can be made "on paper," or whether we would be required to lay a pipeline to connect into our Anchorage pipeline either at or near the Kenai gas field or at or near our compressor station east of the Kenai River.

Please consider this letter to be an application to purchase royalty gas as described, pursuant to AS 38.06.010. Since limited time is available to do any necessary construction, we hope all procedural requirements can be determined readily. We would anticipate paying the State the same price it would have received from Phillips, which we believe to be 45¢ per MCF plus 5.45¢ transportation fee, as compared to the current 41.5¢ cost of gas (and deliverability) at the Kenai gas field.

?
how much

RECEIVED
SEP 29 1975

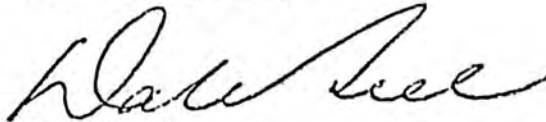
ALASKA ROYALTY
OIL & GAS BOARD

AGO 801886

We are relying on approval by the Alaska Public Utilities Commission for us to "flow through" the increased cost of gas to Chugach's Bernice Lake power plant and to "meld" the (higher) cost royalty gas with the (lower) cost Kenai field gas, on a day-to-day basis, since the amount of royalty gas we would receive would depend on the rate of production of the Phillips-Marathon LNG plant and be outside our control. When this plant is down for any reason, we would be utilizing Kenai field gas as replacement.

Please advise regarding any questions or further procedure we should follow in presenting a formal offer to the State.

Very truly yours,



Dale Teel
President

DT:lkd

cc: Alaska Public Utilities Commission

HEA



Homer Electric Association, Inc.

P. O. BOX 429

HOMER, ALASKA 99603

PHONE (907) 235-8551

file: Homer Elec

February 16, 1977

Mr. Don Wold
State of Alaska
Royalty Oil & Gas Development Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Wold:

During the year of 1976, because of an unprecedented growth in the population of its service area, the Homer Electric Association became aware of a pending crisis in its future supply of wholesale electrical power.

This association serves all of the communities on the Kenai Peninsula except Cooper Landing and Seward. The current number of meters served is 7200 and anticipated growth in numbers is expected to be (based upon actual growth in 1976) approximately 20% per year for the next few years.

Homer Electric has enjoyed a wholesale electrical supply contract wherein they purchased their needs at cost from the Chugach Electric Association since 1969. Present demands upon the Chugach system plus a reluctance upon the part of Chugach to provide for the future power requirements of Homer has dictated a departure from this present arrangement. Late in 1976, Chugach agreed to let Homer acquire its gas fired generating facility located nine miles north of Kenai (known as the Bernice Lake Plant) and thence Homer would provide for its present and future needs of electrical supply as required by the growth of its service area.

Upon investigation it was revealed that a gas fuel supply would not be certain at the Bernice Lake facility after April 30, 1977. Homer has made application to all of the major gas suppliers and producers in the area and has not received an assurance of a gas supply at any price. The Homer Electric Association is now applying to the State of Alaska, through its Department of Natural Resources, to make available the State's royalty share of natural gas from the Kenai field for use at the Bernice Lake Plant. This gas is presently being used by various producers in the field at a reported price of from 24.5 to 34.8 cents per thousand cubic feet.

*What happened to Kenai
Chugach
Service
copy?*

Mr. Don Wold
February 16, 1977
Page Two

Homer is willing to pay the State 60¢ per thousand cubic feet delivered to the Bernice Lake Plant for quantities set out in our letter of February 11, 1977.

The State has a supply of gas that it can make available for use to the benefit of the citizens of the Kenai Peninsula as set forth in the information attached marked Exhibit A.

It will be noted by reviewing the attached exhibit that only 14.6 percent of the gas used in 1974 was for the direct benefit of the citizens of Southcentral Alaska. Projected use in 1980 indicates only 11.7 percent will be used for the purpose stated above.

Sincerely yours,



W. C. Rhodes
General Manager

(EXHIBIT A)

Current production of "dry gas" on the Kenai Peninsula represents only 2% of known reserves and only slightly more than 1/2 of 1% of known plus patented reserves according to the Stanford Research Institute study released in December of 1975. Natural gas is being consumed or utilized for the following purposes:

<u>Catagory</u>	<u>Use 1974(Billion CF)</u>	<u>Use 1980(Billion CF)</u>
Electric Power Gen.	17.11	33.04
Ammonia Manufacturing	22.10	44.20
Household-Commercial	9.87	14.83
Refinery Fuel	.87	2.28
Lease & Plant fuel	14.37	16.73
Shrinkage & Flaring	9.58	7.23
Military Use	5.86	5.86
Export LNG	61.87	88.38
Repressure (Gross Injection)	86.81	86.81
	<u>228.44</u>	<u>459.92</u>

Source: Reference number 7 of the above mentioned study.

Table 18 of this study estimates a recoverable existing reserve as of January 1, 1975 of 7,117 billions of cubic feet or a 31.42 year supply based upon 1974 actual use or a 15.6 year supply based upon estimated 1980 usage.

Insufficient demand is the reason that nine of the existing gas fields are still shut-in and the remainder are producing well below capacity. Production of gas could be more than doubled without addition to known reserves.



Homer Electric Association, Inc.

P. O. BOX 429 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

*file: #100000
Proposals*

February 11, 1977

file
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FEB 14 1977

**ALASKA ROYALTY
OIL & GAS BOARD**

Mr. Don Wold
State of Alaska
Royalty Oil & Gas Development Advisory Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Wold:

Confirming our various telephone conversations, the purpose of this letter is to formally request your cooperation in obtaining for our association the State Royalty Gas available from the Kenai Gas Field. We would like to use this gas as fuel for the Bernice Lake Power Plant beginning May 1, 1977. The plant is located North of Kenai, adjacent to the Standard Oil Company.

We are presently conducting negotiations with Chugach Electric Association to acquire this plant, now owned by them, and to re-acquire our large transmission lines presently leased to them, which originate in the Kenai Lake area and provide electric service to the Peninsula. The reason for the acquisition of this property is the constant deterioration of electrical service to the industrial plants on the North Kenai Peninsula, and the inability or reluctance of Chugach to guarantee our association adequate wholesale power for our future needs.

If we are successful in acquiring a gas supply at an acceptable price for the Bernice Lake plant we will conclude our negotiations with Chugach and proceed to build additional generating facilities at the Bernice Lake site. During the interim period, until the additional generating facilities are installed, we will require an average of approximately 5,700 mcf per day. With winter peaks, that may require 9,000 mcf. After January 1, 1979, which is our target date for the completion of the new generation facilities, our daily average requirement would be slightly in excess of 8,000 mcf with peaks that could approach 17,000 mcf.

Your urgent cooperation is requested in assisting us to obtain a fuel supply as a decision must be reached in our negotiations within the next few days.

The alternative to our acquisition of the generating facilities will be a future dependence upon wholesale electrical energy supplied by Chugach. They have indicated that they are unwilling to continue to supply us wholesale energy for use by industry under the present rate structure, and have said that they will insist upon a substantial increase if they are forced to continue under the present contract. The existing wholesale electric supply

February 11, 1977

contract is effective until the Year 2008, and, of course, would be cancelled if we acquire their property on the Kenai Peninsula.

We hope the above background information is sufficiently complete to assist you and your staff in drafting a proposal. However, if you should have any questions please contact me and we will provide any additional material that you may require.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR: em

STATE
of ALASKA

MEMORANDUM

RECEIVED
JAN 11 1977TO: Guy Martin, Commissioner
Department of Natural ResourcesDepartment of
Natural ResourcesDATE :
January 7, 1977FROM: *DW*
Don Wold
Alaska Royalty Board
Department of Natural Resources

SUBJECT: Homer Electric Association Inc.

Bill Rhodes, General Manager, called 1-6-77 in an attempt to set up a meeting between the Alaska Public Utilities Commission, Gordon Zerbetz, Alaska Pipeline Company, Dale Teel, Harold Schmidt, Homer Electric Association, Bill Rhodes, Phillips Petroleum Co., John Horn, Department of Natural Resources, Guy Martin, Don Wold.

Mr. Rhodes is, of course, still attempting to purchase gas to run the Bernice Lake power plant which he is attempting to purchase from Chugach Electric. He desires to purchase the royalty gas presently under contract to Alaska Pipeline Company. Mr. Rhodes is aware that presently Alaska Pipeline Company is unable to receive the gas because they are unable to obtain a waiver of Jurisdiction by the PUC for Phillips over the pipeline to be used to deliver the gas. Mr. Rhodes believes that since Alaska Pipeline Company cannot receive the gas then he should be allowed to purchase it and try to solve the delivery problem. I understand that Mr. Rhodes will proceed to purchase the Bernice Lake power plant and will use it for standby only and run diesel or fuel oil as needed if he cannot purchase gas at a reasonable price. He also says that he can purchase gas from the Kenai Utility at 50¢/MM BTU but it cannot be exported from that area. He may have to purchase that gas and have his power generated there and run a power line to his service area. He also states that he is working on other alternative supplies of gas. Finally, he is asking for a meeting between all parties to get the issues resolved.

Called Harold Schmidt, Alaska Pipeline Company, who recommended that all sides of the story be known before such a meeting. He would also like to meet to review the gas contract and explain part of the problem. He will visit Juneau on Monday and Tuesday, 1-10-77 and 1-11-77 for such discussions.

Called Gordon Zerbetz, PUC, on 1-7-77 who states that PUC can do nothing unless Phillips makes application for the waiver. Phillips apparently will make no attempt to do so. Mr. Zerbetz also states that the Alaska Pipeline Commission has been meeting with the PUC to determine if APC has jurisdiction over such pipelines. He also suggested that we meet to discuss the issues in detail.



Homer Electric Association, Inc.

P. O. BOX 429 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

December 9, 1976

Mr. Gordon Zerbetz, Chairman
Alaska Public Utilities Commission
1100 MacKay Building
338 D. Nash Street
Anchorage, Alaska 99501

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DEC 13 1976

RECEIVED
DEC 13 1976

Department of
Natural Resources

ALASKA ROYALTY
OIL & GAS BOARD

Dear Sir:

Our Association has entered into active negotiations to acquire generating facilities presently owned by the Chugach Electric cooperative, located approximately 9 miles north of Kenai, and known as the Bernice Lake Power Plant.

The acquisition of these facilities, along with the cancellation of a long-term "all requirements" wholesale energy contract with Chugach, will enable this association to plan and provide for generating and transmission facilities as future needs dictate. This plan will also allow us to promote the early construction of the Bradley Lake Hydro generating plant, which will provide electric energy in the future without dependence upon fossil fuels.

We attempted to negotiate with the Alaska Gas and Service Company to obtain a dependable source of fuel for the Bernice Lake generating plant, however, that company did not give us any assurance of a permanent supply of gas as evidenced by their letter of November 16 to us with a copy to the Commission.

In the letter from the Alaska Gas and Service Company, they mention a contract with Phillips, which is dependent upon a waiver of jurisdiction from the Commission, an amendment to the gas company's contract with the State of Alaska for Royalty Gas, financing additional pipeline, construction of that line, and then Commission approval of a rate design for a special contract with us. It is obvious that these items will require negotiations covering a span of several months.

In order for our association to go forward with the plan to acquire the Bernice Lake facilities, we have certain deadlines to meet that have a relationship to the pending change in personnel brought about by a change in the national administration. If we cannot go forward with this plan prior to the change-over in the hierarchy of the Rural Electrification

Administration in Washington, it will be necessary to re-educate a group of people far away from Alaska unfamiliar with the needs of our association. The incumbents of these positions are sympathetic with our negotiations with Chugach and await only a formal document for final approval of the above mentioned arrangement.

The Alaska Gas and Service Company's proposed contract with Phillips is dependent upon a waiver of the Commission. We do not feel that the Commission can grant such a waiver because the gas company would then take this gas for use in intra-state commerce, and, hence, in our opinion, will be properly subject to regulation by the Commission.

We are presently negotiating with Phillips and the Alaska Gas Royalty Board for direct acquisition of the Royalty Gas from Phillips, to be used at the Bernice Lake site as fuel for the existing generators and for additional generating facilities that are planned to be installed at the earliest possible date.

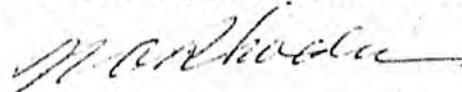
The purpose of this letter, in addition to keeping you informed as to our overall plans, is to request from the Commission a statement that can be used in our negotiations with Phillips to the effect that the Commission will not take jurisdiction over this State Royalty Gas because our use of this gas will be for the purpose of manufacturing electrical energy for resale under tariffs directly under the control of the Commission. In our opinion the gas fuel would not be subject to the Commission's regulation any more than fuel oil or the purchase of components necessary to erect the generating station.

We have a meeting scheduled with Phillips Petroleum Company in Bartlesville on December 17, and an expression of the Commission's feelings in writing prior to that date would aid us greatly in these negotiations.

We sincerely appreciate your cooperation in this matter.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

cc: John Horn, Phillips Petroleum
cc: Alaska State Royalty Board

AGO 801896



CC: G. Harbo, Ok. Gabrieth, F. Brown, Royalty Board
copied 12/31/76 R

Homer Electric Association, Inc.

P. O. BOX 429 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

November 30, 1976

Mr. Don Wald
State of Alaska
Royalty Oil & Gas Development Advisory Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Wald:

Thank you for calling me on the telephone today and discussing price and availability of State Royalty Gas from the North Cook Inlet Field.

To help clarify the matters discussed in our telephone conversation, we are enclosing a copy of our letter of November 12 to the Alaska Gas and Service Company and a copy of their response dated November 16.

You will note that we requested that the gas company quote us prices for a continuous supply of natural gas, and in the absence of such assurance, we further requested their permission to obtain gas from any other available source in that area. The gas company maintains that this area is in their certificated service area, however, I have been unable to verify this with the Alaska Public Utilities Commission.

In reading the letter from the gas company, you will note that they did not promise a continuous supply of natural gas, nor did they give us permission to obtain gas from other sources.

In other correspondence from the gas company they indicated that they are not certain that they would be able to use all of the Royalty Gas available in that area, and would re-negotiate their contract with the Royalty Board to seek permission to return part of the Royalty gas to Phillips. In fairness to the electric consumers on the Kenai Peninsula whose rates for service will eventually be based partially on the cost of fuel for generating purposes, we can see no logic in the State turning this gas over to the Alaska Gas and Service Company, whose only customer for the Royalty gas, under the present conditions, is the power plant that we are in the process of acquiring in the North Kenai Area.

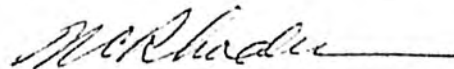
November 30, 1976

We, therefore, request the Royalty Board to consider making this gas available to the Homer Electric Association, who admittedly cannot use all of the gas at the present time, but would be willing to negotiate a sale for that quantity that is surplus to our needs, and, hence, assure the State of a market for all of the Royalty gas presently being delivered to Phillips.

We appreciate your cooperation in this matter.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

Enclosures

From: *Wald*

11-30-76

The Alaska Royalty Oil and Gas Development Advisory Board

Homer Electric Assoc

Bill Rhodes - 235-8677

Wants to know price of Cook Inlet royalty gas to Alaska
Pipeline - Has ltr asking to sell at $86.81¢/ft^3$ on 2 hr notice
interest - from Tul & Alaska Pipeline -

Trying to purchase largest Beemer Lake Plant - 4 man - contract
expires Apr '77

Needs ~~8000~~ 8000 ft³/day

Alaska Pipeline cannot handle all gas and apparently
will result in the shut-in.



Alaska Gas and Service Company

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

November 16, 1976



Mr. W. C. Rhodes, General Manager
Homer Electric Association, Inc.
P. O. Box 255
Homer, Alaska 99603

Dear Mr. Rhodes:

Confirming our conversation of November 12, 1976 and in response to your letter of that date, we can offer only interruptible (not continuous) service to you for the Bernice Lake power plant. Interruptions or curtailments would be upon two (2) hours' notice. The service would be by a special contract and thus subject to the approval of the Alaska Public Utilities Commission (APUC).

We would propose service to you at a minimum bill of \$5,000 per month and with a price, at this writing, of \$0.8681 per MCF for gas of approximately 1000 btu per cubic foot (but not less than 950 btu/cf), and at pressure and quality suitable for use as fuel for the Bernice Lake power plant.

This is the price in effect as our rate "SK-5", which is a filed tariff. We would expect to have the contract take effect January 1 or the date of your acquisition of the Bernice Lake power plant if earlier, and continue indefinitely.

Per our discussion, our gas supply on the North Kenai Road is indefinite; we are attempting to begin purchasing State royalty gas on or before May 1, 1977 on the expiration of our contract with Union-Marathon. Alternately, we would hope to extend our contract with Union-Marathon until purchase of royalty gas could begin. We are planning a pipeline along the route and in the right of way of your power transmission line (from Quartz Creek to Bernice) to cover any outages of royalty gas and to gather royalty gas into our pipeline to Anchorage. It may not be practicable to complete this pipeline by May 1, and it might be necessary for some oil to be used although we will make every effort to have the line built or else to get the extension of our supply by Union-Marathon. As you know this plant burned oil for 10 years or more and it is essential that oil capability be maintained.



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3888 SPENARD ROAD
P. O. BOX 5228 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-3331
TELEX 25-187

Mr. W. C. Rhodes
November 16, 1976
Page -2-

*No contract yet?
what basis*

is that completed

We are of course proud of our record of reliable service with a minimum of curtailments, and we would hope to continue it with you as our customer. However, many elements are now operating which may be or are beyond our control. First, we urgently need APUC waiver of jurisdiction over Phillips. Second, we need to amend our contract with the State to conform with the contract with Phillips (I gave you a copy). Third, we must get financing for the pipeline, and Board approval; fourth, we must build the line; and last, we must get APUC approval of our rate design generally and the special contract with you in particular. Our rate design will be at hearing December 6, and we will draft the special contract for service to you upon the conclusion of that hearing. We can pledge to you our best efforts in all these undertakings, but we cannot commit their timely completion. We appreciate your helpfulness thus far and may need to call on you again.

Very truly yours,

Dale Teel

dh

cc: APUC with copy of HEA Letter 11/12/76



Homer Electric Association, Inc.

P. O. BOX 255 • HOMER, ALASKA 99503 • PHONE (907) 235-8551

November 12, 1976

Royalty Gas File

Mr. Dale Teel, President
Alaska Gas Service Company
3000 Spenard Road
P. O. Box 6288
Anchorage, Alaska 99502

Dear Mr. Teel:

Confirming our conversation of today, we are in the process of negotiating the acquisition of the Bernice Lake Power Plant from Chugach Electric Association.

In order to go forward with these negotiations, it will be necessary to have a commitment from your organization that a continuous supply of natural gas for fuel will be available at the Bernice Lake site, and the anticipated price and conditions of a proposed contract.

In absence of this assurance that we will be able to obtain the gas supply, we request your permission to obtain gas from any other available source in your service area.

As the anticipated closing date of these negotiations is the first week of January, 1977, we urge your immediate attention to this matter.

Thank you for your cooperation.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

W. C. Rhodes

W. C. Rhodes
General Manager

by EME

WCR: em

April 6, 1976

Mr. W. C. Rhodes
Homer Electric Association, Inc.
P. O. Box 255
Homer, Alaska 99603

Dear Mr. Rhodes:

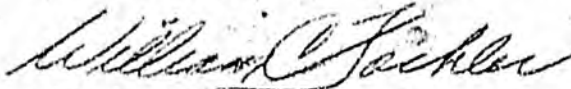
Your letter to Commissioner Martin withdrawing your application for the North Cook Inlet Field royalty gas has been forwarded to me.

We will place your name on our mailing list to keep you advised on the Board's activities.

Attached is a copy of the notice and informative summary to define "industrial use". This regulation does not attempt to set a priority status. Presumably priorities would be set from time to time as warranted by conditions at that time and might well be a matter of State policy which is beyond the Board's responsibility.

We appreciate your notification of withdrawal and are pleased that you have made satisfactory arrangements for a gas supply.

Yours truly,



William C. Fackler
Executive Director

Attachment

WCF:dk



Homer Electric Association, Inc.

P. O. BOX 255 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

March 30, 1976

RECEIVED
APR - 2 1976

Department of
Natural Resources

Mr. Guy Martin, Commissioner
Royalty Oil and Gas Development Advisory Board
Department of Natural Resources
Pouch M
Juneau, Alaska 99811

Dear Sir:

In our letter to Mr. Fackler dated January 22, 1976, and at a hearing before your Advisory Board, we applied for the State Royalty Gas that you plan to make available from presently producing fields in the North Kenai area.

The purpose of this letter is to inform you that we have been able to obtain commitments to purchase fuel for the proposed new electric generating facility at North Kenai from what we believe to be a reliable source; and, further, Mr. Dale Teel of the Alaska Pipeline Company has agreed to supply our Association with natural gas for fuel for the existing electric generating plants in the North Kenai area if we are successful in acquiring these from Chugach Electric Association.

In view of the foregoing, we feel that it is in the best interest of all concerned that we withdraw our application as outlined in our letter of January 22.

As the Kenai Peninsula continues to attract industry, we do not wish to imply that we will not, at some future time, be interested in dealing with the State for royalty gas that may become available in other, yet to be developed, fields on the Kenai Peninsula area. If, at any time, additional royalty gas does become available we would appreciate it very much if your office would advise us so that we can ascertain whether or not it would be needed in our ever-expanding operation.

We note with interest the development of the Advisory Board's intention to adopt a regulation in Title 11 of the Alaska Administrative Code to interpret and make specific Alaska Statute 38.06, including the determination of surplus.

RECEIVED
APR 05 1976

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801904

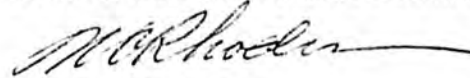
March 30, 1976

We sincerely hope that the proposed regulation 11AAC26.900(a) (5) will define the term "industrial use" as referred to in existing regulations, and that the State's royalty gas will be made available first to industrial use and then to all other uses, according to priorities established by your office.

We sincerely appreciate the courtesies extended to our Association by the Advisory Board and your office, and we are looking forward to further negotiations should the need arise.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

cc: Rep. Leo Rhode
cc: Mr. Dale Teel



Homer Electric Association, Inc.

P. O. BOX 255 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

February 11, 1976

ALASKA ROYALTY
OIL & GAS BOARD
FEB 17 1976
RECEIVED

Mr. William C. Fackler, Executive Director
Department of Natural Resources
State of Alaska
Alaska Royalty Oil & Gas Development Advisory Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Fackler:

Thank you for your letter of February 9, 1976, addressed to Mr. W. C. Rhodes, with reference to H.E.A.'s interest in purchasing North Cook Inlet royalty gas, and advising of the February 23 meeting in Juneau.

Since Mr. Rhodes is presently out of the state, but will return prior to the meeting, this is to advise that he definitely wishes to be scheduled for the February 23 meeting.

Thank you for your cooperation in this matter.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

Elaine McCullough

Elaine McCullough
Secretary to General Manager

file

em

RECEIVED
FEB 17 1976

Department of
Natural Resources

AGO 801906

Alaska Royalty Oil & Gas Development Advisory Board

February 9, 1976

Mr. W.C. Rhodes
Homer Electric Association
P. O. Box 255
Homer, Alaska 99603

Dear Mr. Rhodes:

The Royalty Board has received your letter advising that the Homer Electric Association is negotiating with Chugach Electric Association for the Bernice Lake generating facility, and consequently H.E.A. is interested in purchasing North Cook Inlet royalty gas.

The North Cook Inlet royalty gas sale will be an item on the agenda for the next Board meeting which is February 23, 1976, in Juneau in the Fifth Floor Conference Room of the State Office Building. The meeting will begin at 10:00 a.m.

It would be advantageous for you to present your position in person at the meeting. I suggest that you include such items as amount of gas, point of delivery, price, term of contract and so forth.

Please advise me if you wish to be scheduled for that meeting.

Yours truly,


William C. Fackler
Executive Director

WCF:dk

file H.E.A. dk

AGO 801907



Homer Electric Association, Inc.

P. O. BOX 255

HOMER, ALASKA 99603

PHONE (907) 235-8551

January 22, 1976

Mr. William C. Fackler, Exec. Secy.
Alaska Royalty Oil & Gas Advisory Board
Pouch M
Juneau, Alaska 99811

RECEIVED
JAN 26 1976

Department of
Natural Resources

Dear Mr. Fackler:

The purpose of this letter is to inform you and your Commission that our Association is entering into negotiations with Chugach Electric Association to acquire their gas fired electric generation facilities at Nikiski.

These facilities are presently consuming approximately 9 million cu. ft. per day of natural gas, which is purchased from the Alaska Pipeline Company. In addition to the present gas consumption, we intend to construct prior to the end of calendar year 1978 an additional generating facility at that location requiring an additional 5 to 6 million cu. ft. per day.

We are familiar with the on-going negotiations between your office and the Alaska Pipeline Company concerning State Royalty gas for resale to Chugach and the Anchorage area.

Please consider this letter as an inquiry to determine whether or not we will be able to purchase Royalty Gas in the amounts described above pursuant to Alaska Statutes AS 38.06.010. We would anticipate purchasing all of the royalty gas available at the Phillips Petroleum LNG Plant with the assumption that the amount in excess of our needs available on a day to day basis could be resold to Phillips for their processing plant.

We assume that we would be required to pay the current market price for the gas which we believe to be 45¢ per MCF plus a negotiated transportation fee. Our negotiations to acquire the electric generating facilities in the area and build additional generation facilities is dependent upon our ability to acquire the State Royalty Gas or a like quantity of other gas in that area.

RECEIVED
JAN 22 1976

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801908

January 22, 1976

Our association is a non-profit cooperative. The membership includes all of the residents and business organizations of the Western Kenai Peninsula. We will greatly appreciate any cooperation that your office can lend us in bringing these negotiations to a mutually beneficial conclusion.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

cc: O. K. Gilbreth
W. I. Palmer
Sen. Clem Tillion
Rep. Hugh Malone
Rep. Leo Rhode
Guy Martin

January 20, 1976

The Honorable Leo Rhode
House of Representatives
Pouch V
Juneau, Alaska 99801

Dear Mr. Rhode:

The recent correspondence from Mr. W.C. Rhodes, Homer Electric Association, is the first indication I have had that the HEA is interested in State royalty gas.

Mr. Rhodes should write me as Chairman, Alaska Royalty Oil and Gas Development Advisory Board, Pouch M, Juneau, Alaska 99811 and advise the Board of his desire to purchase royalty gas. His letter should include the amount of gas he needs, possible delivery point or points, suggested term of contract and any other provisions that might apply.

This matter would be placed on the agenda for the next meeting which is February 23, 1976 at Juneau, Fifth Floor Conference Room, State Office Building. Meeting begins at 10:00 a.m. It probably would be advantageous for Mr. Rhodes to make a statement to the Board of his plans and needs and respond to any questions that the Board might have.

The Board will give Mr. Rhodes' request every consideration.

Yours truly,

Guy R. Martin
Commissioner

GRM:dk
cc: WCF

Alaska State Legislature

REP. LEO RHODE

BOX 406
HOMER, ALASKA 99603

LEGISLATIVE ADDRESS
POUCH V
JUNEAU, ALASKA 99801



COMMITTEES:
NATURAL RESOURCES
COMMERCE

House of Representatives

January 14, 1976

Guy Martin, Commissioner
Department of Natural Resources
Pouch M
Juneau, Alaska 99811

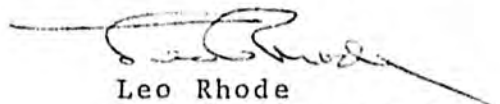
Dear Guy:

Rather than go into any lengthy detail I am enclosing a copy of a letter from W. C. Rhodes, General Manager of the Homer Electric Association Corporation, relative to the sale of state royalty gas from the Kenai Peninsula.

Mr. Rhodes ably explains the feasibility and need of local consumption for the use of the state's royalty gas at the point of production.

If a hearing is to be scheduled on this subject I am certain Mr. Rhodes would like to testify. Also since I am a director of the Homer Electric Association my interest would be two-fold; however, not in any way would my directorship interest jeopardize the maximum source of state revenues. Your comments would be appreciated.

Very truly yours,


Leo Rhode
State Representative
District 13

LR:jp

cc: W. C. Rhodes

enclosure

AGO 801911

RECEIVED
JAN 16 1976

Department of
Natural Resources



Homer Electric Association, Inc.

P. O. BOX 255 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

December 30, 1975

The Honorable Leo Rhode
House of Representatives
Pouch V, State Capitol
Juneau, Alaska 99811

Dear Sir:

An article in the December 22nd issue of the Oil and Gas Journal states that Alaska is moving to claim for domestic use about 15 million cubic feet per day of state royalty gas, presently exported to Japan, from Phillips-Marathon LNG on the Kenai Peninsula.

The article goes on to state that the gas, representing state royalty of Cook Inlet production, would be used to supply customers in Anchorage under a proposal by an Alaska Royalty Oil and Gas Development Advisory Board.

Another interesting facet of the article indicates that, if this measure is approved by the Legislature, Anchorage Natural Gas Company could be taking gas by late next year. The current through-put of the Phillips-Marathon plant is about 170 million cubic feet per day. It is interesting to note that the 15 million cubic feet per day of royalty gas is almost exactly the amount of natural gas fuel required for electric generation on the Kenai Peninsula during the next four or five years.

We sincerely hope that you will use your good office to make certain that the non-profit electrical cooperatives operating on the Kenai Peninsula will have an opportunity to purchase this gas if it becomes available directly from the State of Alaska. We can see no logical reason why this gas should be turned over to the profit oriented Anchorage Natural Gas Company for resale to the general public on the Kenai Peninsula or in the Anchorage area.

We wish you continued success in the forthcoming session in Juneau, and we will very much appreciate your cooperation when this matter is finally legislated.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

A handwritten signature in dark ink, appearing to read 'W. C. Rhodes', is written over a horizontal line.

W. C. Rhodes
General Manager

MISC.

NOTES

64.65
60.36

4.29

- In their "new" contract of February 22, 1977 the price mentioned is 64.65¢/Mcf which is 4.29¢/Mcf higher than previously agreed upon. (76-1 contract dated 6/4/76). Why? Is that the transportation cost? No, since the contract provides that APC shall pay 10¢ (without added compression) and 20¢ (with added compression of 3500 hp) in consideration of Phillips' costs* for gathering gas to the point of delivery, which is near Phillips' pipeline tap which delivers gas to the Tesoro refinery, located in the general vicinity of the Kenai LNG plant on the North Kenai Road. Added charges are to be passed on to APC by Phillips as they require install further compression units. These charges would be proportionate to the gas APC receives from total production.

* (Since these "costs" would be "charged" the State, it would seem that the State does have the right to determine how these charges are arrived at. (and not APC)

* Cont'd

Even if APC took delivery at the wellhead, as originally proposed, the "costs" assessed APC for delivering the royalty gas to shore would still be the State's business, since APC would undoubtedly ask the APUC to allow them to pass on the cost to the consumer).

- The proposed notice by the State of Alaska to take its royalty gas from the North Cook Inlet gas Field in kind as prepared by APC and attached to their February 2, 1977 letter states "You (Phillips) may deduct, from the amount of royalty payment otherwise due the State, the charge(s) described on page(s) 7-9 of the State's contract with APC as consideration for dehydration and gathering including compression of the royalty gas which you (Phillips) will provide to the State. These charges were negotiated by you (Phillips) and are acceptable to the State and to

APC, as described in the contract...

The State was not a party to "negotiations" mentioned. If it was then the royalty board can give us satisfactory breakdowns of the 10¢ (20¢) / Mcf figure when it previously cost 5.5¢ / Mcf to do the same thing.

(See Phillips' letter APC re differing costs for mining 1/26)

If it was not, it should be because since it (under the terms of the "new" contract) ^{the State} takes delivery onshore, the State gets assessed the costs for dehydration and gathering, including compression of the royalty gas from the North Cook Inlet gas field.

The proposed ^{proposed} notice ~~(and supposedly)~~ the new ^{contract} (check this) also reiterates that Phillips shall not be subject to the jurisdiction of the APUC or (Alaska Pipeline Commission), and that the notice or contract would not affect the price payable to the State for royalty gas received by Phillips for processing.

AGO 801916

This indicates two standards, i.e., the State ^{continues to} be charged 5.5 / Mcf and not 10¢ or 20¢.

Delivery Point: On Shore - at or near Phillips' pipeline tap which delivers gas to the Tesoro refinery.

Price: A (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 per Mcf purchaser

(within a 100 km radius of Phillips' platform) in the Upper Cook Inlet area for gas of similar quality gas + 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+c) above

B.1) An additional 10¢ (20¢ after added compression facilities have been installed) for ^{gas} gathering costs, ^{to point of delivery} including dehydration and compression. These charges would increase 6% annually.

② additional charges for future compression facilities which may be required and installed in proportion to the ~~total~~ gas received. (Interestingly, the proposed contract calls for such additional costs under B)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 7.2, should this be removed?)

Term: Same as 76-1 contract

Termination

Cause ~~is~~ Same as 76-1 contract, which seems absurd since APC would now take delivery on-shore! What do they mean by "unable to make satisfactory arrangements to take delivery of the gas"?

Conditions

Precedent: Provision providing that Phillips would not come under the jurisdiction of the FPC or APUC. ^{or APC} A (7.2 of article VI).

Miscellaneous: assignments of interest by APC may be made "... to conform with its (APC) various financing documents or as may be desirable to Buyer (APC) as to its (APC) commonly owned affiliate or subsidiary." (Who are they?)

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.

The APUC in its Order No. 3, Docket U-75-68 ^(12/17/75) (p 10) states that they believe the coming-in of cheaper gas with ^{more expensive} NNC Inlet royalty gas and averaging the cost will generally amount to 2-5¢/Mcf/mo. for the customers of APC.

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 & whether the provision should be deleted from the tariff of APC. (See Sept 29, 1976 letter to APUC

Still need
to check if
it was
over appu -
by
Seq.

a letter of APC to APUC dated
Sept. 29, 1976 states that
the contract with the State
(76-1) could not be carried
out because

① APC would have to pay State
the highest price within
a 100 km radius (they had
hoped no more than the
price of gas liquefied
for export)

- ② - APC would have to take 100%
of royalty gas;
- They do not have sufficient
sales on the North Kenai
Rd for that ^{full} amount;
 - On the other hand, they do
not have facilities to
interconnect ~~to~~ with their
anchorage line; and
 - They have been unable to
work out an ~~exchange~~ agreement
~~agreement~~ ~~with~~ for an
exchange ~~of~~ with Kenai
gas.

- ③ The contract term is limited to 6/30/84 (instead of the life of production as APC would desire) which APC claims is too short to invest in the facilities which are required.

The Sept 29, 1976 ^{letter} also indicates that Phillips wanted to have APC fund the first phase ~~the cost~~ of a compressor station on the platform (appx \$5MM) in return for their delivering the royalty gas to shore. APC countered with an offer that they would

- pay a pro-rata share for compression (volume) with a right to discontinue after a year's notice; and
- resell any "excess" royalty gas back to Phillips for the same price they would have paid to the state; and
- forego taking royalty gas if and when the pipeline capacity throughput was limited (a standby gas supply to make the

AGQ 801923

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
stand by volumes as were
necessary).

The AG (Will Gordon) 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."

(To language necessary to change
this ??)

The lease with the State provides that the royalty gas has to be taken in the field.

The application for a r-o-w permit (2/15/68) to build 2 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).

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 (and ~~the~~ the State's 18% royalty).

Fairless suggests in his Nov. 19th draft memo that the contract from 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.

AGO 801926 -A

Fairless's memo of Nov 19 indicates that APC (ANG) 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} of terminating ^{the} royalty gas within

Nov. 19th 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.

The draft for a proposed ^{North Cook Inlet royalty gas sales} agreement, dated 12/7/75, ~~stipulates~~ stipulates that neither Phillips (nor Union) shall come under APUC or any other regulatory ~~authority~~ authority as a result of the sale of royalty gas to APC. If such regulatory jurisdiction were ever asserted or implemented the agreement would be terminated.

AGO 801927

The ~~draft~~ ^{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

- ① to participate equitably in such an investment, or
- ② to pay a mutually acceptable price per Mcf or per month, or
- ③ to terminate the agreement to take the State's royalty gas.

(See Foshler's Nov. 19th memo which also covers this).

(John Horn)

"complicating matters"

— Phillips stated the following in their
Jan 21, 1976 letter to APC

— 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 +
compression). They did not
say what the appropriate
figure was or should be.

— neither
That 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

AGO 801929

— The "exchange" of gas from
North Loop Street field ^{from the} gas from the
the Kenda gas field, suggested
by APC, would have to be
worked out between APC +
Marathon, and Phillips would

not be a party to such an arrangement

- APC advised Union, Marathon and Phillips
on December 12, 1975
that the royalty board ^(December 10 meeting) had authorized
the Commissioner of NR to negotiate
the sale of North Cook Tule ^{gas field} royalty
gas to APC

- The December 10 Royalty Bd ~~was~~
vote on the above was unanimous,
although ^{with} Arlon Tussing raised the
question whether APC had tried
hard ^{enough} to get gas elsewhere. They
APC then asked Union and Marathon
(December 12, 1975 letters)
if they were willing to offer
APC like "deals" as the royalty
gas they were negotiating, i.e.,

50 Bcf

15 MMcf/day

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

AGO 801930

- Marathon declined (December 19, 1975), but
came up with a proposal for a
short-term contract similar to their
existing contract for an additional

What happened?

supply of gas (up to 5 Bcf) for one year to May 1, 1978 (whichever occurred first) at a price of \$5.8¢/Mcf

— APC 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

— This they argued would require a longer term though (the Royalty Co had proposed a 7 yr period to June 1, 1984) since ^{it} they 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.

AGO 801931

— Homer Electric Association also applied for the North Cook Inlet Gas field royalty gas (Feb 23

Royalty Bd meeting, and APC
of 2/25/76
letter to Homer Electric Assn, letters
from APC to Guy Mathis of 2/27/76
and 3/9/76). Phillips Petroleum
and Pacific Alaska LNG also
approved for the NC Inlet ^{field} royalty
gas.

- 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; \$5.84/Mcf vs.
48.24¢/Mcf

- An undated memo entitled "Commissioner's
Proposal in Concept" states that ~~purchase~~
(APC) would ^{be} responsible for measurement costs,
and any compression or dehydration
costs if or when nec.

AGO 801932

APC's
as of their letter dated 4/9/76
they intended to build a pipeline
from the ^{P-M} LNG plant to their existing Anchorage
line.

A contract (76-1) was executed between the Royalty Bd and APC (6/4/76) with the following provisions:

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

Delivery Point ~~at~~

Delivery Pressure: - Same for APC as it

DB shall be the same for APC as it has been for State. ~~(This appears to be the same as gas gathering agreement between APC & Phillips, who APC will accept said royalty gas out of near wellhead)~~

Price: ① TO July 1, 1977 - 55.5¢/Mcf
 ② July 1, 1977 - July 1, 1978 - 60.36¢/Mcf
 or price State would have received had it continued to take its royalty gas in value,

③ or the highest price paid by any purchaser in the (within a 100 km radius of Phillips' Upper Cook Inlet area for similar quality gas + similar conditions of delivery.

③ July 1, 1978 and each succeeding 12 months provided the higher of
 ② the previous year's price plus 2¢/Mcf, or
 ① above.

*in the North Cook Inlet Fields...")

60.36
 55.5

 4.86
 60.36 x 2

 120.72
 60.36

60.36
 2

 62.36
 2

 64.36

(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

Gregg's memo of May 8, 1976 to Fred Brown (p 2) confirms this.

However, a memo from Don Wood to Guy Martin dated 2/14/77 states that APC ~~to take delivery from Phillips~~ "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, but double check)

AG0801933-B

Term: effective upon approval by the
Legislature

Expires: July 1, 1984

Termination

Clause: Allow 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.

A suggested gas gathering agreement
between APC and Phillips provides
that unless the contract with
between the State and APC is
amended to accommodate Phillips*
~~and APC it would be terminated.~~
the "agreement" between APC and
Phillips could be terminated.

- Gas Gathering Agreement between APC + Phillips provides for ^{and states} among other things that

- APC will accept delivery of the royalty gas at or near the wellhead

- Phillips is willing to gather the royalty gas for APC and deliver it at a mutually agreeable point near the Kenai LNG plant

- Phillips will need to provide additional compression capacity to handle the royalty gas through its gathering system (they have to increase production to meet their commitments), and that APC can't justify participation in the installation of additional compression capacity, and thus would have to

Take delivery of royalty gas as
it would become available from
time to time

- 4
- Added supply of royalty gas would
be used to service existing
~~customers~~ ^{only} 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).
 - Point of delivery shall be at
or near the existing pipeline
tap now used to deliver
~~Phillips~~ gas from the Phillips
pipeline to the Tesoro refinery
in the general vicinity of
the Kenai LNG plant ^{on}
the North Kenai Road. ^{over} (This
is quite different from
contract with State, where
the delivery point is
the well head (platform))

* 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 serving the
Tesoro refinery."

AG-801936-B

- Odorization of gas shall be APC's responsibility, (and Phillips shall be held harmless).

||
?
||
- 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% annually.

- APC shall pay ^{Phillips} in addition to the above gathering charge a compression charge of 10¢/Mcf.
This, too, would increase by 6% annually.

- 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.

- ^{In addition} APC shall reimburse Phillips ~~in~~ in the ~~addition~~ to its share proportion of deliveries made to APC by Phillips.

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.

— Phillips by delivering ^{royalty} gas to APC does not
"... render any service to or for
the public," i.e., will not become a
utility subject to regulation.

② APC makes the material representa-
tion to Phillips that Phillips
would will not be subject to
regulation by the FPC or
APUC.

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.

- The letter also indicates that they would not be committed to install a pipeline connecting to their AmStorage line; that they would accept only such gas as they can readily re-sell up to 100% of royalty gas which is available (The reason for this is cited as the shortness of the contract; i.e., June 1, 1984 w. life of production).
- The same letter also indicates that they would pay the proportionate share of ^{additional} compression facilities Phillips' were to install at a future time.

The rest to be royalty gas in value to Phillips

from, which is what APC wants