

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1037 SCOMM 28: JOINT GAS PIPELINE COMMITTEE. 1981-82

TABLE 3. THE PROSPECTS FOR A SWAP OF STATE ROYALTY METHANE  
FOR PRODUCER-OWNED NATURAL GAS LIQUIDS

| HYDROCARBONS AVAILABLE<br>TO THE GAS PIPELINE <sup>1</sup> |                          | 1/8 STATE ROYALTY SHARE |              | HYDROCARBONS AVAILABLE TO<br>THE GAS LIQUIDS PIPELINE <sup>2</sup> |              |
|------------------------------------------------------------|--------------------------|-------------------------|--------------|--------------------------------------------------------------------|--------------|
|                                                            |                          | (volume)                | (energy)     | (volume)                                                           | (energy)     |
| C <sub>1</sub>                                             | 1749 MMCF/d <sup>3</sup> | 218.6 MMcf/d            | 220.7 BBTU/d | none                                                               | none         |
| C <sub>2</sub>                                             | 58 MB/d                  | 7.3 MB/d                | 20.2 BBTU/d  | 24.7 MB/d                                                          | 68.5 BBTU/d  |
| C <sub>3</sub>                                             | 58 MB/d                  | 7.2 MB/d                | 27.5 BBTU/d  | 57.6 MB/d                                                          | 220.3 BBTU/d |
| C <sub>4</sub> (i)                                         | 9 MB/d                   | 1.2 MB/d                | 5.0 BBTU/d   | none                                                               | none         |
| C <sub>4</sub> (n)                                         | 22 MB/d                  | 2.7 MB/d                | 11.7 BBTU/d  | 20.3 MB/d                                                          | 87.8 BBTU/d  |
| C <sub>5</sub> (i)                                         | 1 MB/d                   | .1 MB/d                 | .5 BBTU/d    | 4.2 MB/d                                                           | 19.2 BBTU/d  |
| C <sub>5</sub> (n)                                         | t                        | none                    | none         | none                                                               | none         |
| TOTAL NGLs                                                 |                          | 18.5 MB/d               | 64.9 BBTU/d  | 106.8 MB/d                                                         | 395.8 BBTU/d |
| TOTAL HYDROCARBONS                                         |                          |                         | 285.6 BBTU/d |                                                                    | 395.8 BBTU/d |

1. Figures are taken from Table 2, Column 3. (Inlet gas to conditioning plant, less plant and field fuel, less TAPS allocation, in the Parsons plan).

2. Figures are from B&M report, page C-3.

3. Assumes that the 34.3 MB/d of propane no longer available for field and conditioning fuel is replaced by methane. (See note No.4, Table 2.)

Calculation. State royalty liquids fall 330.9 billion BTU/d short of the volume B&M state is necessary to make a gas liquids line profitable. This shortfall is equivalent to 327.7 MMCF of methane; but the state only has 218.6 MMCF per day of royalty methane available to swap for gas-producer-owned liquids. The shortfall in royalty methane, therefore, is 109.1 MMcf/d, or about 50 percent more than the state owns.

**\*\*PLEASE NOTE\*\***

THE ORIGINAL FILE CONTAINS AN OVERSIZED DOCUMENT THAT  
IS UNSUITABLE FOR FILMING. PLEASE REFER TO THE ALASKA  
STATE ARCHIVES TO VIEW THE ORIGINAL.



#### Introduction

In 1968, a wildcat rig drilling on Alaska's North Slope struck the vast petroleum reserve now known as Prudhoe Bay. Estimated to contain 9.6 billion barrels of crude oil and over 26 trillion cubic feet of saleable natural gas, Prudhoe Bay constitutes the largest of the United States' reserves. The Trans Alaska Pipeline System is currently transporting over one million barrels of Prudhoe Bay crude oil daily to southern Alaska for shipment to ports in the United States. Part of the natural gas in this reserve is in solution with the oil and part of it is in a free gas cap above the oil reservoir. Thus, as the oil is extracted, some natural gas is also removed. Until this gas can be marketed it will be reinjected into the reserve for future use. The Alaska Natural Gas Transportation System will provide a means to transport this vast quantity of natural gas to consumers in the Lower 48 States. The initial daily output will be equivalent to about 450,000 barrels of oil.

#### The Project

The Alaska Natural Gas Transportation System will be an overland pipeline of varying diameters designed to carry about 2.4 billion cubic feet of natural gas daily from Prudhoe Bay, Alaska, to homes and industries in the lower 48 states. At a cost of over \$20 billion it will be the largest privately-financed construction project ever undertaken anywhere. It will supply about five percent of our Nation's gas needs for the 25-year life of the project, based on current use rates.

The entire project stretches 4,800 miles from Prudhoe Bay, on the northern coast of Alaska, along the route of the Trans Alaska Oil Pipeline to Delta Junction, south of Fairbanks. There the gas line turns southeast and continues south into Canada, generally following the Alaskan-Canadian highway. Just north of Calgary it splits into two legs—the West Leg going to Antioch, California and the East Leg almost to Chicago. Construction is scheduled to start in 1981 on the two lower Legs. The last portion to be built, the Alaskan segment, is now scheduled for completion in 1985.

Official Business

OFFICE OF THE FEDERAL INSPECTOR  
ALASKA NATURAL GAS TRANSPORTATION SYSTEM  
ROOM 2413, POST OFFICE BUILDING  
1200 PENNSYLVANIA AVENUE  
WASHINGTON, D.C. 20044

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# ALASKA NATURAL GAS TRANSPORTATION SYSTEM



### Legislative History

The U.S. Congress enacted the Alaska Natural Gas Transportation Act on October 22, 1976, setting out a series of innovative procedures to expedite the selection, approval and construction of a natural gas pipeline system to bring Alaskan gas to lower 48 markets. After receiving a recommendation from the U.S. Federal Power Commission (now the Federal Energy Regulatory Commission), the President in September 1977 selected a route and applicant. Congress in November of that year approved the President's selection.

### Office of the Federal Inspector

The Office of the Federal Inspector is a small but unique, independent entity created by Congress and the President specifically to expedite and oversee construction of the Alaska Natural Gas Transportation System. Congress in its 1976 legislation clearing the way for the project included the requirement that a single individual, to be called the Federal Inspector, be appointed to be responsible for assuring that the project is built as timely as possible, without excessive cost overruns, and with minimal harm to the environment. It included that requirement because the undertaking is itself unique in size and in importance to the Nation's energy future, and in light of the delays and large cost overruns that have in the past plagued large construction projects, such as the Trans-Alaskan Oil Pipeline.

The exact duties of the Federal Inspector were not defined until Reorganization Plan No. 1 was signed by the President on June 11, 1979. The concepts of that Plan were set out in Executive Order No. 12142, signed by the President on June 21. These three Presidential documents combined to implement the intent of Congress embodied in the ANGTA of establishing the Office of the Federal Inspector, which officially came into being July 1, 1979.

### O.F.I. Responsibilities

The Federal Inspector is an independent entity within the executive branch, established to oversee all construction and initial operation of the U.S. portions of the pipeline. He will coordinate and schedule actions of the eight Federal agencies which must approve some aspect of the project; monitor construction; and enforce all certificates and conditions issued by the agencies. He will be the "one window" for receipt of all data and permit applications and for issuance of all permits.



The Alyeska oil pipeline transports oil from Prudhoe Bay, Alaska, to Valdez. Below: The Alaska-Canadian highway under construction by the U.S. Army in 1942.



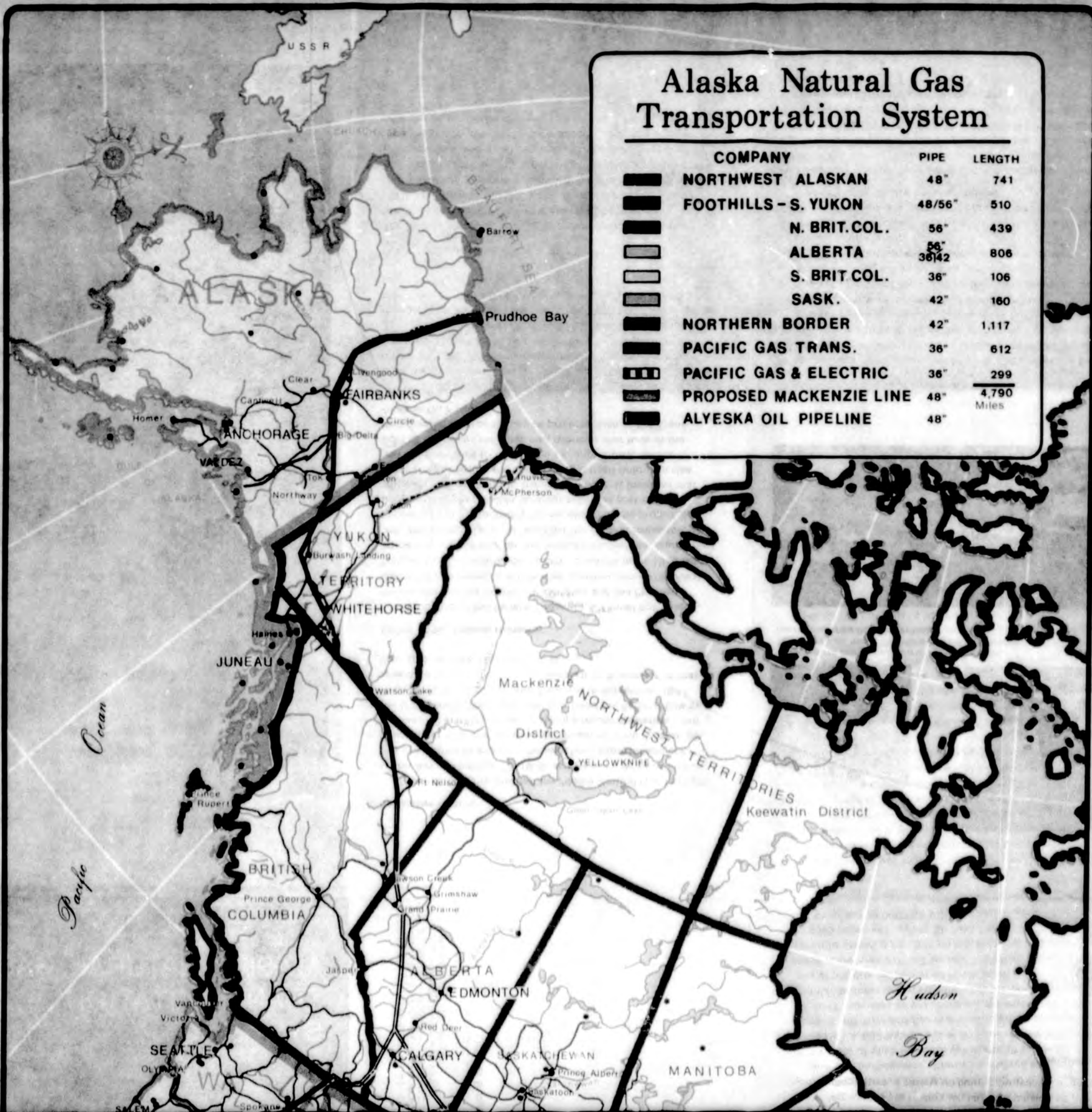
Specifically, the Federal Inspector will:

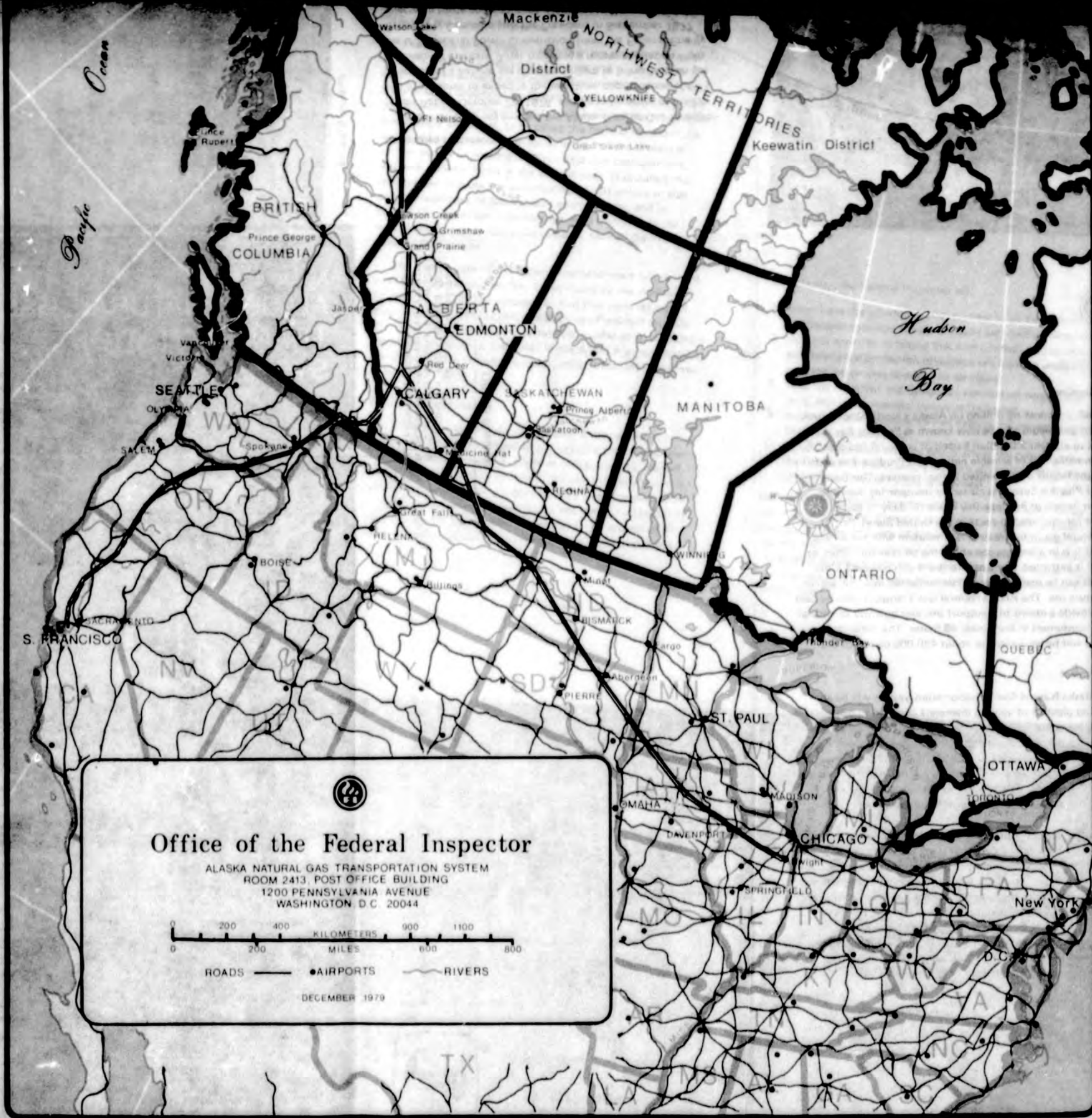
1. coordinate the scheduling and issuance of all Federal permits and related activities to assure timely and unified decisions;
2. monitor activities to assure that cost control, safety, and environmental protection objectives are fulfilled while still meeting the project completion schedule;
3. keep the President and Congress informed on project progress, including potential delays or problems;
4. establish a joint surveillance and monitoring agreement with the State of Alaska; and
5. enforce all Federal statutes which affect the project, assuring that the builders are complying with all conditions or stipulations attached to any Federal approval.

Although the Federal Departments of Transportation, Energy, Interior, Agriculture, Treasury, the Environmental Protection Agency, U.S. Army Corps of Engineers, and the Chairman of the Federal Energy Regulatory Commission retain their authority to issue necessary permits and certificates, the Federal Inspector must assure that the agencies make these authorizations in timely fashion.

# Alaska Natural Gas Transportation System

| COMPANY                                                                                                     | PIPE   | LENGTH |
|-------------------------------------------------------------------------------------------------------------|--------|--------|
|  NORTHWEST ALASKAN       | 48"    | 741    |
|  FOOTHILLS - S. YUKON    | 48/56" | 510    |
|  N. BRIT. COL.           | 56"    | 439    |
|  ALBERTA                 | 56"    | 806    |
|  S. BRIT. COL.           | 36"    | 106    |
|  SASK.                   | 42"    | 160    |
|  NORTHERN BORDER         | 42"    | 1,117  |
|  PACIFIC GAS TRANS.      | 36"    | 612    |
|  PACIFIC GAS & ELECTRIC  | 36"    | 299    |
|  PROPOSED MACKENZIE LINE | 48"    | 4,790  |
|  ALYESKA OIL PIPELINE    | 48"    |        |





SCOMM

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ABSTRACT  
GAS SALES AND PURCHASE AGREEMENT  
BETWEEN  
EXXON (SELLER) AND NORTHERN NATURAL GAS (BUYER)

1) Quantity

- A) 1/3 of Exxon's Prudhoe Bay Gas made available for sale.
- B) No fixed daily or total quantity but estimated at 290,000 mmcf/d.  
(This number can be reproduced by assuming 2.0 bcf/d pipeline quality gas and Exxon's net share after royalty and including 13% CO<sub>2</sub>.)
- C) Buyer obligated to purchase daily (take or pay) but may find another purchaser for gas not taken.
- D) Seller may sell gas not taken or sold by Buyer to another purchaser, and Buyer makes up for the difference in price if Seller receives less than the contract price for such gas.
- E) No right to make up for gas which Buyer fails to take on any day.
- F) Seller reserves the right to sell gas on the North Slope to Trans Alaska Oil Pipeline, drilling rigs, and producing operations, and to use gas for production, drilling, and additional recovery operations on their leases.

2) Quality

- A) Approximately 1060 BTU/cf (includes 13% CO<sub>2</sub>)
- B) Not more than 0.2<sup>#</sup> H<sub>2</sub>O/mmcf of gas
- C) Temperature less than 120<sup>0</sup>F
- D) Pressure not less than 500 psi

(Abstract - Exxon & Northern Natural Gas)

3) Term

A) Effective April 30, 1979

B) 20 years from first delivery (estimated at 1/1/86)

4) Delivery Point

A) Inlet of Gas Conditioning Plant.

B) If other producers sell gas for delivery upstream (at oil/gas separators or any point in between), Seller has the option to move delivery point to the one designated by the other party.

C) Seller provides all facilities upstream of Delivery Point.

(These facilities have already been installed to separate and gather gas for injection and are estimated by Exxon to be equal in cost to the gas conditioning facilities.)

D) Buyer provides all facilities downstream of Delivery Point.

5) Natural Gas Liquids

A) Natural gas liquids transported in the gas pipeline:

1. Seller reserves the right to process and recover natural gas liquids.
2. Standard gas processing terms.

B) Natural gas liquids extracted at the gas conditioning facility and not transported in the gas pipeline:

1. Owned by Buyer

(2.) If Buyer elects to sell to a third party, Seller has first right of refusal.

3. If Buyer is unable to use these liquids, Buyer can return to Seller the volumes which Seller can use for fuel or

(Abstract - Exxon & Northern Natural Gas)

5) Natural Gas Liquids (Cont.)

3. transport in the Trans Alaska Oil Pipeline.

- a) Buyer receives credit against purchased BTUs for BTUs redelivered to Seller.
- b) Buyer pays extraction cost.
- c) Buyer pays for any fuel substitution costs.
- d) Buyer pays for any cost associated with putting liquids in oil pipeline.

4. If Buyer cannot use liquids in excess of those used by Seller for fuel or transported in an oil pipeline, Seller will make a good faith effort to obtain rights to inject these liquids into the reservoir.

- a) Buyer receives credit against purchased BTUs for BTUs injected by Seller.
- b) Buyer pays extraction cost.
- c) Buyer pays any injection cost including any penalties.

C) Residue CO<sub>2</sub> gas containing sufficient hydrocarbons to be usable as fuel:

1. If Prudhoe Bay unit owners agree to using this gas as fuel, Buyer may return gas to Seller.

- a) Buyer receives credit against purchased BTUs for BTUs redelivered to Seller.
- b) Buyer pays conditioning cost.
- c) Buyer pays for any fuel substitution cost.

2. If Buyer is required to dispose by subsurface injection, Seller will make a good faith effort to obtain injection

(Abstract - Exxon & Northern Natural Gas)

5) Natural Gas Liquids (Cont.)

2. rights for Buyer.

- a) Buyer receives credit against purchased BTUs for BTUs redelivered to Seller.
- b) Buyer pays conditioning cost.
- c) Buyer pays for all injection costs.

6) Price

A) Base price

1. Higher of:

- a) - \$2.00/MMBTU for May 1979.
  - Escalate at the monthly equivalent of the NGPA annual inflation adjustment factor for 5 years.
  - Escalate at the monthly equivalent of the NGPA annual inflation adjustment factor plus 0.25% per month thereafter or
- b) NGPA Section 109 price (NGPA price for May 1979 is 1.684) plus state severance taxes and production-related costs approved by FERC.

2. Price cannot exceed the price that Seller can lawfully collect.

3. Price cannot exceed the amount that Buyer is permitted to include in rates.

B) If ceiling prices increase, new ceiling prices prevail.

C) If prices are deregulated, Seller has the right to request a redetermination. New price subject to arbitration is the highest of:

(Abstract - Exxon & Northern Natural Gas)

6) Price (Cont.)

1. Average of the two highest prices paid by Buyer or other pipeline company for Prudhoe Bay gas.
  2. The BTU equivalent of Fuel Oil No. 2 to "Resellers, West North Central" less transportation costs from delivery point at Prudhoe Bay to city gate Minneapolis.
- D) Buyer pays Seller for excess royalty payments that Seller has to pay if royalty payments are based upon value at the wellhead instead of value at the delivery point. Must be approved by FERC.
- E) If the delivered cost of gas is such that the gas is not marketable, "the parties shall review the circumstances then existing in a good faith effort to determine such measures as are necessary to rectify the situation".
- F) Buyer reimburses Seller for all State and Federal taxes including taxes on the value of gas in place (except ad valorem, Income and Franchise taxes). (NGPA limits maximum lawful price to December 1978 tax level, however the contract does not appear to limit taxes reimbursed to Seller.)

7) Conditions

- A) Buyer shall promptly seek to conclude all agreements and contractual arrangements necessary for the transportation system for gas to be purchased.
- B) If necessary for successful completion, Buyer shall participate in ownership of transportation system, including gas conditioning facilities.

(Abstract - Exxon & Northern Natural Gas)

7) Conditions (Cont.)

C) By January 1, 1980, Buyer shall complete its contractual arrangements for the transportation system.

D) The gas sales contract can be terminated by either party if:

1. FERC rulemaking affects Buyers' ability to perform its responsibility as to gas conditioning facilities and the rulemaking is not satisfactory to either party.
2. If FERC fails to approve these contractual arrangements (C above) in a form acceptable to both Buyer and Seller or Buyer fails to assure Seller to Seller's satisfaction by March 1, 1980.

E) Buyer may accept or reject any certificate.

F) If Buyer rejects certificate, then either party may terminate.

G) If Buyer accepts certificate and if Seller is dissatisfied with the certificate, Seller may terminate.

H) If Buyer has not obtained all certificates, permits, and authorizations by March 1, 1982:

1. Seller has the right and option to terminate at anytime.
2. Either party may terminate.

I) If all the foregoing conditions are fulfilled:

1. Buyer shall proceed to install all necessary facilities to transport gas no later than January 1, 1986.
2. Seller shall proceed to install all necessary facilities to deliver gas to the delivery point.

upon this gas . . . . Further, the Commission declared, refusal to allow production-related costs in excess of the Section 109 maximum lawful price should not result in hardship for producers. Assuming gas conditioning costs in the range of a previous FPC estimate of 50¢/MMBtu (1975 dollars), the Section 109 price (\$1.67/MMBtu adjusted for inflation to April 1979) "would appear more than adequate to cover the incremental costs associated with gas sales, plus a reasonable profit." On the other hand, sale of untreated Prudhoe Bay gas at the maximum lawful price "would shift gas processing costs from producers to consumers, thereby increasing the citygate price of gas and adversely affecting its marketability."

The FERC's proposal was attacked on several grounds by the major Prudhoe Bay gas producers and the State of Alaska in initial and reply comments filed 3/19/79 and 4/2/79, respectively. (See REPORT NOS. 1195, ppl-2; 1201, ppl5-24; 1205, pp25-30.)

Exxon executed a contract on 3/27/79 with PG&E for sale of one-third of Exxon's interest in Prudhoe Bay gas production -- or about 225,000 Mcf/d -- over a 20-year period. During the following month, Exxon signed a second contract providing for sale of another 225,000 Mcf/d to Northern Natural. Both contracts contain a base price of \$1.45/MMBtu as of April 1977, escalated monthly for inflation to the time of delivery, in accordance with Section 109 of the NGPA. In addition, the two contracts provide for a sharing of costs beyond the wellhead between the seller and buyer. Specifically, Exxon would bear the costs of gathering lines, dehydration equipment, field compression equipment, cooling facilities, and any related facilities located between the gas/oil separation facilities and the delivery point to the purchasers (defined as "the outlet of the Unit gas gathering system, downstream of the gas/oil separators and Unit gas dehydration and certain compression and cooling facilities, . . . at or near the inlet of the conditioning facility"). Exxon also would bear any future costs associated with artificial lift and water injection programs which may be required to support gas sales as well as oil production. In turn, the purchasers of the gas would pay for costs associated with the conditioning plant -- and would own any liquids collected during the conditioning process. (See REPORT NOS. 1204, pl8; 1207, p30.)

The ICF study prepared for the FERC analyzed four major questions: (1) whether there are still net benefits to the nation from proceeding with the proposed Alaskan gas pipeline project in light of recent changes in gas supply markets; (2) if potential benefits remain significant, reasons why low cost "old" gas must subsidize the project through rolled-in pricing of Alaskan gas and why special regulatory treatment (such as an "all events tariff" to ensure debt repayment) may be necessary; (3) the effect of the planned implementation of ANGTS on other potential gas supply opportunities, especially Mexican gas purchases; and (4) whether policy options, such as gas conditioning charges and wellhead price ceiling levels, exist for reallocation of project costs, and how these options would affect the distribution of the project's opportunities and risks.

The study determined a net national economic benefit of \$14.9 billion (mid-1979 dollars) attributable to ANGTS under a set of base case assumptions. These assumptions included, among others, a gas value equivalent to the wholesale price of distillate fuel, and an annuity-equivalent delivered citygate cost of \$3.18/MMBtu (mid-1979 dollars) over a 25-year period -- comprising a wellhead gas price of \$1.68/MMBtu, severance taxes of 17¢, a gas conditioning charge of zero, and a pipeline cost of service of \$1.33. The study further determined that the NNEB of \$14.9 billion would be captured 32% by the State of Alaska (in the form of extra taxes and royalties), 25% by domestic producers (in the form of extra after-tax profits "received over the minimum profits necessary to attract the producers to

ended  
1979

## Page

1

2

5

6

7

8

9

11

14

17

19

19

20

20

22

26

27

28

28

Joint Gas Pipeline Committee  
Alaska State Legislature

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727 N ST., SUITE 2  
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July 5, 1979

To: Members of the Joint Gas Pipeline Committee  
From: Mary Halloran, Research Analyst *MA*

A review of Exxon's gas sales contract with Northern Natural Gas shows the following:

The contract is for one-third of Exxon's natural gas from Prudhoe Bay; it's estimated to be 290,000 Mcf/day of gas with a gross heating value of 1060 Btu/cubic foot.

The contract places the responsibility for arranging the gas transportation system (i.e. the gas pipeline, including the conditioning plant) with the buyer, Northern Natural. Northern Natural and the other gas buyers are to have completed contractual arrangements for the transportation system by January 1, 1980. The sales contract may be terminated by March 1, 1980, if arrangements for the gas transportation system are not in place. Also the contract may be cancelled at any time if FERC makes a ruling on the conditioning costs question which is unsatisfactory to either Exxon or Northern Natural.

In addition, the contract calls for Northern Natural and the other gas buyers to get the official certificate of public convenience and necessity by January 1, 1982; otherwise, again Exxon can cancel its sale. The contract calls for the delivery of gas to Northern Natural "no later than January 1, 1986."

The delivery point is "at or near the inlet of the gas conditioning facility," -that is, before conditioning. As buyer, Northern Natural is to provide all facilities at the delivery point for receipt and measurement of Exxon's gas and all downstream facilities necessary for the transportation of such gas.

Before delivery, Exxon will dehydrate the gas and cool it to 120°F, separating oil, condensate and nonhydrocarbon liquids, and objectionable solids from the gas. All such liquids and solids so separated become Exxon's property.

However, natural gas liquids produced through conditioning (not separation) will belong to Northern Natural (except those removed for "efficient pipeline operation.") With three months' notice, Northern Natural can return undisposed natural gas liquids to Exxon for Exxon's use or transport in an oil pipeline.

Still at issue is the level of CO<sub>2</sub> which the conditioned natural gas will contain. The question is important because the CO<sub>2</sub> level not only impacts the cost of the conditioning plant but also affects the pipeline's ability to transport heavier gas liquids, such as butanes.

The sale is subject to the State's right, as lessor, to take its royalty share of gas in kind. The price is the maximum ceiling price allowed by FERC. In

Exxon contract review - 2

addition, Northern Natural is to reimburse Exxon 100 percent for all the following state and federal taxes: production, gathering, delivery, sales, severance, excise and other taxes of a similar nature. (There's no reimbursement for ad valorem and general property taxes, income taxes, franchise taxes or other similar assessments).

**PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT**

AGREEMENT FOR THE SALE AND PURCHASE  
OF STATE ROYALTY GAS

THIS AGREEMENT is entered into as of the \_\_\_\_ day  
of \_\_\_\_\_, 19\_\_\_\_, by and between THE STATE OF ALASKA,  
hereinafter called the "Seller," acting by and through the  
Commissioner of Natural Resources pursuant to Alaska Statute  
38.05.183, and \_\_\_\_\_, hereinafter called the  
"Buyer."

WITNESSETH:

WHEREAS, Seller has the right under each of the leases  
identified in Exhibit "A" to this Agreement to receive from or be  
paid by the Lessee thereunder a royalty of twelve and one-half  
percent (12 1/2%) in kind (amount) or value of gas production  
removed or sold from the lands covered by each lease; and

WHEREAS, it is expected that gas from the Leases will  
be produced and removed or sold by the Lessees; and

WHEREAS, Seller wishes to sell its royalty gas to be  
consumed or processed within the State of Alaska; and

WHEREAS, Buyer wishes to buy Seller's royalty gas and  
use the gas for processing in the State or ultimate consumption  
in the State, or both; and

WHEREAS, Seller is authorized by Alaska Statute 38.05.183  
to sell such royalty gas; and

WHEREAS, Seller desires to sell royalty gas to Buyer  
and Buyer desires to purchase royalty gas from Seller under the  
terms and upon the conditions hereinafter set forth;

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

ARTICLE I

DEFINITIONS

As used herein, the following terms shall have the  
following meanings:

1.1 "Btu" shall mean British thermal unit.

1.2 "Commissioner" means the Commissioner of Natural  
Resources of the State of Alaska.

1.3 "Date of First Delivery" means that date the

first royalty gas sold under this Agreement is taken by Buyer pursuant to Article \_\_\_\_.

1.4 "Day" means a period of twenty-four (24) consecutive hours beginning at 12:01 a.m., Alaska Standard Time.

1.5 "Effective Date" shall have the meaning defined in Article \_\_\_\_.

1.6 "Force Majeure" shall have the meaning defined in Article \_\_\_\_.

1.7 "Gas" means both gas cap gas and solution gas as defined by the Prudhoe Bay Unit Agreement dated April 1, 1977, by and between the Seller and Lessees.

1.8 "Lessee" means any party owing a working interest in a Lease described in Appendix A.

1.9 "Month" means the period beginning at 12:01 a.m., Alaska Standard Time, on the first day of the calendar month and ending at the same time on the first day of the next succeeding calendar month.

1.10 "Point of Delivery" shall have the meaning defined in Article \_\_\_\_.

1.11 "Leases" means the oil and gas leases which are described in Exhibit "A" attached hereto and made a part hereof.

1.12 "The Pipeline" shall mean the natural gas transportation system approved under the Alaska Natural Gas Transportation Act of 1976.

## ARTICLE II

### TITLE

Seller hereby warrants title to the gas sold by it hereunder and its right to sell the same gas and warrants that all such gas is owned by Seller free from all liens, encumbrances and adverse claims.

Seller warrants that under the leases identified in Exhibit A of this Agreement, Seller has the right to take its royalty natural gas in-kind which amount it represents is twelve and one-half percent (12.5%), unless otherwise stated in Exhibit A, and agrees that it will exercise this right at a

time sufficient to deliver gas to Buyer on the date Buyer requests in writing pursuant to Article \_\_\_\_\_. If the laws, rules or regulations of the United States of America, or any agency thereof, prevent Seller from exercising its right to take its royalty gas in-kind, this Agreement shall be void.

### ARTICLE III

#### QUANTITY PURCHASED AND SOLD

It is understood and agreed by the parties that the volume of gas available to Seller from the leases covered by this Agreement depends upon the production from the leases and the royalty obligations of Lessees.

Subject to the terms and conditions set forth in this Agreement, Seller hereby agrees to sell and deliver or cause to be delivered to Buyer and Buyer hereby agrees to purchase and receive or cause to be received from Seller on each day commencing with the date of first delivery hereunder and continuing during the term of this Agreement, \_\_\_\_\_ percent (\_\_\_%) of Seller's royalty gas available at the point of delivery described in Article \_\_\_\_ hereunder.

### ARTICLE IV

#### DATE OF FIRST DELIVERY

##### 4.1 Date of first delivery

At least seven (7) months prior to the date the Pipeline begins accepting delivery of Prudhoe Bay gas, Buyer shall notify Seller in writing of the date of first delivery, which shall not be more than \_\_\_\_\_ months after such notification. In the notification, Buyer shall indicate the date upon which it expects the Pipeline to begin operation. If the Pipeline does not begin operation on that date, the date of first delivery shall be extended if the Pipeline begins operation at a date later than that indicated by Buyer in the notification, or advanced if the Pipeline begins operation at a date earlier than that indicated in Buyer's notification. The period of extension or advancement of the date of first delivery shall be equal to the number of days difference between the commencement of operation of the Pipeline and the date indicated by Buyer in its notification, but in no event shall the date of first delivery be less than seven months prior to the date of notification by Buyer.

4.2 After the date of commencement of operations of the Pipeline and until the date of first delivery, Buyer shall pay Seller \$\_\_\_\_\_ per day, which charge shall cease on the date of first delivery.

4.3 Notwithstanding anything in this Agreement, Buyer shall not be entitled to receive delivery until the facilities described in Article \_\_\_\_\_ are completed and are ready and able to handle the gas.

#### ARTICLE V

##### POINT OF DELIVERY AND PASSAGE OF TITLE

5.1 Point of Delivery. Delivery shall be at the point of delivery which shall be that point where Seller receives its royalty gas from Lessees.

5.2 Passage of Title. Title to the gas to be sold hereunder shall pass from Seller to Buyer upon delivery.

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

Buyer shall not be responsible for the gas prior to its delivery hereunder and Seller shall hold Buyer harmless against any damage or injury caused thereby until the gas has been delivered to Buyer at the delivery point hereunder.

#### ARTICLE VI

##### TRADE OR EXCHANGE OF GAS

6.1 Buyer may enter into agreements to trade or exchange any or all of the royalty gas for other gas produced in the state, including gas liquids, or for gas or gas liquids products. Such trade or exchange shall be at no cost or expense or other obligation to Seller. The gas, gas liquids, or gas or gas liquid products received in the trade or exchange shall be subject to the

obligations for in-state processing or conversion to product under Article \_\_\_\_\_. The trade or exchange shall not affect the price to be paid Seller under \_\_\_\_\_, which shall remain based upon the royalty gas delivered Seller by Lessees.

#### ARTICLE VII

##### QUALITY

7.1 Standard. The gas to be delivered by Seller to Buyer at the Point of Delivery hereunder shall be the same quality as the gas delivered by the Lessees to Seller. Except for the foregoing, Seller does not warrant, represent or guarantee, either expressly or impliedly, the quality, merchantability, fitness for use, or suitability for any particular use or purposes, or otherwise of any gas to be delivered to Buyer under this Agreement. There are no warranties, representations or agreements concerning the quality of the gas which extend beyond the description of the gas in this Article VII.

#### ARTICLE VIII

##### PRICE

8.1 Price of Gas delivered. The price of the gas sold and delivered hereunder shall be \_\_\_\_\_ per million Btu's escalated at a rate equal to \_\_\_\_\_ [?] [the annual inflation adjustment factor set forth in §101 of the Natural Gas Policy Act of 1978], or the maximum ceiling price allowed under the Natural Gas Policy Act of 1978.

8.2 Price not to be lower than amount Seller would have received in value. Notwithstanding anything set forth above, the amount paid by Buyer for gas delivered to Buyer by Seller shall not be less than the amount Seller would have received from the Lessees had Seller received its royalty in-value instead of taking the amount of royalty gas delivered to Seller in-kind.

8.3 Reimbursement of costs owed by Seller as a result of taking royalty gas in-kind. In addition, Buyer shall reimburse Seller for Buyer's pro rata share of any costs attributable to the preparation and transportation of gas to be delivered hereunder which costs Seller may incur as a result

of Seller's election to take its royalty gas in-kind and which costs would not have been incurred by Seller if Seller had not elected to take its royalty gas in-kind. Seller shall use its best efforts to minimize any costs incurred by Seller by reason of Seller's taking royalty gas in-kind, such best efforts shall include but not be limited to litigation under the sole control of Seller to the extent necessary to contest the imposition of unwarranted and/or improper charges.

8.4 Limitations imposed by Federal law. In the event that the provisions of Articles 8.1, 8.2, or 8.3 provide for payments to Seller which exceed limits set by federal law, including but not limited to the Natural Gas Policy Act of 1978, the price to be paid Seller shall be the maximum lawful price allowed under Federal law.

## ARTICLE IX

### PAYMENTS AND ACCOUNTING

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

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

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

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

9.3 Billing Disputes. Should any portion of the account furnished to Buyer by Seller be disputed in good faith, Buyer and Seller agree to mutually arrive at a fair and equitable resolution of such dispute, if possible, and Buyer agrees to pay the amount

so determined to be due to Seller within fifteen (15) days after such resolution. Buyer shall pay for such amounts as it does not in good faith dispute in accordance with the provisions of Article IX.

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

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

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

Due to the potentially large sums of money involved, any adjustments to any billing under the provisions of this Article 9.5 by Seller made more than sixty (60) days after such billing was initially rendered shall be paid to or refunded by Buyer or Seller over the same period over which such adjustments accrued or thirty-six (36) months, whichever is longer, beginning with the first payment next following the date such adjustment has been determined.

9.6 Cancellation in Event of Non-Payment. Except for amounts disputed in good faith, should Buyer fail to make any payment due to Seller under this Agreement (i) within thirty (30) days from the date said payment is due or (ii) within fifteen (15) days from the date that Seller gives written notice of non-payment to Buyer, whichever occurs earlier, this Agreement shall automatically be cancelled.

## ARTICLE X

### TERM

10.1 Term. This Agreement shall become effective upon its execution and of such approvals as are required by state law or otherwise required herein. This Agreement shall continue and remain in force and effect for a period of twenty (20) years from the date of first delivery or the period of operation of the Pipeline, whichever is less. The term may be extended for such period as may mutually be agreed upon in writing by both parties.

10.2 Termination upon non-completion of Pipeline. If the Pipeline does not commence operation by \_\_\_\_\_, each party shall have the right to terminate this Agreement, and all sums paid Seller by Buyer shall be refunded, with interest at \_\_\_\_\_.

10.3 Security for Performance. Within \_\_\_\_\_ days after the effective date of this Agreement, Buyer shall pay Seller \$ \_\_\_\_\_. If Buyer takes delivery of gas under this Agreement, the above amount, with interest of \_\_\_\_\_ per cent per annum, less deduction of any payments due and owing under Article 4.2 above, shall serve as a credit to be applied only against payments due for gas delivered under this Agreement.

10.4 Seller, at its option, may accept such other security in lieu of the requirements of 10.3 above as it may consider equivalent.

10.5 Termination for Failure to take Delivery. If Buyer fails to take delivery within \_\_\_\_\_ months after the commencement of operations of the Pipeline, or within \_\_\_\_\_ days after the date of first delivery specified in Article \_\_\_\_\_, this Agreement shall terminate, and Buyer shall not be entitled to a refund of any amounts paid to Seller, including amounts paid under 10.3 above.

## ARTICLE XI

### SECURITY

11.1 Bond. By the date of notification by Buyer of the date of first delivery, Buyer shall post a bond or other

satisfactory security of not less than \_\_\_\_\_ for the performance of all obligations, including payment of charges, moneys and indemnification of any amount owed to any third party by the State for the failure of Buyer to perform any obligation or condition set forth in this contract.

11.2 Creation of Security Interest. In addition to the bond described in 11.1 above, to secure payment of all amounts due Seller for gas sold hereunder, Seller retains and Buyer hereby grants a purchase money security interest in all of the gas delivered and to be delivered to Buyer hereunder [and in all gas obtained by Buyer in exchange for gas purchased hereunder]; the products made or processed from any such gas, including all substances, if any, commingled therewith, or added thereto; and in the proceeds of the sale of such gas or products, including the amounts receivable of Buyer arising from its sales of gas or products manufactured therefrom. The security interest shall attach to the gas at the time and Point of Delivery but shall terminate as to gas or products therefrom sold to a bona fide purchaser of Buyer's in the ordinary course of Buyer's business. Buyer agrees that it shall not agree, or consent to, or permit the filing of, any lien or security interest in the gas other than the lien of [Alcan], which lien of [Alcan] Seller will permit as a priority lien despite any provision to the contrary herein.

Buyer further agrees that it will not grant or consent to any security interest in the gas or other security in favor of any third party unless such third party agrees in writing prior thereto that such security interest is subordinate to the security interest of the Seller, except for the lien of (Alcan). Buyer agrees to execute and file all documents necessary to perfect Seller's said security interest in the gas, proceeds from the gas and accounts receivable referred to above. "Proceeds of the sale" shall

include proceeds derived from insurance or other payments resulting from damage to or destruction of the gas or other property covered by the Security interest. To secure such payment Buyer shall cause all policies of insurance on the gas or other property to which the security interest attaches to name the Seller as coninsured as its interests may appear.

11.3 Alternative Security. In lieu of the security interest provided above, Buyer may provide alternative security in the form of a bond attached hereto and made a part hereof as Exhibit "C", executed by the Buyer, as principal, and a corporate surety agreed to by the Commissioner and authorized to write such bonds in the State of Alaska, as surety for a sum which shall substantially reflect the amounts owed by Buyer to Seller plus an amount equal to the value of gas delivered by Seller to Buyer and not yet billed pursuant to Article \_\_\_\_; provided that whenever Seller has reasonable grounds for asserting and does assert any claims against Buyer in excess of the penal sum of the bond of Buyer then in effect hereunder, Buyer after being so requested by Seller shall either increase the penal sum of such bond to an amount reasonably sufficient to cover the claim of Seller and all expenses which may be incurred by it in connection therewith or shall furnish other security satisfactory to Seller, such as a renewed security interest in the gas or a portion thereof sold hereunder, regardless of whether the Buyer does or does not recognize the validity of the Seller's claim (so long as reasonable grounds for asserting such claims exist). Buyer may at any time and from time to time deposit and maintain with the Commissioner at Buyer's expense in lieu of any such bond, either (i) an irrevocable letter or letters of credit addressed to the Commissioner issued by a state or national banking institution of the United States which is a member of the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than \$10,000,000 or (ii) marketable

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

## ARTICLE XII

### CONSTRUCTION OF IN-STATE FACILITY AND IN-STATE USE OF GAS

12.1 Construction of In-State Facility. Buyer shall construct and operate, or cause to be constructed and operated, a facility or facilities for the processing of all gas sold under this agreement. The facility shall be located within the State of Alaska. "Processing" as used herein includes the extraction of gas liquids and the petrochemical conversion of gas sold hereunder into value added products including, but not limited to, the use of ethane, propane and butane in such conversion.

12.2 In-State use of Gas or Gas Products. No gas sold under this agreement, or gas products or gas liquids derived from gas sold under this Agreement, may be sold for consumption or use outside the State of Alaska unless such gas, gas products or gas liquids are unable to be sold at a reasonable price for use or consumption within the State of Alaska.

12.3 Submission of Plan and Approval. Within \_\_\_\_\_ months of the effective date of this Agreement, Buyer shall submit a plan of development and facility construction along with proposed timetables for completion of such facilities to the Commissioner for his approval. If the Commissioner does not approve, he shall state his reasons for disapproval and shall state in writing such conditions or modifications as he deems necessary for his approval. Within \_\_\_\_\_ months after receiving such written statement, Buyer shall either accept or reject such conditions. If Buyer rejects such conditions, this Agreement shall terminate and all monies paid Seller shall be refunded with interest of \_\_\_\_\_ per cent per annum, and Seller shall not be liable for any other monies expended by Buyer in reliance upon or in furtherance of this contract. The timetable as approved by the Commissioner shall become a part of this Agreement, and failure to meet the timetables set forth shall result in termination, without refund of any monies paid to Seller by Buyer, at the option of Seller.

## ARTICLE XII

### DEFAULT

#### 13.1 Default. If

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

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

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

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

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

13.2 Disposition of Gas upon Default, Cancellation or Termination. It is agreed that if Buyer shall for any reason fail to take the royalty gas hereunder as and when

made available to the Buyer pursuant to Buyer's previous nominations, Buyer shall nevertheless pay Seller as though it had taken delivery of said royalty gas, unless Seller through an understanding with Lessees or the lessees is able to cancel delivery of the gas. In the event of any cancellation or termination of this Agreement, Buyer shall have an obligation to continue to purchase Seller's royalty gas for up to seven (7) months following termination or cancellation of this Agreement if Seller is required by the Lessees or the lessees to accept delivery in kind for such period.

13.3 Materiality of Breach. No default or breach of, or failure of performance under, this Agreement shall be deemed to have occurred under this Agreement unless such default, breach or failure of performance is material or substantial under all the circumstances or involves the non-payment of any sum due under this Agreement which is not the subject of a bonafide dispute.

## ARTICLE XIV

### FORCE MAJEURE

14.1 Relief from Obligations. Except for Buyer's and Seller's obligations to make payment under this Agreement and except for Buyer's obligation to take gas delivered neither party hereto shall be liable for any failure to perform the terms of this Agreement when such failure is due in whole or substantial part to a "force majeure" as hereinafter defined; provided, however, that if an event constituting a force majeure shall prevent substantial performance of a party's obligations hereunder in light of all the circumstances, so as to prevent the party not claiming force majeure from obtaining the benefit of its bargain for a period in excess of four (4) years, said party not claiming force majeure shall have the option to terminate this Agreement. Said option must be exercised before the force majeure ceases to exist. The aforesaid proviso shall not permit the Seller to terminate in the event the force majeure in question is based upon Buyer's inability to obtain requisite state permits, authorizations, or licenses if Buyer has exercised the due diligence required by Article 14.2 (ix). Other remedies otherwise available for default or breach in the event of termination after such four year period shall not thereby be affected.

14.2 Definition of "Force Majeure". The term "force majeure" as employed in this Agreement shall mean (i) acts of God; (ii) strikes, lockouts or industrial disputes or disturbances; (iii) civil disturbances, arrests and restraint from rulers or people (iv) interruptions by laws, orders, rules, regulations, acts or restraints of any government or governmental body having proper jurisdiction; (v) acts of the public enemy, wars, riots, blockades, insurrections, mobilization; (vi) acts of vandalism or sabotage; (vii) shortages, scarcity or inability to secure labor,

fuel, power, equipment or materials (including inability to secure materials by reason of allocation promulgated by authorized governmental agencies), (vii) inability or failure of contractors or subcontractors to perform, (ix) inability to obtain requisite federal, state or other governmental permits, authorizations, or licenses provided the party claiming force majeure has exercised due diligence in attempting to obtain such permits, authorizations or licenses; (x) inability to ship materials because of unavailability of shipping, docking or warpage not within the reasonable control of the party claiming the existence of force majeure; (xi) epidemics, landslides, lightning, earthquakes, fire explosion, floods, washouts, storms, other unusual adverse weather conditions; (xii) breakdowns of machinery, equipment or lines of pipe; (xiii) freezing of wells, pipe lines or other equipment; (xiv) shutdowns necessary for making repairs or alternations to pipe lines or plants, mechanical failure, or the necessity of testing wells, machinery or lines of pipe as may be required by governmental authority or as may be deemed necessary by the testing party for the safe operation thereof whether or not of the kind herein enumerated; or (xv) any other event or condition otherwise not reasonably within the control of the party claiming force majeure, whether or not similar to the enumerations of (i) through (xiv).

14.3 Effect of Force Majeure. Upon the occurrence and discovery of an event constituting force majeure, the party claiming that the event is a force majeure shall notify the other party hereto of its claim of force majeure. The party claiming the existence of a force majeure shall, so far as reasonably possible, attempt to remedy such event with due diligence, and the obligations of the disabled party to perform under this Agreement, insofar as they are affected by such force majeure, shall be suspended from the time such force majeure occurs and for so long as the

disability so caused should have continued had the party claiming the existence of the force majeure met its remedial obligations under this Article 15.3, and for no longer. The settlement of strikes or lockouts of industrial disputes or disturbances shall be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with due diligence shall not require the settlement of strikes, lockouts or industrial disputes or disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole direction of the disabled party.

#### ARTICLE XV

##### NOTICES

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

If to Seller:

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

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

and  
Director, Division of Minerals  
and Energy Management

If to Buyer:

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

## ARTICLE XVI

### WAVIER

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

## ARTICLE XVII

### RECORDS

17.1 Preservation of Records. Buyer and Seller will preserve and maintain all books, accounts and records relating to or arising out of the performance of this Agreement. Buyer will also maintain and preserve all similar books, accounts and records of which it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Buyer nor Seller shall be required to retain any records for more than six (6) years unless retention of such records is specifically required by applicable law or regulation. Buyer shall either maintain its record within the State of Alaska or make such records available to Seller at Buyer's principal office in the State of Alaska within thirty (30) days after written request therefore by Seller.

17.2 Inspection of Records of Parties. Buyer and Seller will accord to each other and to their authorized agents, attorneys and auditors during reasonable business hours access to any and all property, records, books, documents and indexes thereto directly relating to the Buyer's or Seller's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make

copies of such property, records, books, documents and indexes thereto. Notwithstanding for foregoing, (i) Seller shall not be required to disclose any information, data or records which are required to be held confidential by applicable state law or regulation, and (ii) Buyer shall not be required to disclose any information, data or records containing trade secrets which Buyer or its Affiliates, contractors or subcontractors by contract with unaffiliated third parties have agreed to hold confidential. Seller shall notify Buyer of all information obtained, recorded or copied from Buyer's records in order that Buyer may evaluate the advisability of seeking that such information be held confidential by Seller under applicable law or regulation or under the provisions of this Article.

17.3 Financial Statements. So that Seller may be fully informed with regard to Buyer's financial capabilities on an ongoing basis, Buyer will provide Seller with a financial statement at quarterly intervals during any periods which Buyer is receiving delivery of oil under this Agreement from Seller. In addition, Buyer will provide Seller with year-end financial statements audited by an independent certified public accounting firm. Preparation of the financial statements shall be at Buyer's cost. Said statements shall be communicated to Seller in the manner provided in Article 15.1.

#### ARTICLE XVIII

##### RULES AND REGULATIONS: SOVEREIGN POWERS; ENVIRONMENTAL REGULATION AND STANDARDS

18.1. Applicable Laws, Rules and Regulations. This Agreement and the covenants contained herein shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether inherent or as may be set forth by constitution, statute or regulation, to protect the environment, fish and wildlife, or the health, safety, general welfare, lives or property of the people, of the State of Alaska. This Agreement is

subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, or any duly constituted agency thereof; provided, however, that this paragraph shall not be deemed a consent to any attempted alteration, amendment, termination or revocation of the contractual rights, obligations or duties of the parties hereto by the State of Alaska.

18.2 Compliance with State Rules and Regulation.

Buyer shall comply with all valid and applicable laws and regulations with regard to maintaining the quality of the environment of the State of Alaska, the well-being of fish and wildlife of the State, and the health, safety and welfare of the citizens of the State of Alaska in the construction of any facility, the operation and maintenance of any facility during the term hereof, and with respect to Buyer's purchase, processing or other use of the gas sold hereunder.

18.3 Compliance with Supplemental Environmental Standards.

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

ARTICLE XIX

GOVERNING LAW

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

## ARTICLE XX

### SEVERABILITY

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

## ARTICLE XXI

### AMENDMENT

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

## ARTICLE XXII

### SUCCESSORS AND ASSIGNS

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

22.2 Limited Right of Assignment. This Agreement shall bind and benefit the parties hereto and their respective successors and valid assigns, but no permitted conveyance or transfer of any interest of either party shall be valid until such other party has been furnished with written

notice and a true copy of such conveyance or transfer and an assumption, if any, of this Agreement by such assignee.

Either Buyer or Seller, or both, may assign its right, title and interest in, to and by virtue of this Agreement, including any and all extensions, renewals, amendments and supplements thereto to a trustee or trustees, individual or corporate, or to any lender or lenders, as security for bonds or other indebtedness, obligations or securities, without such trustee or trustees or lender or lenders assuming or becoming in any respect obligated to perform any of the obligations of the assignor, and if any such trustee or lender be a corporation, without its being required by the parties hereto to qualify to do business in the State of Alaska (but such trustee or lender shall be required to submit to the jurisdiction of the courts of the State of Alaska for matters relating to this Agreement), and no such assignment shall serve to relieve the assigning party of its obligations hereunder. Any assignment by Buyer pursuant to the next preceding sentence shall be subject to the prior written approval of the Commissioner of any such trustee or trustees or lender or lenders. In the event any such trustee or trustees, lender or lenders, or their assignee shall foreclose upon or otherwise assume ownership rights in and to this Agreement, thereupon such trustee or trustees or lender or lenders and their valid successor and assigns (i) shall assume such rights and benefits as well as obligations and liabilities only upon written notice given by it or them to Seller, (ii) shall have the right to receive from Seller, without assuming any obligations or liabilities under this Agreement, except as expressed below in the last sentence of this paragraph, any money or property owed by Seller to Buyer under this Agreement, except as expressed below in the last sentence of this paragraph, any money or property owed by Seller to Buyer under

this Agreement as of the date of such foreclosure, (iii) shall have the right to sell or assign their ownership rights to this Agreement to any person, without the consent of the Seller if such person assumes the obligations of Buyer under this Agreement, and (iv) following such further sale or assignment, shall be relieved of any obligations or liabilities provided for under this Agreement. Nothing contained within this Article 22.2 shall operate so as (1) to terminate or subordinate Seller's security interest in oil, products, proceeds of the sale, or (2) to cancel any obligation to provide security as set forth in Article XI, until money owed to Seller under this Agreement is paid.

#### ARTICLE XXIII

##### EQUAL EMPLOYMENT OPPORTUNITY

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

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

23.3 Notices to Unions. The Buyer will send to each labor union or representative of workers with which the Buyer has a collective bargaining agreement or other contract or understanding a notice advising the labor union or workers' representative of the Buyer's commitments under this Article

and shall post copies of the notice in conspicuous places available to all employees and applicants for employment.

23.4 Inclusion of Equal Employment Opportunity Provisions in Contracts and Subcontracts. The Buyer will include the provisions of Article 23.1 through 23.3 in its contracts pertaining to the construction and operation of any facility to handle, process, or otherwise deal with the gas sold under this agreement, and will require the inclusion of these provisions in every subcontract entered into by any of its contractors, so that such provisions will be binding upon each subcontractor of Buyer.

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

## ARTICLE XXIV

### LOCAL HIRE AND TRAINING

#### 24.1 Local Hire.

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

(2) In addition, and subject to compliance with other requirements of state or federal law or regulation, Buyer will give preference to hiring qualified and available residents over nonresidents for all work to be performed in the construction, operation and maintenance of any facility handling, processing, or otherwise dealing with the gas sold under this Agreement. Buyer shall not discriminate against Alaska residents by differentiating between residents and nonresidents in payment of wages, salaries, fringe benefits and working conditions. Nothing shall prohibit the Buyer from hiring Alaska residents through private sources. However, if private sources are unable to supply qualified Alaska residents, Buyer shall then attempt to seek qualified Alaska residents through the Alaska Department of Labor prior to the employment of nonresidents. The Buyer shall allow said Department of Labor two days, excluding Saturday, Sunday and state holidays, to produce qualified resident workers prior to the employment of nonresidents. If suitable resident workers are not provided within the specified time period, the Buyer may employ nonresidents possessing the qualifications necessary to perform the work. Notwithstanding the foregoing, the Buyer may hire nonresidents (i) on an emergency basis for the duration of any emergency, (ii) as casual or intermittent employees if their employment will not exceed thirty (30) working days, or (iii) as specially skilled employees when the Department of Labor agrees in advance that such specially skilled persons are unavailable within the State of Alaska.

(3) Buyer will use its best efforts to incorporate in any and all collective bargaining agreements into which it enters with labor unions covering work to be performed in

the construction, operation and maintenance of any facility and associated facilities and operations, for the handling, processing, or otherwise dealing with the gas sold under this agreement, a provision or provisions requiring the unions' dispatch procedures be established and operated in a manner which will assure that qualified Alaska residents will be employed to perform said work.

(4) Buyer will incorporate in any and all agreements into which it enters with contractors and subcontractors provisions require the employment of qualified Alaska residents, as set forth in Article 24.1(2), and utilization of the contractors' or subcontractors' best efforts to obtain agreements with labor unions, as specified in Article 24.1(3).

(5) Noncompliance with the preceding covenants of this Article 24.1 or of Article III shall be grounds for a complaint which an aggrieved resident or the State of Alaska, on its own motion, may file with the Department of Labor against the Buyer, but shall not be considered a default. Buyer hereby agrees to submit to the jurisdiction of the Department of Labor for purposes of determining whether noncompliance in fact occurred. Said Department shall hold a hearing at which the parties may present relevant evidence and cross-examine witnesses prior to such a determination. Adequate notice thereof shall be given to all parties concerned. Upon a determination that noncompliance occurred, the Buyer shall pay the aggrieved party a sum equal to the amount the resident would have received had he been employed by the Buyer, up to a maximum of one (1) year's salary. If such compliance is determined to have been willful, the Department may award an additional sum up to the amount of the original sum awarded.

(6) For purposes of this Article

(a) "resident" means a person who

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

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

(iii) has established residency in the state;

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

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

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

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

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

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

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

24.2. Local Training. Buyer, in order to effectuate the purposes of Article III and Article 24.1, and in order to insure the maximum practicable employment of Alaska residents in the operation and maintenance of any facility

handling, processing, or otherwise dealing with the gas sold under this agreement, shall initiate training programs to provide skilled local personnel and adequately trained residents to apply for permanent employment in the operation and maintenance of those facilities. Buyer shall establish and furnish to Seller its employment requirements for the operation and maintenance of the facilities, including the approximate numbers of employees and identification of the types of skills needed, in sufficient time (but not more than one year) for Seller and Buyer to design and conduct its training programs in the skills required. In pursuing such programs, Buyer intends to and shall seek the support and financial aid of other groups and agencies, to wit: the federal government, Seller, municipal and local authorities, unions, and certain native Alaskan corporations. Seller will provide Buyer with reasonable assistance in the design and administration of the training program. Due to the difficulty of establishing objective criteria to insure that adequate effort has been expended by Buyer and because Buyer expects Seller to join with it in establishing such training programs and obtaining funds therefor from a variety of governmental sources, including Seller itself, Buyer's obligations under this program shall be deemed fulfilled in the event that Buyer has expended \$500,000 on such training programs, or, in the alternative, that an aggregate of \$1,000,000 has been expended from all sources (including all federal, private and state funds) on such training programs on or prior to ten (10) years from the Effective Date.

24.3. Infrastructure Development. Buyer agrees to use its best efforts to coordinate construction of any facilities with local municipal and borough authorities in order that development of supporting residential, service and other aspects of infrastructure may be coordinated. To that end, Buyer shall seek to arrive at mutually satisfactory solutions with municipal and borough governments to the perceived communities as a result of the construction and

operation of any facilities.

#### ARTICLE XXV

##### REQUIREMENTS OF FEDERAL LAW

This Agreement shall be subject to all lawful requirements or conditions imposed by Federal law, and shall be deemed amended so as to conform to any such requirements. Notwithstanding the above, if Federal requirements prevent the delivery of Seller's royalty gas to Buyer, this Agreement shall be terminated, all amounts paid to Seller by Buyer shall be refunded, and the State shall not be liable for any other amount expended by Buyer in reliance on this Agreement, including but not limited to monies expended which are related to the construction of the facility described in Article \_\_\_\_.

#### ARTICLE XXVI

##### MISCELLANEOUS

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

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

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

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

26.5 Reasonableness of Approvals. Buyer and Seller agree that as to any approvals or consents required of either of them under this Agreement, such approvals or consents shall not be unreasonably withheld.

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

THE STATE OF ALASKA

ATTEST:

\_\_\_\_\_  
By: \_\_\_\_\_  
Commissioner, Department  
of Natural Resources  
"SELLER"

APPROVED AS TO FORM:

\_\_\_\_\_

ATTEST:

\_\_\_\_\_  
By: \_\_\_\_\_  
President  
"BUYER"

**PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.**

**PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT**

GAS SALE CONTRACTS  
- SOHIO

LAW OFFICES  
CASE & WARD P. C.  
1050 SEVENTEENTH STREET, N. W.  
WASHINGTON, D. C. 20036

FILED  
OFFICE OF THE SECRETARY  
AUG 29 1 47 PM '79

FEDERAL  
POWER COMMISSION  
TELEPHONE  
(202) 452-0580

CHARLES A. CASE, JR.  
DAVID B. WARD  
ALLAN W. ANDERSON, JR.

August 29, 1979

Mr. Kenneth F. Plumb, Secretary  
Federal Energy Regulatory Commission  
825 N. Capitol Street, N.E.  
Washington, D. C. 20426

Dear Mr. Plumb

There are enclosed herewith for filing with the Commission by Northern Natural Gas Company in accordance with Section 5, V, 2 of the President's Decision on An Alaska Natural Gas Transportation System, five copies of the Gas Sale And Purchase Agreement, Prudhoe Bay Unit, Alaska between Sohio Natural Resources Company and Northern Natural Gas Company, dated July 1, 1979.

Very truly yours,

*David B. Ward*  
David B. Ward

DBW/md

GAS SALE AND PURCHASE AGREEMENT

Prudhoe Bay Unit, Alaska

Between

SOHIO NATURAL RESOURCES COMPANY, "Seller"

And

NORTHERN NATURAL GAS COMPANY, "Buyer"

Dated July 1, 1979

CR# 41479

# GAS SALE AND PURCHASE AGREEMENT

Prudhoe Bay Unit, Alaska

Between

SOHIO NATURAL RESOURCES COMPANY, "Seller"

and

NORTHERN NATURAL GAS COMPANY, "Buyer"

## INDEX

| <u>ARTICLE</u> |                                                      | <u>PAGE</u> |
|----------------|------------------------------------------------------|-------------|
| I.             | Definitions . . . . .                                | I-1         |
| II.            | Scope of Agreement . . . . .                         | II-1        |
| III.           | Conditions . . . . .                                 | III-1       |
| IV.            | Reservations of Seller . . . . .                     | IV-1        |
| V.             | Quantity . . . . .                                   | V-1         |
| VI.            | Point of Delivery . . . . .                          | VI-1        |
| VII.           | Delivery Pressure . . . . .                          | VII-1       |
| VIII.          | Quality . . . . .                                    | VIII-1      |
| IX.            | Natural Gas Liquids Allocation . . . . .             | IX-1        |
| X.             | Gas Measurement and Tests . . . . .                  | X-1         |
| XI.            | Price . . . . .                                      | XI-1        |
| XII.           | Tax Reimbursement . . . . .                          | XII-1       |
| XIII.          | Billing, Payments and Records . . . . .              | XIII-1      |
| XIV.           | Financial Responsibility . . . . .                   | XIV-1       |
| XV.            | Term . . . . .                                       | XV-1        |
| XVI.           | Warranty of Title and Payment of Royalties . . . . . | XVI-1       |
| XVII.          | Remedy for Breach . . . . .                          | XVII-1      |
| XVIII.         | Force Majeure . . . . .                              | XVIII-1     |
| XIX.           | Processing . . . . .                                 | XIX-1       |
| XX.            | Miscellaneous and Addresses . . . . .                | XX-1        |

GAS SALE AND PURCHASE AGREEMENT

Prudhoe Bay Unit, Alaska

THIS AGREEMENT, made and entered into as of the 1st day of July, 1979, by and between SOHIO NATURAL RESOURCES COMPANY, a Delaware corporation, hereinafter referred to as "Seller," and NORTHERN NATURAL GAS COMPANY, a Delaware corporation, hereinafter referred to as "Buyer";

WITNESSETH:

WHEREAS, Seller is the owner of an interest in certain oil and gas leases included in the Prudhoe Bay Unit of Alaska, and desires to sell to Buyer a portion of Seller's natural gas which may be produced from certain wells completed within the Prudhoe Bay (Permo-Triassic) Reservoir underlying such Unit; and

WHEREAS, Buyer, Sohio Petroleum Company (the name of which was changed to Sohio Natural Resources Company on January 1, 1978,) ("Sohio"), Columbia Gas Transmission Company ("Columbia"), BP Alaska Inc. ("BPA") and BP Alaska Exploration Inc. ("BPAE") are parties to an Agreement dated August 12, 1977, wherein Buyer's right to negotiate for a specified quantity of gas which may be produced from Sohio's and BPA's interests in the Prudhoe Bay leases, as therein defined, and BPAE's interest in BP non-Prudhoe Bay leases, as therein defined, is set forth; and

WHEREAS, Seller and Buyer desire by this agreement to set

forth in detail and with particularity the respective rights and obligations of the parties regarding the sale and purchase of gas from the Prudhoe Bay Unit, Alaska;

NOW, THEREFORE, in consideration of the premises and mutual benefits and covenants herein contained, the parties hereto have agreed and do hereby covenant and agree as follows:

## ARTICLE I.

### DEFINITIONS

The following terms when used in this Agreement shall have the meanings set forth in this Article unless the context indicates otherwise:

1.1 The term "Leases" shall mean Seller's interest in the oil and gas leases described in Exhibit "A" hereto covering lands included within the Prudhoe Bay Unit and subject to the Prudhoe Bay Unit Agreement ("Unit Agreement") and the Prudhoe Bay Unit Operating Agreement ("Unit Operating Agreement") both dated as of April 1, 1977, and more particularly described hereinafter, insofar only as such leases cover the Prudhoe Bay (Permo-Triassic) Reservoir within the Initial Participating Areas.

1.2 The term "Initial Participating Areas" shall mean the Prudhoe Bay (Permo-Triassic) Oil Rim Participating Area and Gas Cap Participating Area as described in Sections 5.1(c) and 5.1(e) of the Unit Agreement, as such Initial Participating Areas are outlined on maps attached as Exhibits "D-1" and "D-2" to the Unit Agreement.

1.3 The term "Prudhoe Bay (Permo-Triassic) Reservoir" means the accumulation of oil, gas and associated substances found in the A. R. Co.-Humble (Now A. R. Co.-Exxon) Prudhoe Bay State No. 1 well between the depths of 8,117 feet and 8,785 feet below Kelly Bushing as measured by the Schlumberger Dual Induction Laterolog, Run 4, dated February 8, 1968, and in Run 5, dated March 9, 1968, (including also the Put River Sandstone, which is that sandstone interval that correlates with the interval 9,638 to 9,719 measured feet on the Borehole Compensated Sonic Log, Run 2, dated September 28, 1975, in the Atlantic Richfield-Exxon NGI No. 1 well) within the Prudhoe Bay Unit, as such Reservoir is now constituted. The Prudhoe Bay (Permo-Triassic) Reservoir is outlined on the map attached as Exhibit "F" to the Unit Agreement, which map is subject to modification to reflect the Reservoir as now constituted. Seller will provide Buyer with such modified map, to be an Exhibit "B" hereto, when available.

1.4 The term "Prudhoe Bay Unit" (sometimes called "Unit") shall mean the geographic area subject to the Unit Agreement and Unit Operating Agreement approved by the Commissioner of the Department of Natural Resources of the State of Alaska on June 2, 1977, and referred to as the "affected area" in Conservation Order No. 145 of the Alaska Oil and Gas Conservation Committee, Division of Oil and Gas Conservation, Department of Natural Resources of the State of Alaska, as such order was in effect on June 1, 1977.

1.5 The term "Separator Off-Gas" shall mean hydrocarbon and nonhydrocarbon natural gas, including natural gas liquids, as produced from unit wells and which is recovered in a vapor state from any separation facility handling gas provided from unit wells.

1.6 The term "Seller's Gas" shall mean Seller's share of Separator Off-Gas Production (as that term is defined in Section 26.002 of the Unit Operating Agreement) which is attributable to Seller's Leases and available for taking and disposal under Section 27.701 or Section 27.702 of the Unit Operating Agreement less that portion thereof reserved by Seller in ARTICLE IV.

1.7 The term "Contract Volume" shall mean the volume of gas determined pursuant to Section 5.1 hereof.

1.8 The term "day" shall mean a period of twenty-four (24) consecutive hours beginning at 12:01 a.m., Prudhoe Bay time.

1.9 The term "month" shall mean the period beginning at 12:01 a.m., Prudhoe Bay time, on the first (1st) day of a calendar month and ending at the same time on the first (1st) day of the next succeeding calendar month.

1.10 The term "year" shall mean each successive period of twelve (12) consecutive months beginning on the first day of the month following the month in which deliveries of gas are commenced hereunder to Buyer and any anniversary of such date.

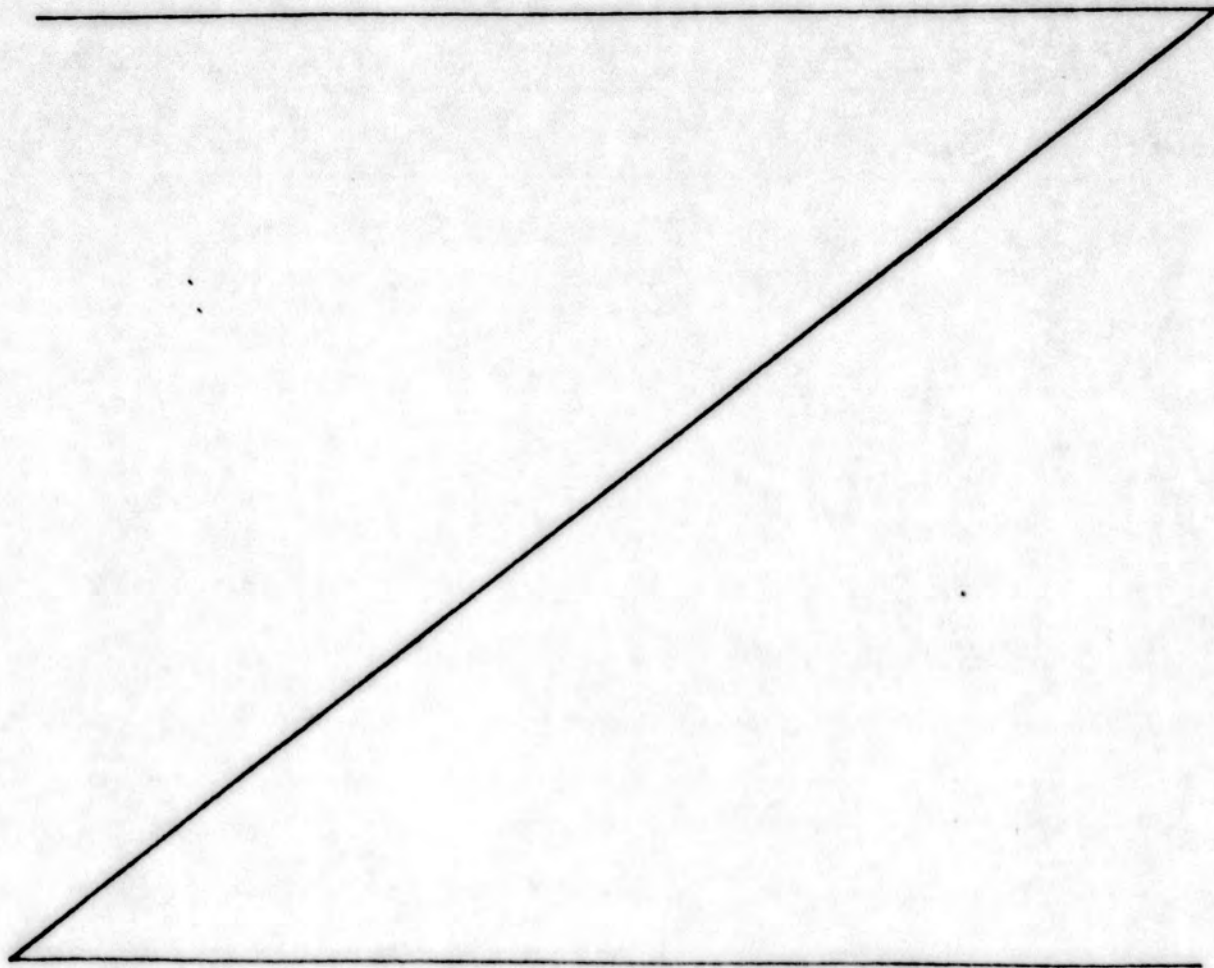
1.11 The term "Mcf" shall mean 1,000 cubic feet of gas as determined on the measurement basis set forth in Section 10.1 hereof.

1.12 The term "Btu" shall mean British thermal unit.

1.13 The term "psia" shall mean pounds per square inch absolute.

1.14 The term "psig" shall mean pounds per square inch gauge.

1.15 The term "Btu content" or "gross heating value" shall mean the total heating value determined as provided in Section 10.14 hereof.



## ARTICLE II.

### SCOPE OF AGREEMENT

2.1 Subject to all of the terms and provisions hereinafter set forth, Seller agrees to deliver for sale to Buyer, and Buyer agrees to take and purchase from Seller each day during the term hereof, one-third (1/3) of Seller's Gas, as produced; provided Buyer shall only be entitled to purchase up to three (3) trillion cubic feet of gas in accordance with the provisions of that certain agreement dated August 12, 1977, as referred to in second WHEREAS clause hereof; and provided further, Seller expressly does not warrant a delivery of said three (3) trillion cubic feet of gas. Seller may deliver and sell to Buyer and Buyer shall purchase and take, to the extent that Buyer has available pipeline capacity to do so, quantities of Seller's Gas each day in excess of that committed to Buyer hereunder.

2.2 It is recognized that Seller is entering into or has entered into one or more agreements with other purchasers ("Other Purchasers") providing for the sale and purchase of the remainder of Seller's Gas as produced each day. Buyer and Other Purchasers will receive Seller's Gas at the same delivery point, as hereinafter described, and it will be the responsibility of Buyer and Other Purchasers to take all of Seller's Gas as produced every day and to coordinate the taking so as to avoid any continuing or permanent imbalance between their obligations to take and

their actual takes of Seller's Gas. Seller shall have no obligation to Buyer or to Other Purchasers to allocate deliveries of Seller's Gas between Buyer and Other Purchasers to avoid or offset imbalances in their respective purchases of Seller's Gas.

2.3 It is recognized further that Seller's Leases are subject to the Unit Agreement and Unit Operating Agreement executed by and between Seller and other owners of interests in the oil and gas in and under the Prudhoe Bay Unit, and that this Agreement shall be subordinate to such Unit Agreement and Unit Operating Agreement, and Seller's obligations thereunder. Seller shall provide Buyer with copies of said Unit Agreement and Unit Operating Agreement, which have been filed in the Division of Minerals and Energy Management, Department of Natural Resources, State of Alaska. In particular, the sale of Seller's Gas hereunder is subject to the right of the State of Alaska, as lessor, to take its royalty share of gas in kind.

It is recognized that the owners of interests in oil and gas leases included in the Initial Participating Areas will be selling gas to several purchasers, all of whom will be transporting such gas in the Alaska Natural Gas Transportation System (ANGTS). Buyer agrees to use reasonable efforts to coordinate its purchase of gas with the purchases by other purchasers to the end that all purchasers will have an opportunity to take their contractual amount of gas. Buyer further agrees to use

reasonable efforts to arrange balancing agreements with other purchasers in order to better assure that all purchasers will have greater flexibility in their purchases of gas from the Initial Participating Areas. Seller shall have no obligation to avoid or offset imbalances in the rights of purchasers to receive and actual receipts of gas entering the ANGTS at Prudhoe Bay.

2.4 As hereinafter provided, Buyer shall acquire in the purchase of Seller's Gas the net volume of natural gas liquids attributable to Seller's Gas which is required to be removed to condition that gas for transport through pipeline facilities used by Buyer to transport gas from the Prudhoe Bay area. The volume of natural gas liquids so acquired by Buyer shall not exceed the minimum required to be removed prior to transportation of the gas in the pipeline for efficient pipeline operation under pipeline specifications on the date of initial deliveries hereunder. (For the allocation of natural gas liquids attributable to Seller's Gas, refer to ARTICLE IX hereof, entitled "Natural Gas Liquids Allocation").

### ARTICLE III.

#### CONDITIONS

3.1 Buyer and Seller recognize that in order for Buyer to purchase and receive the gas covered hereby, it will be necessary for Buyer to arrange for the installation of a transportation system therefor, which "transportation system" for the purposes hereof shall include conditioning facilities and pipeline necessary to transport the gas from the delivery point herein to Buyer's pipeline facilities in the contiguous United States. Upon execution of this Agreement, Buyer shall promptly seek to conclude all agreements and contractual arrangements necessary for the transportation system for gas to be purchased hereunder. If necessary for the successful completion of the transportation system for Alaska gas authorized by the President's Decision under the Alaska Natural Gas Transportation Act of 1976, Buyer shall participate in the ownership of such transportation system. Not later than January 1, 1980, Buyer shall complete its contractual arrangements for the transportation system and shall provide Seller with such documentation of such arrangements as Seller may request. It is recognized that the Federal Energy Regulatory Commission has instituted a proceeding, Docket No. RM79-19, concerning the conditioning facilities for gas entering the Alaska Natural Gas Transportation System. If the decision in such proceeding affects Buyer's ability to perform its responsibility as to such conditioning facilities, and if the decision is not acceptable to either Seller or Buyer, then either party

may terminate this Agreement. If the Federal Energy Regulatory Commission fails to approve Buyer's arrangements for the transportation system, in a form acceptable to both Seller and Buyer, or Buyer fails to assure Seller to Seller's satisfaction with respect thereto, by March 1, 1980, either Seller or Buyer shall have the right and option at any time thereafter to declare this Agreement terminated.

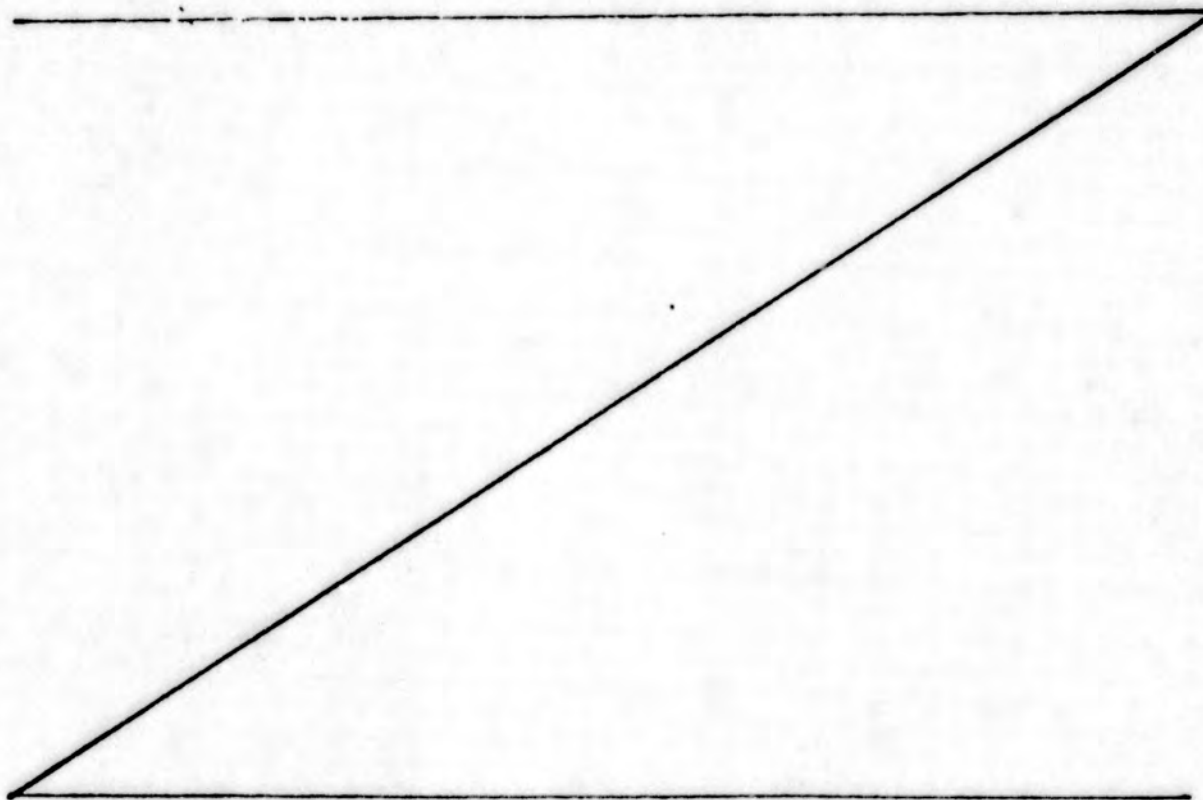
3.2 As soon as practicable after the execution of this Agreement, Buyer shall file or cause to be filed applications for all certificates, permits and other authorizations which Buyer will require from the Federal Energy Regulatory Commission and other governmental agencies to commence the purchase of gas hereunder. In particular, Buyer shall promptly file a copy of this Agreement with the Federal Energy Regulatory Commission for approval pursuant to Section 5.V.2. of the President's Decision under the Alaska Natural Gas Transportation Act. Buyer may accept or reject any certificate, permit or other authorization issued to it. If Seller is dissatisfied with the certificate, permit or other authorization received by Buyer, Seller shall have the right to terminate this contract by giving Buyer written notice of such termination together with its reasons therefor. Buyer agrees to furnish Seller with a copy of any certificate, permit or other authorization received by it, together with a copy of its notice of acceptance or rejection thereof, in which latter event Buyer will include its reasons for such rejection.

3.3 Buyer shall use due diligence in an effort to obtain, not later than January 1, 1982, on terms and conditions acceptable to both parties all certificates, permits or other authorizations from the Federal Energy Regulatory Commission and other governmental agencies which Buyer deems necessary for Buyer to perform its obligations under this Agreement, including a certificate of public convenience and necessity to construct, own and operate facilities required for Buyer to carry out its obligations under this Agreement. Buyer shall notify Seller at such time as Buyer has received all such certificates, permits and authorizations, and in the event that Buyer has not so notified Seller by March 1, 1982, Seller shall thereafter have the right and option, to be exercised at any time, to terminate this Agreement by giving notice of termination to Buyer. If Buyer fails to obtain the required authorization by such date, or rejects same upon issuance thereof, then either party may terminate this Agreement by giving notice to the other party and neither party shall be liable thereafter hereunder.

3.4 Upon the fulfillment of the foregoing conditions, Buyer will proceed with due diligence to install or make arrangements for installation of all facilities necessary to receive delivery of gas from Seller hereunder no later than January 1, 1986, and Seller will proceed to install any necessary facilities and use due diligence to make delivery of such gas to Buyer at the delivery point hereinafter specified.

3.5 If this Agreement is terminated by either party under the provisions of this Article III or any other provision herein, the gas subject hereto shall again become subject to that certain Agreement, dated August 12, 1977, referred to in the second WHEREAS clause hereof, to the extent and for the period of time provided for therein.

It is agreed that the execution of this Gas Sale and Purchase Agreement shall not alter the rights and obligations of the parties with respect to that certain Agreement, dated August 12, 1977, referred to in the second WHEREAS clause hereof, with respect to any subject matter not expressly covered by this Gas Sale and Purchase Agreement.



ARTICLE IV.  
RESERVATIONS OF SELLER

4.1 Seller hereby expressly reserves from this Agreement the following prior rights, together with sufficient volumes of gas to exercise any such rights and to meet the obligations set forth hereinafter:

4.1.1 To operate the Leases covered hereby free from any control by Buyer in such manner as Seller, in Seller's sole discretion, may deem advisable, including without limitation the right, but never the obligation, to drill new unit wells, to repair and rework old unit wells, to renew or extend, in whole or in part, Seller's Leases and to abandon any unit well or surrender Seller's Leases, in whole or in part.

4.1.2 To sell Seller's Gas committed hereunder on a day-to-day basis to any purchaser, when said gas is available for sale and before the date of initial deliveries hereunder.

4.1.3 To use or to sell such quantities of Seller's Gas as required to fulfill Seller's obligations pursuant to the terms of any agreements under which Seller now or hereafter delivers gas for fuel for operation of the Trans Alaska Pipeline System.

4.1.4 To use Seller's Gas in such quantities as Seller in its sole discretion deems necessary:

(a) For developing and operating Seller's Leases,

including but not limited to gas for drilling or sale to drilling contractors; gas for fuel, gas lift, pressure maintenance, additional recovery, cycling or related operations; gas for the operation of Unit Equipment or other facilities, whether located on or off Seller's Leases, installed to handle oil or gas production from or attributed to any reservoir underlying such Leases or other leases adjacent to or in the vicinity of the Prudhoe Bay Unit, in which Seller may have an interest.

(b) For drilling or sale to drilling contractors and for fuel in developing and operating other lands and leases adjacent to or in the vicinity of Seller's Leases.

(c) For uses such as heating, lighting, cooking, etc., for housing, office buildings and other facilities utilized by or for personnel employed in the development and operation of Seller's Leases and other leases in the vicinity.

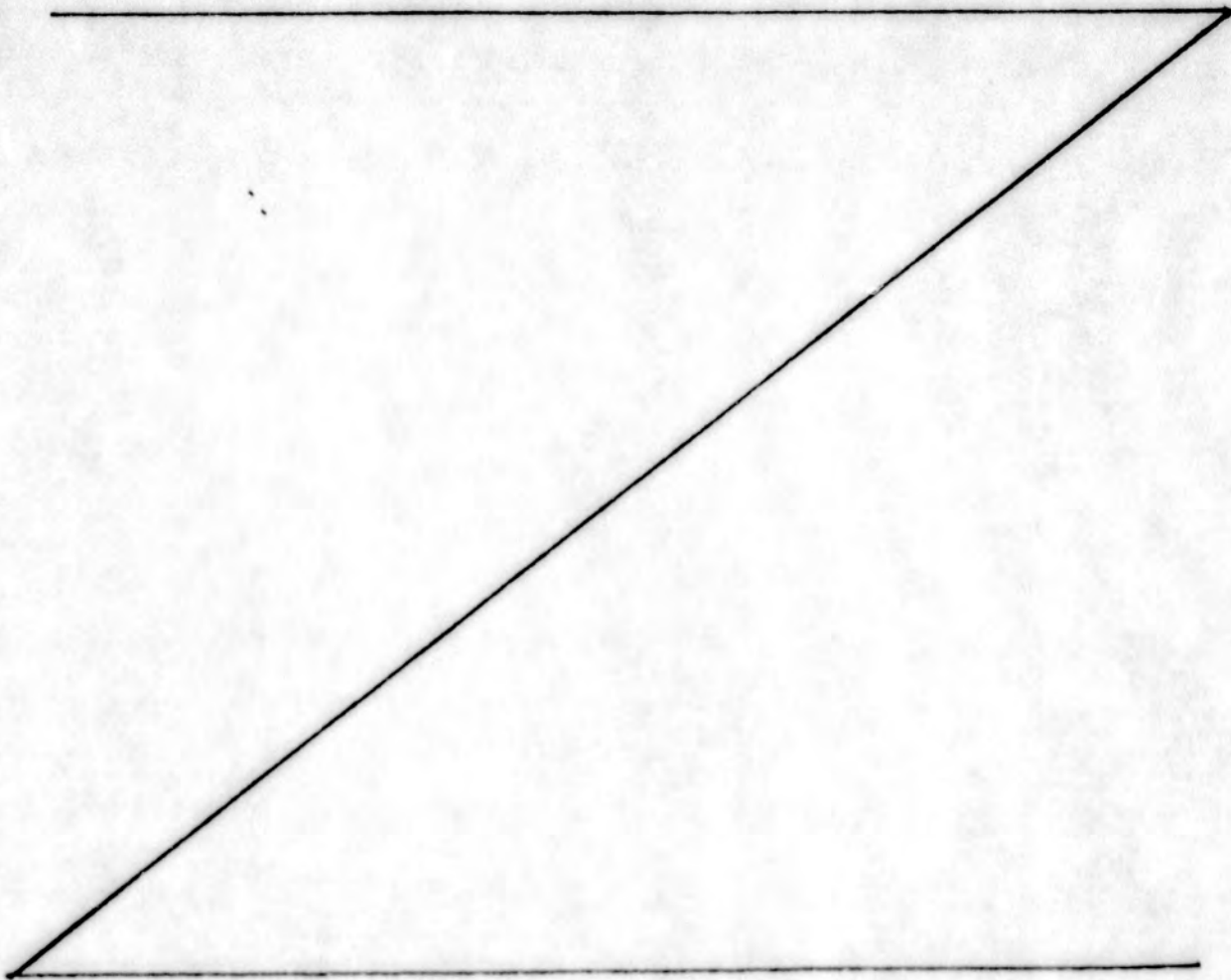
4.1.5 To fulfill Seller's obligations to deliver gas to its lessor, the State of Alaska, pursuant to the terms of Seller's Leases, and the Unit Agreement and Unit Operating Agreement, as they now exist.

4.1.6 To alter the Initial Participating Areas by agreement with the other parties to the Unit Agreement, in which event this Agreement will cover Seller's Gas produced from any such altered Participating Area to the extent that such gas is attributed to Seller's Leases covered hereby; Seller's interest

in lands and leases not within the Initial Participating Areas shall not become subject to this Agreement by reason of any such alteration except on mutual agreement of the parties.

Seller shall promptly notify Buyer of any agreement affecting Seller's Leases; however, Seller shall not be liable if through oversight it fails to give Buyer such notice.

4.1.7 Subject to Section 2.4, to process or cause Seller's Gas to be processed after delivery to Buyer, as hereinafter provided in ARTICLE XIX.



ARTICLE V.

QUANTITY

5.1 Upon fulfillment of the conditions set forth in ARTICLE III above, delivery and receipt of gas shall commence under this Agreement. Commencing on the date of first delivery of gas hereunder and thereafter during the term hereof, Buyer shall take delivery or arrange for the taking on each and every day, of one-third (1/3) of Seller's Gas which is available for delivery and sale at the delivery point; and as limited in ARTICLES II and XV. Such one-third (1/3) of Seller's Gas shall be the "Contract Volume" each day, and Buyer shall take delivery of or arrange for the taking of such Contract Volume of gas. If Buyer takes less than the Contract Volume on any day for any reason, other than force majeure which results in the ANGTS not receiving gas at Prudhoe Bay, Seller shall have the right, as elsewhere provided herein, to sell any such gas not taken by Buyer to another purchaser if Buyer does not first arrange for such gas to be taken by another purchaser. The sale or delivery of such gas to another purchaser shall discharge Buyer's obligation hereunder to the extent Seller receives payment

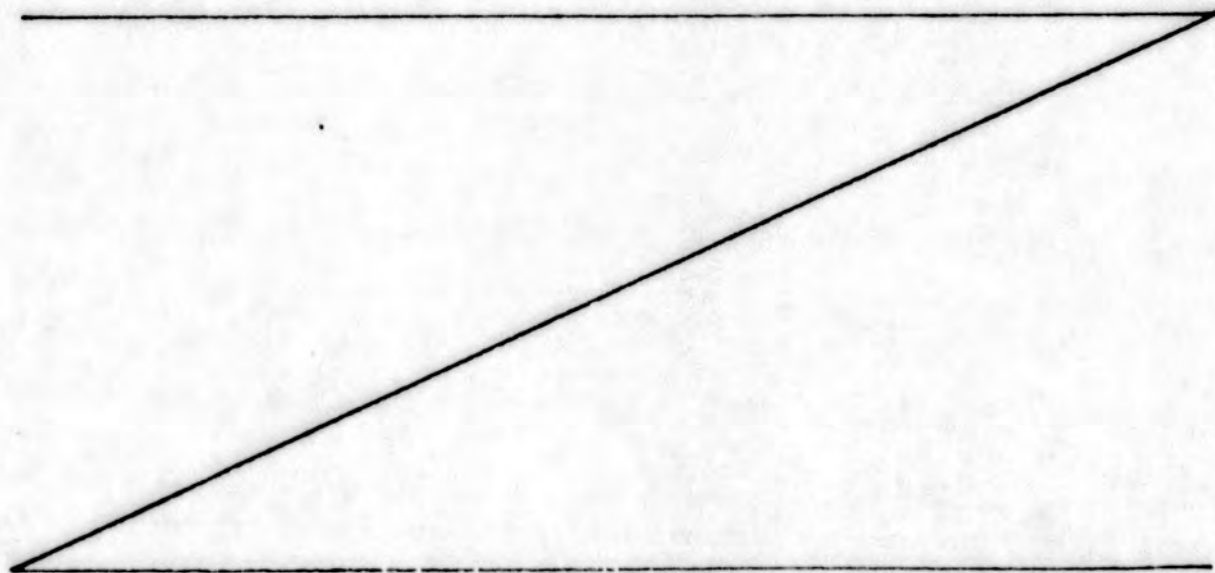
equivalent to that it would have received had Buyer purchased such gas.

5.2 The Prudhoe Bay (Permo-Triassic) Reservoir is an associated oil and gas reservoir. Accordingly, the production of Seller's Gas will not permit Buyer to take certain quantities of gas on a fixed schedule or to make up for gas which Buyer is unable or fails to take on any day. Under existing State of Alaska regulations, the annual average gas production from the Prudhoe Bay (Permo-Triassic) Reservoir may not exceed 2.7 billion standard cubic feet (2.7 Bcf) per day. It is estimated that the Contract Volume hereunder (one-third (1/3) of Seller's Gas available for delivery and sale at the delivery point) will be about 170,000 Mcf per day at the delivery point, and will have a gross heating value of about 1060 Btu's per cubic foot. Seller shall furnish Buyer a revised estimate of the Contract Volume as soon as practicable after Seller becomes aware that such estimate or any subsequently furnished estimate should be changed by more than ten (10) percent.

5.3 Subject to Section 5.1 above, Seller shall have the right to deliver and sell to another purchaser any part or all of the Contract Volume of Seller's Gas which Buyer fails to take on any day, but Buyer shall not be excused for failure to perform this Agreement by reason of said right whether or not exercised. Unless otherwise excused, Buyer shall be liable to Seller for

the price for any of Seller's Gas taken at the delivery point without compensation as a result of Buyer's failure to take, or for the difference in the price which Seller receives for sale of Seller's Gas to another and the price applicable hereunder, if the latter is the greater. Even though Buyer's failure to take may be excused under any other provision of this Agreement, Buyer shall not have a right to make up for gas which Buyer fails to take on any day.

5.4 Buyer and Other Purchaser(s) shall have the right to allocate gas purchases from Seller among themselves to the end that all of the Contract Volume will be taken hereunder on any day. Performance by Other Purchaser(s) of Buyer's obligation to take the Contract Volume shall be deemed adequate performance hereunder provided payment is made to Seller as required hereunder.

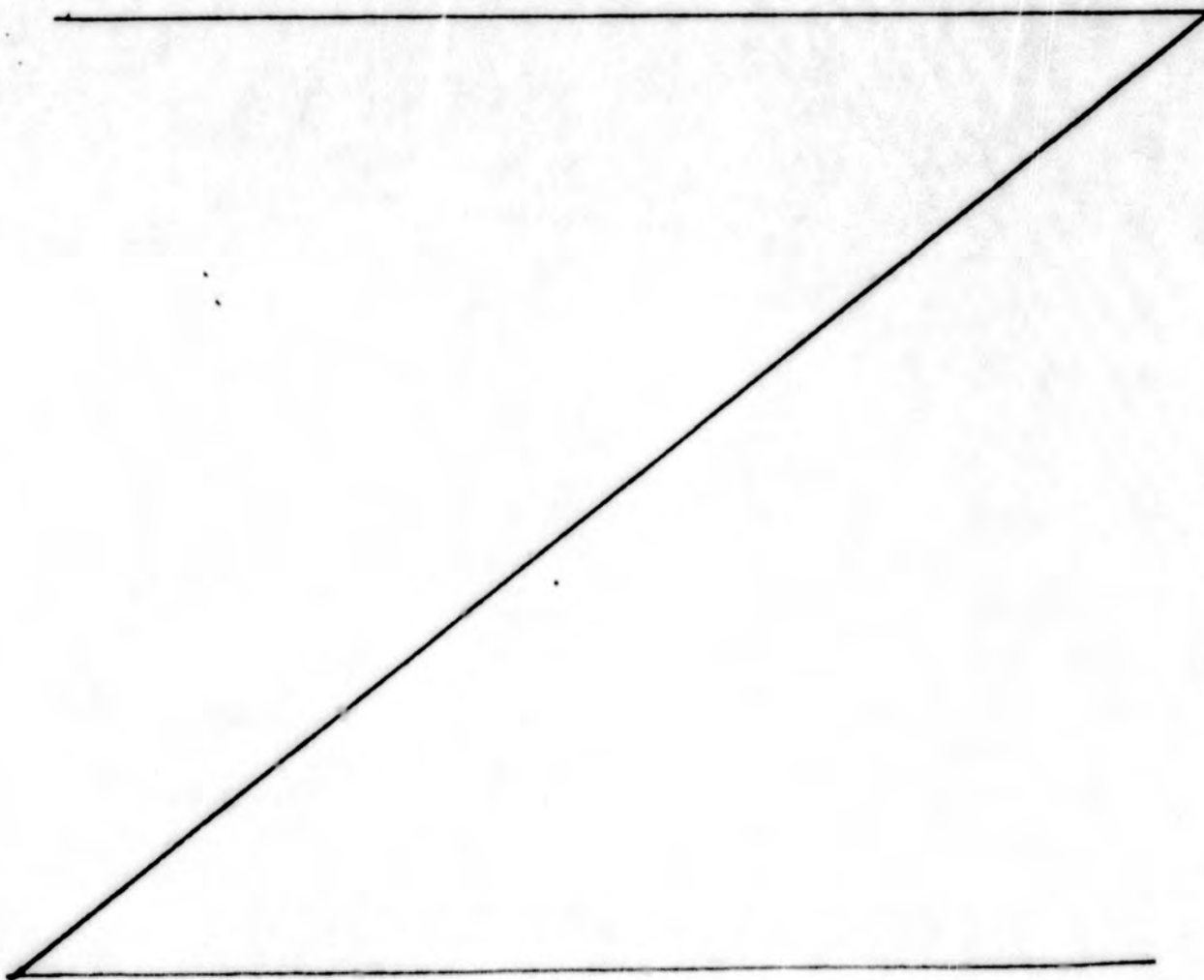


ARTICLE VI.  
POINT OF DELIVERY

6.1 The point of delivery for gas sold hereunder shall be at the outlet of the Unit gas gathering system, downstream of the gas/oil separators and Unit gas dehydration and certain compression and cooling facilities, at such point as may be mutually acceptable to Seller and Buyer and at or near the inlet of the gas conditioning facility. If other parties to the Unit Agreement execute agreements for the sale of Separator Off-Gas at the gas/oil separators or elsewhere upstream of the point of delivery herein described, Seller shall have the option to designate the same delivery point as designated by said other parties. In the event of such designation, Seller shall have an option to require that this Agreement be amended to conform to approximately the same terms and conditions as such other Agreement or Agreements.

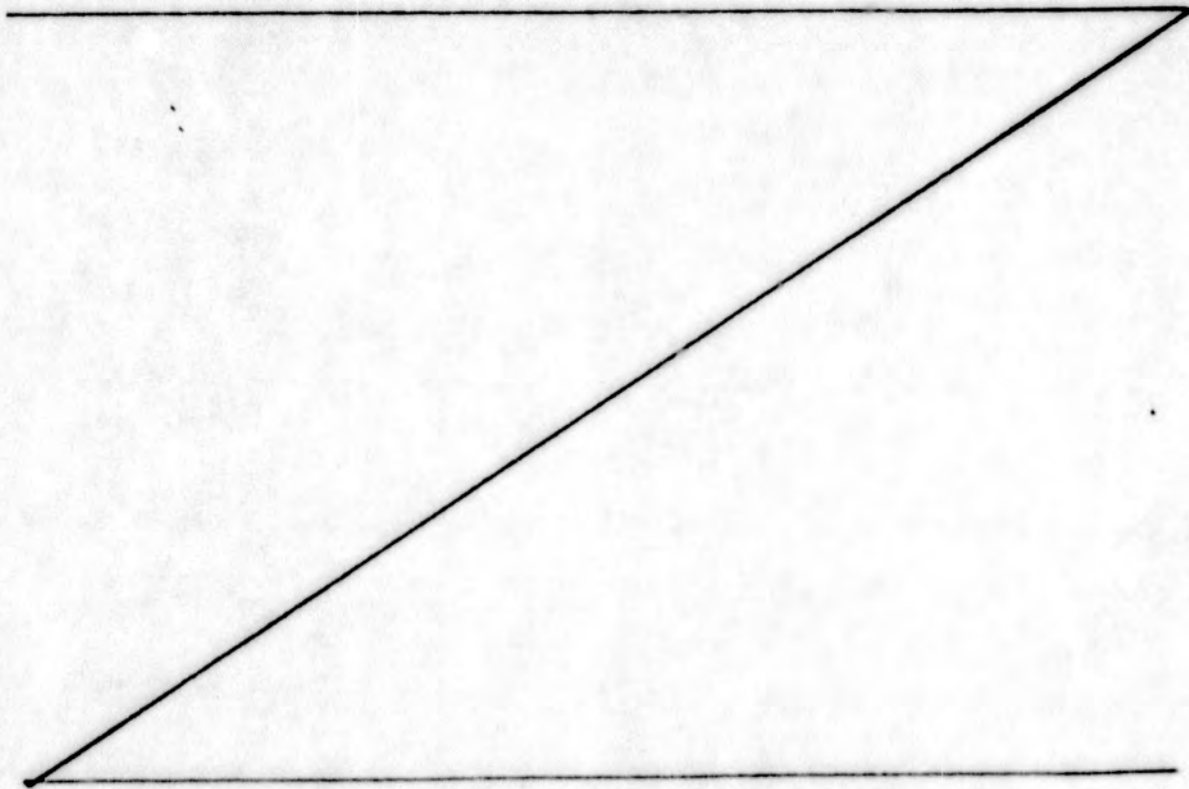
6.2 Title to Seller's Gas shall pass from Seller to Buyer at the point of delivery. Seller will provide all facilities upstream of the point of delivery including facilities necessary to separate Seller's Gas from oil, to gather, dehydrate, compress and cool said gas to the quality standards hereinafter specified. Buyer will provide all facilities at the delivery point for receipt and measurement of Seller's Gas and all downstream facilities necessary for the transportation of such gas.

6.3 Seller shall be in control and possession of Seller's Gas prior to delivery thereof to Buyer and Seller shall be responsible for any damage or injury or death caused thereby prior to such delivery. Following such delivery, Buyer shall be deemed to be in exclusive control and possession of Seller's Gas and shall bear responsibility for any and all claims, causes of action or judgments arising from property damage or injury or death caused thereby or arising from the conduct of Buyer.



ARTICLE VII.  
DELIVERY PRESSURE

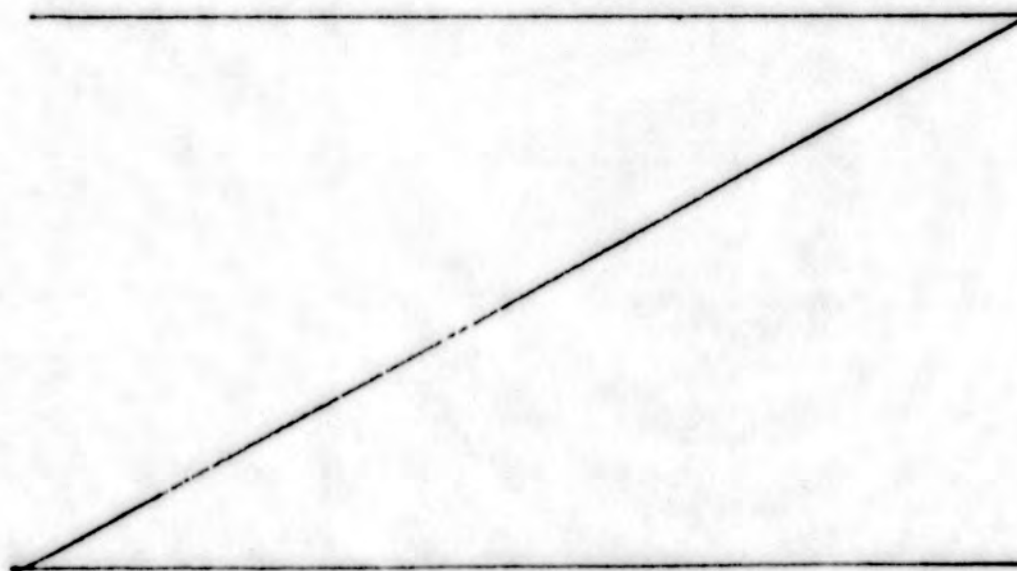
7.1 Seller agrees to deliver Seller's Gas at a pressure which is the greater of (i) the operating pressure of Seller's facilities at the point of delivery, or (ii) a pressure of 500 psig. To the extent that compression of Seller's Gas is required in order to enter Buyer's facilities at the point of delivery, Seller agrees to install and operate such equipment for compression of the gas to a pressure sufficient to enter Buyer's facilities at the point of delivery up to but not in excess of 500 psig.



## ARTICLE VIII.

### QUALITY

8.1 Seller's Gas sold and delivered to Buyer hereunder shall be as produced in its natural state, except that such gas may be compressed as specified in Section 7.1 above, and shall be dehydrated to contain not more than two-tenths (.2) of a pound of water per million cubic feet and cooled to a temperature not in excess of 120 degrees Fahrenheit (120°F.). Seller shall install separation and dehydration equipment for removal of oil, condensate, and nonhydrocarbon liquids and objectionable solids from such gas prior to its delivery to Buyer. All such liquids and solids so separated by Seller shall be and remain the property of Seller.



## ARTICLE IX.

### NATURAL GAS LIQUIDS ALLOCATION

9.1 As provided in Section 3.1 herein, Buyer intends to join with other gas purchasers to construct or have constructed a transportation system which includes a gas conditioning facility. For purposes of this Agreement, any such gas conditioning facility located in the Unit Area, or its vicinity, is hereinafter referred to as Conditioning Facility. Gas purchased hereunder will be commingled in the Conditioning Facility with gas owned by other purchasers for conditioning prior to delivery into a pipeline for transportation to Buyer's markets. It is anticipated that in the operation of the Conditioning Facility, certain quantities of natural gas liquids (as such term is defined in the Unit Operating Agreement) will be extracted from Seller's Gas and, unless purchased by Seller as provided in Section 9.2, such natural gas liquids so extracted, shall be owned by Buyer. Allocation of natural gas liquids to Seller's Gas shall be accomplished as provided in Article 29 of the Unit Operating Agreement. Buyer shall conduct such tests and measurements as may be required and Buyer and Seller shall furnish each other monthly statements concerning the operations conducted by each which will contain whatever information is necessary for Seller to make or cause to be made such allocation in compliance with the Unit Operating Agreement. Seller and

Buyer agree that the detailed information to be furnished by each to the other will be determined prior to the commencement of gas deliveries so that when gas deliveries do commence there will be no delay in determining the volume of natural gas liquids allocated to Seller's Gas and the volume and Btu content of Seller's Gas sold and delivered.

9.2 In the event Buyer elects to sell to an unaffiliated party natural gas liquids recovered by operation of the Conditioning Facility and attributable to Seller's Gas, Seller shall have the right of first refusal to purchase and receive such quantities thereof that Buyer desires to sell. From time to time if Buyer offers such natural gas liquids for sale to others, Seller shall have the option to meet the terms of any bona fide offer that Buyer receives for the purchase thereof. Upon receipt of an offer which is acceptable to Buyer, Seller agrees to meet the terms of such offer within sixty (60) days of receipt of written notice from Buyer or to then be deemed to have forfeited its option to purchase said natural gas liquids but only with regard to the terms of such offer.

9.3 If Buyer elects to sell to an unaffiliated party natural gas liquids recovered by operation of the Conditioning Facility and attributable to gas of other sellers, such sellers having waived any rights to purchase such liquids, Seller shall have the right of first refusal to purchase and receive such

quantities thereof that Buyer desires to sell. From time to time if Buyer offers such natural gas liquids for sale to others, Seller shall have the option to meet the terms of any bona fide offer that Buyer receives for the purchase thereof. Upon receipt of an offer which is acceptable to Buyer, Seller agrees to meet the terms of such offer within sixty (60) days of receipt of written notice from Buyer or to then be deemed to have forfeited its option to purchase said natural gas liquids but only with regard to the terms of such offer.

9.3.1 With respect to the natural gas liquids recovered by operation of the Conditioning Facility which are owned and/or controlled by Buyer but which have not been made available to Seller under the provisions of Paragraphs 9.2 and 9.3 hereof and which are not to be utilized by Buyer, it is agreed that Seller shall have the preferential purchase right, to be exercised as hereinafter set forth, to purchase such liquids at the inlet to TAPS line, in the Prudhoe Bay Area of Alaska, subject to the further rights of Buyer to repurchase such liquids; provided this right and option of Seller of purchase shall not apply to the extent that Buyer is precluded from performing any contractual obligation existing in favor of third parties.

At least three (3) months in advance of commencement of deliveries Buyer shall give Seller notice of the daily quantities of such liquids which are subject to this provision. Seller may elect by the giving of notice within 14 days after receipt of

the aforementioned notice, to purchase such liquids on the following basis:

To the extent Seller elects to purchase such liquids, Seller shall be entitled to purchase same based upon the fair market price of Prudhoe Bay crude oil in California adjusted for any difference in quality of said liquids, including but not limited to, difference in Btu content, less actual shipping costs from Valdez to California and less the actual TAPS transportation tariffs under which said liquids are transported to Valdez.

Moreover, as a part hereof Buyer is given the right and option exerciseable by the giving to Seller notice within 14 days following receipt of Seller's notice to purchase, as provided above, to repurchase an equal volume of crude oil in California at a price equal to the fair market price of Prudhoe Bay crude oil at such location.

The parties hereto understand that any natural gas liquids which are shipped in the TAPS line will be commingled and mixed with crude oil and that the crude oil available in California is to be regarded as the same as the liquids delivered hereunder for purposes of this repurchase option.

9.4 Buyer shall transport in the transportation system, as gas, all of the natural gas liquids recovered in the Conditioning Facility and attributable to Seller. Gas except that portion of the liquids which, as provided in Section 2.4

hereof, Buyer must remove for efficient pipeline operation. It is not anticipated that Buyer will have difficulty in using or disposing of such natural gas liquids acquired by Buyer pursuant to Section 2.4; nevertheless, if Buyer is unable to use, transport, sell, or otherwise dispose of all such natural gas liquids, Buyer may return to Seller the volume thereof which Seller can use or can transport in an oil pipeline (such liquids are referred to herein as "Usable Natural Gas Liquids"). It shall be necessary, however, for Buyer to give Seller written notice not less than three (3) months in advance of any return of such liquids, and Buyer shall specify in such notice the daily quantity and composition of the Usable Natural Gas Liquids to be tendered to Seller. Natural gas liquids shall be deemed Usable Natural Gas Liquids to the extent that (1) Seller, under terms and conditions acceptable to Seller, may be able to use such liquids as an alternate fuel in accordance with the terms and provisions of Section 30.007 of the Prudhoe Bay Unit Operating Agreement and/or (2) Seller, under terms and conditions acceptable to Seller, may be able to tender such liquids for transport through an oil pipeline.

The total Btu's of the Usable Natural Gas Liquids that Seller takes from Buyer and uses as fuel shall be deducted from the amount of Btu's for which Buyer is obligated to pay Seller, and it shall be deemed that the ownership of such Btu's as contained in Seller's Gas when delivered to Buyer was never

transferred to Buyer. However, Buyer shall reimburse Seller for any fuel substitution costs incurred by Seller in accordance with the provisions of Section 30.007 of the Unit Operating Agreement.

The total Btu's of the Usable Natural Gas Liquids that Seller takes from Buyer for transport through an oil pipeline shall be deducted from the amount of Btu's for which Buyer is obligated to pay Seller for gas delivered hereunder, and it shall be deemed that the ownership of such Btu's was never transferred to Buyer. However, Buyer shall reimburse Seller for any costs incurred by Seller associated with putting such natural gas liquids into an oil pipeline for transport, including any reduction in Btu value as a result thereof.

In addition to volumes of Usable Natural Gas Liquids, if any, there may be volumes of natural gas liquids (herein referred to as "Surplus Natural Gas Liquids") acquired by Buyer pursuant to Section 2.4 that Buyer cannot use, transport, sell or otherwise dispose of and that Seller may not be able to use or transport. To the extent there are Surplus Natural Gas Liquids attributable to Seller's Gas, Seller shall make a good faith effort to obtain rights for Buyer to inject, at Buyer's sole expense, such Surplus Natural Gas Liquids into the Prudhoe Bay (Permo-Triassic) Reservoir in accordance with the terms and provisions of Section 27.802 and 27.803 of the Unit Operating Agreement and under terms and conditions acceptable to the Seller and Buyer.

Upon the injection of Surplus Natural Gas Liquids into the Reservoir, all rights and interests of Buyer in such liquids shall revert to Seller. The total Btu's of such Surplus Natural Gas Liquids so injected into the said Reservoir shall be deducted from the amount of Btu's for which Buyer is obligated to pay Seller for gas delivered hereunder; and it shall be deemed that the ownership of such Btu's was never transferred to Buyer. However, Buyer shall reimburse Seller for any costs incurred by Seller associated with injecting such liquids into the Reservoir including any penalties Seller may incur for injecting such liquids.

9.5 If the Conditioning Facility is operated to remove carbon dioxide ("CO<sub>2</sub>") from the inlet stream of gas, Buyer may have, in addition to the gas to be transported, a volume of residue gas composed of a high percentage of CO<sub>2</sub>. If such residue CO<sub>2</sub> gas has sufficient hydrocarbons to be usable as fuel, then at Buyer's request, and if the Unit owners are agreeable to using or allowing the use of the residue CO<sub>2</sub> gas as fuel by Seller under terms and conditions acceptable to Seller, Buyer may return to Seller a volume of such gas attributable to the Seller's Gas sold at the inlet of the Conditioning Facility under the terms of this Agreement.

To the extent Seller takes from Buyer such residue CO<sub>2</sub> gas as fuel, the total Btu's contained therein shall be deducted from the amount of Btu's for which Buyer is obligated to pay

Seller for gas sold hereunder. However, Buyer shall reimburse Seller for any fuel substitution costs incurred by Seller in accordance with the provisions of Section 30.007 of the Prudhoe Bay Unit Operating Agreement. Further, it is agreed that there shall be no conditioning charges paid by Seller as a result of taking residue CO<sub>2</sub> gas.

If Buyer is required to dispose by subsurface injection of residue CO<sub>2</sub> gas, Seller shall make a good faith effort to obtain rights for Buyer, at Buyer's sole cost, to inject such residue CO<sub>2</sub> gas attributable to Seller's Gas into the Prudhoe Bay (Permo-Triassic) Reservoir in accordance with the terms and provisions of Sections 27.802 and 27.803 of the Prudhoe Bay Unit Operating Agreement and under terms and conditions acceptable to Seller.

To the extent residue CO<sub>2</sub> gas is injected into the Reservoir, the Btu content thereof (determined in accordance with Section 10.14) shall be deducted from the amount of Btu's Buyer is obligated to pay Seller for gas sold hereunder. However, Buyer shall reimburse Seller for any costs incurred by Seller associated with the injection of such residue CO<sub>2</sub> gas, including any penalties Seller may incur for such injection. Upon injection of residue CO<sub>2</sub> gas into such Reservoir all rights and interests of Buyer in such residue CO<sub>2</sub> gas shall revert to and be vested in Seller.