

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1039 SCOMM 28: JOINT GAS PIPELINE COMMITTEE. 1981-82 / 1039

February 28, 1975

Columbia Gas Transmission Corporation
20 Montchanin Road
Wilmington, Delaware 19807

Gentlemen:

We take this means of responding to your inquiry as to whether we would be willing to provide you with gas which we may have for sale in the future in the State of Alaska from existing leases now held by us.

At this time we have the following interests in Alaska as far as they pertain to the subject matter of this letter.

1. BP Alaska Inc. ("Alaska") owns a net profits interest in the Prudhoe Bay area leases which are described in Exhibit A, Part I, to the Master Gas Agreement entered into between Alaska and Northern Natural Gas Company ("Northern Natural") as of January 1, 1972, a copy of which has been furnished to you, such Master Gas Agreement having heretofore been assigned by Alaska to BP Alaska Exploration Inc. ("Exploration"). On February 27, 1973, Alaska and Exploration entered into a Gas Option Agreement whereby Exploration has the right to take certain gas from Alaska's said net profits interest to help Exploration meet its obligation under the Master Gas Agreement. On February 27, 1973, by letter to BP Oil Corporation (now Sohio Petroleum Company), Alaska elected to take in kind under the Net Profits Interest gas to enable it to comply with the Gas Option Agreement.

2. Exploration, in addition to holding the Gas Option Agreement with Alaska referred to above, owns varying interests in leases shown in Exhibit X hereto. The gas covered by the Gas Option Agreement and gas from certain of the leases in Exhibit X are subject to the right and option of Northern Natural to purchase up to 3 trillion cubic feet under the Master Gas Agreement.

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VICE PRESIDENT

Alaska and Exploration are willing to give and hereby give you the right and option to purchase gas as follows from the interests in certain existing oil and gas leases now held by Alaska and Exploration. This right and option shall be for a quantity of gas up to 5.6 trillion cubic feet during the life of the Prudhoe Bay field, less such gas as you will be entitled to receive under the Preliminary Gas Agreement dated August 3, 1971, as amended, between you and Sohio Petroleum Company, from the Prudhoe Bay leases described in Exhibit A to that Agreement.

Subject to such limitation, Alaska and Exploration give you this right and option with respect to the following quantities of gas:

(a) By Alaska, the gas attributable to its aforesaid Net Profits Interest over and above that delivered to Exploration under the Gas Option Agreement provided, however, that Alaska shall be under no obligation, and does not intend, to take gas in kind simply for the purpose of delivering it to Columbia because gas delivered to Columbia under the Preliminary Gas Agreement, as amended, includes gas attributable to the Net Profits Interest not taken in kind by Alaska. Alaska shall, however, deliver to Columbia any gas Alaska takes in kind under the aforesaid letter of February 27, 1973, but only if and to the extent that such gas is in excess of the amount Alaska needs to comply with its obligation under the Gas Option Agreement.

(b) By Exploration, a quantity equal to the sum of (1) the gas available under the Gas Option Agreement, and (2) the gas from its interests in the leases described in Exhibit X hereto, insofar as this sum exceeds the gas required to meet the 3 trillion cubic feet obligation to Northern Natural under the Master Gas Agreement.

Any gas sold to Columbia by Alaska and Exploration shall be priced in accordance with Article IV of the Master Gas Agreement and shall be sold subject to a Gas Sale and Purchase Agreement the same as or substantially similar to Exhibit B to the Master Gas Agreement. Columbia agrees to purchase such gas at such prices and under the terms and conditions of such a Gas Purchase and Sale Agreement.

Columbia Gas Transmission Corporation
Wilmington, Delaware

February 28, 1975
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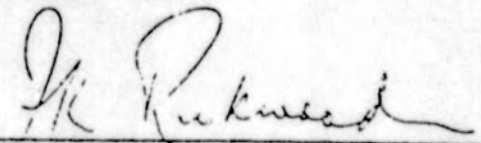
The right and option granted Columbia hereunder shall at all times be subject to the prior rights and interests of Northern Natural under the Master Gas Agreement.

By making this dedication of gas from its interests in the leases in Exhibit X, Exploration does not limit its right to sell, unitize, farmout, or otherwise manage, operate or otherwise dispose of any lease or any interest therein free and clear of any obligation to Columbia hereunder. Sale or other disposition by Alaska of any interest in its aforesaid net profits interest shall be subject to your rights to gas as set out in this letter.

Very truly yours,

BP ALASKA INC.

By



BP ALASKA EXPLORATION INC.

By



**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**

ROYALTY GAS SALES AGREEMENT

THIS AGREEMENT, made and entered into as of this _____ day of _____, 1976, by and between the Commissioner of Natural Resources of the STATE OF ALASKA, acting pursuant to AS 38.05.183(d), hereinafter referred to as "Seller," and Tenneco Alaska, Inc., an Alaskan 1/ corporation, hereinafter referred to as "Buyer";

WITNESSETH:

WHEREAS, Seller hereby represents to Buyer that Seller has the right under each of the leases identified in Exhibit A to this Agreement to be paid by the lessee thereunder a royalty of twelve and one-half percent (12.5%), unless otherwise stated in Exhibit A, in-kind (amount) or in value of the natural gas produced and saved and sold or used off of the lands covered by each such lease; and

WHEREAS, Seller hereby represents to Buyer that under each of the leases identified in Exhibit A to this Agreement Seller has reserved the right to elect to take either in-kind (amount) or in value its royalty gas; and

1/ An explanation of the footnotes is appended as the last page of this document.

WHEREAS, Seller represents to Buyer that Seller is authorized by AS 38.05.183(d) to sell royalty gas surplus to the intrastate domestic and industrial needs of the State of Alaska; and

WHEREAS, Buyer represents to Seller that it is or will be a natural gas company subject to the jurisdiction of the Federal Power Commission and desires to purchase natural gas from Seller so as, at the earliest possible date, to increase the supply of natural gas available to its customers or its affiliated pipeline companies in the contiguous 48 states; 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; and

WHEREAS, Buyer and Seller each desire certification and construction of a trans-Alaska gas pipeline system for movement of natural gas from Prudhoe Bay, Alaska to the contiguous 48 states;

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

Article I

Support for Trans-Alaska Pipeline

In consideration of the obligations assumed by each herein, Buyer and Seller agree to actively support and seek before the Federal Power Commission, and any and all other involved federal, state and local authorities, representatives and individuals, the ultimate selection and implementation of a trans-Alaska gas pipeline system. "Pipeline" shall mean a large diameter gas pipeline (including expansion thereof) commencing at Prudhoe Bay, crossing Alaska in approximately the same route as the present Trans-Alaska Pipeline System oil pipeline, and terminating at a site in the Prince William Sound area (without limitation to others, the pipeline route sought by El Paso Alaska Company in Federal Power Commission Docket No. CP75-96 is a trans-Alaska gas pipeline system within the meaning of this Article).

Article II

Seller's Royalty Gas

2.1 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 the pipeline is ready to receive gas. 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.

2.2 In addition to the price as provided in Article VI hereof, 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 in cooperation with Buyer to the extent necessary to contest the imposition of unwarranted and/or improper charges.

2.3 In the event Buyer is unable to obtain approval of the Federal Power Commission (or any successor governmental agency having jurisdiction in the premises) to

include in Buyer's cost of service the costs Buyer is obligated to pay Seller under Section 2.2 herein, Buyer may terminate this Agreement six (6) months after receipt by Seller of written notice of Buyer's termination notice; provided, however, that any costs identified in Section 2.2 herein becoming due and payable by Seller prior to termination of this Agreement shall be reimbursed to Seller by Buyer regardless of approval of the Federal Power Commission to include such costs in Buyer's cost of service.

Article III

Quantity

3.1 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, fifty percent (50%) 2/ of Seller's royalty gas available at the point of delivery described in Article IV hereunder.

3.2 It is agreed that the base volume of gas to be sold by Seller and purchased by Buyer during the term of this Agreement (excluding gas that might be made available under Subsection 3.7(b)) may be less than but under no conditions shall it be in excess of one (1) trillion, three hundred (300) billion cubic feet. 3/

3.3(a) Commencing on the date of first delivery of royalty gas hereunder and continuing each day thereafter until the fifth (5th) anniversary date thereof, Seller shall have the right to reduce the quantity of royalty gas otherwise available for sale and delivery to Buyer under Section 3.1 above by up to and including twenty-five percent (25%).

3.3(b) Commencing on the fifth (5th) anniversary date of first deliveries and continuing each day thereafter until the tenth (10th) anniversary date thereof, Seller shall have the right to reduce the quantity of royalty gas available for sale and delivery to Buyer as set forth in Section 3.1 by up to and including fifty percent (50%).

3.3(c) Commencing on the tenth (10th) anniversary date of first deliveries and continuing each day thereafter until the fifteenth (15th) anniversary date thereof, Seller shall have the right to reduce the quantity of royalty gas available for sale and delivery to Buyer as set forth in Section 3.1 by up to and including seventy-five percent (75%).

3.3(d) Commencing on the fifteenth (15th) anniversary date of first deliveries and continuing each day thereafter until termination of this Agreement, Seller shall have the right to reduce the quantity of royalty gas available for sale and delivery to Buyer as set forth in Section 3.1 by up to and including one hundred percent (100%).

3.3(e) Reductions by Seller of the quantity of royalty gas as provided in this Section 3.3 shall not become effective prior to twelve (12) months following Seller's written notice to Buyer thereof.

3.4 Buyer hereby agrees that Seller shall have the right and power at any time during the term of this Agreement to change the percentages set forth in Subsections 3.3(a), 3.3(b), 3.3(c) and 3.3(d) above; provided, however, that no such change or changes shall become effective prior to twenty-four (24) months following Seller's written notice to Buyer thereof.

3.5 The reservation of gas by Seller by way of its exercising its rights of gas reductions pursuant to Sections 3.3 and 3.4 hereof shall be for the sole purpose of Seller meeting the intrastate domestic and industrial needs of the State of Alaska including the right to exchange reserved gas for other natural gas produced or delivered into Alaska, provided such exchanged gas is used for the sole purpose of meeting the intrastate domestic and industrial needs of the State of Alaska. However, this provision shall not limit the right to export from the State any products manufactured from said gas.

3.6 Seller agrees that reservations similar to those available to Seller under Sections 3.2, 3.3, 3.4 and

3.5 shall be made in any contract providing for the sale of Seller's royalty gas from the leases identified in Exhibit A under contract for sale outside of Alaska and that the changes, up or down, in the amount of gas reserved for use in Alaska pursuant to this Article shall be made ratably from all such contracts.

3.7(a) Should Seller, through the exercise of its rights under Sections 3.3 and 3.4, in fact diminish the volume of gas otherwise available to Buyer hereunder and should Seller during the term of this Agreement and five (5) years thereafter have additional royalty gas which in Seller's sole discretion is surplus to the intrastate domestic and industrial needs of the State of Alaska, and will be transported by the Pipeline, Seller shall offer to sell to Buyer under the provisions of this Agreement, except as to price and term, ratably with other eligible purchasers of Seller's royalty gas from the leases identified in Exhibit A such additional royalty gas equivalent to Seller's prior reductions under Sections 3.3 and 3.4. Buyer shall have the right to purchase such gas at the highest price available to Seller for such gas from any other interstate bona fide purchaser. In the event there are no other interstate bona fide purchasers, the price shall be the price then being paid by Buyer for gas purchased under this Agreement. Buyer shall as soon as possible, but in no event later than twelve (12) months after receipt of Seller's offer to sell

such gas, give notice that it desires to purchase such gas or such right is waived by Buyer and Buyer shall have no further right to purchase that quantity of gas offered to Buyer by Seller. After receipt of such notice by Seller, Seller shall make available and Buyer shall take the necessary steps to receive such gas within two hundred ten (210) days.

3.7(b) In addition to the right granted Buyer under Subsection 3.7(a) and after all eligible purchasers of royalty gas from the leases identified in Exhibit A have had an opportunity to exercise such right, Seller grants to Buyer the right of first refusal to purchase additional royalty gas from Seller to the extent of one-half (1/2) times the volume that Seller's exercise of its rights under Sections 3.3 and 3.4 in fact diminishes the amount of gas Buyer otherwise would have purchased and received hereunder. Such right is granted during the term of this Agreement and five (5) years thereafter. This right of first refusal shall apply to royalty gas which becomes available to Seller and which in Seller's sole discretion is determined to be surplus to the intrastate domestic and industrial needs of the State of Alaska. This right of first refusal applies only to gas which will be transported by the Pipeline. 4/

3.8 Buyer hereby acknowledges that at any time after the effective date of this Agreement and prior to the

date of first deliveries hereunder, Seller shall have the right and power to initiate the taking of its royalty gas in-kind under the leases identified in Exhibit A hereto and to utilize, market or otherwise dispose of all or any portion of said royalty gas in any manner as Seller in its sole discretion, and at its sole expense, may determine; provided, however, that Seller agrees that any such arrangement shall not prevent Seller from making available for sale to Buyer on the date of first deliveries the quantity of gas committed to Buyer hereunder and not reserved by Seller pursuant to Sections 3.3 and 3.4.

3.9 Seller will provide Buyer at the beginning of each calendar year its best estimate of volumes under this Agreement which will be available during each calendar year of the next succeeding five (5) calendar years. This estimate shall not constitute the notices required by Subsection 3.3(e) and Section 3.4.

3.10 Buyer and Seller will cooperate to minimize any charges levied on gas liquefied and transported from Alaska to the contiguous 48 states. This Section shall not apply to any tariff established by the State of Alaska as owner of any portion of the transportation facilities.

3.11 Seller shall reimburse Buyer, at such time as Seller takes reserved gas pursuant to this Article, for a

percentage of any then undepreciated investment made by Buyer in any facilities upstream of the Pipeline. Such percentage of reimbursement shall be the same as the percentage the Seller's reserved gas is of the total gas which otherwise would have been sold to Buyer hereunder. Depreciation shall be calculated using generally accepted accounting principles.

Article IV

Delivery Point(s) and Delivery Pressure(s)

4.1 Delivery of Seller's royalty gas shall be at the point(s) the working interest owners of the leases identified in Exhibit A make delivery of gas to their purchasers or at any other point mutually agreed upon by the parties hereto.

4.2 Should Seller be required to take delivery of its royalty gas from the working interest owners of the leases described in Exhibit A at a point upstream from the delivery point as determined in Section 4.1 after exerting its best efforts to receive such gas at the delivery point as determined in Section 4.1, Buyer shall accept delivery at the point Seller receives its royalty gas. Seller shall have no obligation under this Section to enter into any agreement (except the leases identified in Exhibit A) regarding delivery points that will result in Seller's incurring any costs which Buyer will not reimburse.

4.3 Gas sold and delivered by Seller to Buyer hereunder shall be received by Buyer at the delivery point at the same pressure as the pressure the working interest owners deliver their gas to their purchasers, or at the pressure Seller receives its gas from the working interest owners if delivery is made under Section 4.2 hereof.

4.4 Seller shall retain the right to receive all liquids removed from the gas prior to its delivery to the Pipeline, whether removed before or after delivery of the gas to Buyer.

Article V

Quality

5.1 The gas to be delivered by Seller to Buyer at the delivery point(s) hereunder shall conform to the quality specifications applicable to the gas sold by the working interest owners from the leases identified in Exhibit A deliverable at the same delivery point(s).

Article VI

Price

6.1 Buyer and Seller recognize that as of the date of this Agreement, the price which Buyer may be allowed to pay and include in its jurisdictional resale rates has

not been determined. In consideration thereof, the price which Buyer shall pay Seller for gas purchased hereunder shall be determined in accordance with Section 6.2 or Section 6.3 or Section 6.4 or Section 6.5 and shall be subject to the adjustment as provided by Section 6.6; however, the price paid Seller for gas which Buyer reflects in its rates to jurisdictional customers shall never be higher than the price Buyer is permitted to retain in its jurisdictional resale rates as long as such rates are subject to regulation by the Federal Power Commission (or any successor governmental authority having jurisdiction in the premises).

6.2 Seller represents that Seller is not a "Person" as defined in the Natural Gas Act and therefore not subject to the provisions of said Act. Buyer is a natural gas company subject to the regulations of said Act. If at the time of first deliveries of gas hereunder the price of gas purchased hereunder is subject to the regulation of the Federal Power Commission (or any successor governmental authority having jurisdiction in the premises) because of the Commission's authority to regulate the rates at which Buyer resells such gas, then the initial price to be paid by Buyer to Seller hereunder shall be the highest area, national or ceiling rate allowed to be paid by any interstate gas purchaser to any working interest owner in the leases identified in Exhibit A under contracts of at least fifty (50) billion cubic feet and providing for substantially the

same quality and conditions of delivery as in this Agreement. The price to be paid thereafter, shall be subject to all periodic changes permitted in accordance with the applicable and governing portions of the Rules and Regulations of the Federal Power Commission, (or of any successor governmental authority having jurisdiction in the premises), or such other changes in price as may be permitted by any new area, national or ceiling rates applicable to the gas sold under the leases identified in Exhibit A, which may subsequently be established. Such price shall include all applicable adjustment provisions prescribed or permitted; provided, however, such price adjustment provisions which relate to charges for which Seller is reimbursed pursuant to Article II hereof shall be excluded. If Buyer is subsequently unable to obtain approval of any portion of such price in Buyer's cost of service and required to refund that portion of such price to its customers, Seller shall refund such portion of the price to Buyer.

In the event gas sold by a producer or producers from the leases identified in Exhibit A is permitted a price higher than the area, national or ceiling rates, under Federal Power Commission regulations relating to Optional Pricing, Temporary or Emergency Sales, Commission Order Nos. 481 or 533, as amended, or other similar regulations or orders, then the price paid for Seller's royalty gas attributable to such production will be increased to that higher price.

In no instance shall the price paid Seller be less than the price paid producers for their gas from the same reservoir for same or similar sales in interstate commerce.

6.3 If at the time of first deliveries of gas hereunder the price of gas sold from the leases identified in Exhibit A is not regulated by the Federal Power Commission (or any successor governmental authority having jurisdiction in the premises), then the initial price for gas delivered hereunder shall be the highest price being paid by any interstate gas purchaser for gas under contracts of at least fifty (50) billion cubic feet and providing for substantially the same quality and conditions of delivery as in this Agreement and produced from the leases identified in Exhibit A.

6.4 If the Federal Power Commission (or any successor governmental authority having jurisdiction in the premises) shall at any time after commencement of the first delivery cease (after commencing) to regulate the price applicable to natural gas of any vintage produced from the leases identified in Exhibit A and sold in interstate commerce, which deregulation would prevent the Federal Power Commission from excluding the price Buyer pays under this Agreement from its cost of service and would have applied to Seller had Seller been subject to governmental regulation, then upon notice of written election given by Seller or Buyer to the other not later than sixty (60) days after the

effective date of such deregulation, the price of gas sold by Seller to Buyer hereunder shall be redetermined in accordance with the provisions of Section 6.5.

The redetermined price shall be agreed to by the parties and become effective within ninety (90) days after the notice has been given as aforesaid, or if the parties shall fail to agree, the redetermined price shall be established by arbitration. The redetermined price shall remain in effect until later changed in accordance with the pricing provisions of this Agreement.

6.5 Seller or Buyer shall have the option to cause the price being paid for the gas sold hereunder to Buyer to be redetermined every twelve (12) months, such to be effective on the anniversary of such redetermination under Section 6.4 hereof. The request for a price redetermination shall be given in writing not later than one hundred two (120) days prior to the beginning of the period for which the price redetermination is requested.

Within the same one hundred twenty (120) days following such request for a price redetermination, the parties shall meet to redetermine such price. Such redetermined price shall be the higher of (1) the highest price being paid for gas sold in interstate commerce from the North Slope of Alaska set out in a contract selling at least

fifty (50) billion cubic feet executed in the one (1) year period immediately preceding said notice and providing for substantially the same quality and conditions of delivery and having a term of at least five (5) years, or (2) the highest price being paid under a renegotiation or price redetermination clause of any contract for gas sold in interstate commerce from the North Slope of Alaska selling at least fifty (50) billion cubic feet and providing for substantially the same quality and conditions of delivery and having a term of at least five (5) years. In the event there are no comparable contracts executed in the one (1) year period, or no contracts under which the price has been renegotiated or redetermined, the parties shall meet to agree upon a price. If the parties are unable to agree, the matter shall be submitted to arbitration as provided in Article VII.

It is agreed that the parties shall have the full one hundred twenty (120) days to reach voluntary agreement on the redetermined price. However, at any time after negotiations have been in process more than thirty (30) days but less than one hundred twenty (120) days, either party may request in writing that the matter be submitted to arbitration as provided in Article VII of this Agreement.

A redetermined price established by arbitration shall become effective as of the later of (1) the date the

Board renders its decision, or (2) one hundred twenty (120) days after the giving of notice of the request for a price redetermination.

In no event shall the redetermined price be less than the price being paid to Seller by Buyer immediately preceding the initial redetermination.

6.6 If it is found upon tests that the gas being delivered hereunder shall have a gross heating value of more or less than one thousand (1000) British thermal units per cubic foot, then the price payable for such gas shall be increased or reduced. Such increased or reduced price shall be determined by multiplying the price otherwise payable for such gas by a fraction the numerator of which is the actual gross heating value of the gas delivered, expressed in British thermal units per cubic foot, and the denominator of which is one thousand (1000).

Article VII

Arbitration

7.1 In the event either party shall request arbitration of any dispute arising under this Agreement, there shall be established a board of three (3) arbitrators to be selected as follows: either Seller or Buyer may, at

the time such board of arbitration is desired, notify the other of the name of an arbitrator, and such other party shall, within ten (10) days thereafter, select an arbitrator and notify the party desiring arbitration of the name of such arbitrator. If such other party shall fail to name a second arbitrator within ten (10) days, then the party which first served the notice may, on three (3) days' notice to the other party, apply to the person who is Chief Judge of the United States District Court for the District of Alaska for the appointment of such second arbitrator. The two (2) arbitrators chosen as above shall, within ten (10) days after the appointment of the second arbitrator, choose a third arbitrator, and in the event of their failure to do so within said ten (10) days, either of the parties hereto may in like manner, on three (3) days' notice to the other party, apply to the person who is such Judge for the appointment of a third arbitrator and in such case the arbitrator appointed shall act as the third arbitrator. The arbitrators selected hereunder shall be qualified by education and experience to consider the question involved. The Board shall promptly fix a reasonable time and place for the hearing, at which time each of the parties hereto may submit such evidence as it may see fit. If within such thirty (30) days a decision is not rendered by the board, new arbitrators may be named, at the election of either Seller or Buyer, and shall act hereunder in like manner as if none had been previously named. The action of a majority of the members of the board shall govern and their decision in

writing shall be final and binding on the parties hereto. Each party shall pay the compensation and expenses of its own counsel, witnesses and employees. All other costs of the arbitration shall be equally divided between Seller and Buyer.

Article VIII

Term

8.1 This Agreement shall become effective upon the execution and approval as provided in Section 11.6 hereof and, except as provided in Subsection 3.7(a) hereof, shall continue and remain in force and effect for a period of twenty (20) years from the date of first deliveries or until the base volume of gas as set forth in Section 3.2 hereof has been delivered, whichever is earlier; provided that if, prior to the expiration of the term hereof, the volumes of gas available for delivery hereunder shall be so reduced by the decline in production that further production of gas for delivery hereunder would no longer be profitable for Seller or that further operation of the facilities used to transport such gas by or for the account of Buyer would no longer be profitable to Buyer, then the party for whom continued operation under this Agreement is no longer profitable may give notice to the other, which notice shall give the reason for such non-profitability and on the two

hundred tenth (210th) day after the giving of such notice this Agreement shall terminate unless the parties before that time agree to extend the terms hereof prior to the end of that two hundred ten (210) day period. This Article is not applicable to gas which Seller makes available to Buyer under Subsection 3.7(b) hereof.

Article IX

Seller's Reservation

9.1 Seller shall retain the right to process the gas or have the gas processed, before and/or after delivery to Buyer, for the recovery of liquefiable hydrocarbons other than methane, (propanes, ethanes, butanes and heavier hydrocarbons) except such minimum quantities of methane as must necessarily be removed in such processing (including the right to use the gas for fuel in the operation of any processing plant). Gas so processed in a plant shall be delivered, redelivered, measured and accounted for in accordance with procedures mutually satisfactory to Buyer and Seller. Seller shall not reduce the heating content of the gas remaining after processing below one thousand (1000) British thermal units per cubic foot. Seller shall reimburse Buyer for all transportation charges, liquefaction charges and regasification charges attributable to the volume removed by processing, including fuel and shrinkage. Should such processing occur downstream of the delivery

point hereunder, appropriate adjustment shall be made to the volume of gas delivered by Seller to Buyer to give effect to all reduction of delivered volumes as a result of such processing.

Article X

Notices

10.1 Notices to be given hereunder shall be deemed sufficiently given and served when and if deposited in the United States mail postage prepaid and certified or registered, addressed to Seller at _____, or to Buyer at _____, as the case may be, or to such other address as either party shall respectively hereafter designate in writing.

10.2 Routine communications, including monthly statements and payments shall be considered as duly delivered when mailed by either registered mail or ordinary first class mail, postage prepaid.

Article XI

Conditions Precedent

11.1 Seller acknowledges that Buyer shall have no obligation to perform any of its undertakings set forth in this Agreement, other than its undertaking to actively

support the ultimate (government) selection of the Pipeline for the movement of natural gas from the North Slope of Alaska to market, until and unless all governmental approvals necessary for initiation and implementation of the Pipeline are granted; provided however, that costs incurred by Seller by reason of Seller's election to take its royalty gas in-kind shall be reimbursed to Seller by Buyer as provided in Section 2.2 herein.

11.2 In the event that on or before December 31, 1978, all regulatory approvals have not been issued and been accepted by Buyer or the applicant to construct the Pipeline which Buyer or Seller deems necessary to enable Buyer or Seller to perform its obligations under or receive the benefits of this Agreement, either party may thereafter terminate this Agreement by giving written notice to the other party not less than ten (10) days prior to the effectiveness of said action.

11.3 Promptly after approval of this Agreement by concurrent resolution of a majority of each house of the Alaska State Legislature, Buyer shall proceed with diligence in the preparation, filing and prosecution of such applications, petitions, pleadings and other filings with the Federal Power Commission as may be required to obtain all necessary rate, tariff, and/or certificate authorizations, approvals and rulings, as the case may be, related to Buyer's undertakings set forth in this Agreement.

11.4 Prior to the time that a Federal Power Commission order granting a Certificate of Public Convenience and Necessity to the Pipeline becomes final and non-appealable, the Governor of Alaska may give written notice to Buyer of his decision, and reasons therefor, to support a project other than the Pipeline and such notice shall not be deemed a default of Seller's obligations under Article I hereof. Should Buyer elect to support the project designated in the Governor's notice, such project shall be considered the "Pipeline," and Buyer's rights hereunder shall continue. If Buyer does not give notice of its decision to support the project designated in the Governor's notice within thirty (30) days after receipt of the Governor's notice, this Agreement and all rights and obligations hereunder shall terminate.

11.5 This Agreement may be terminated by directive of the Governor of Alaska to the Commissioner of Natural Resources and the serving of a written notice to Buyer by said Commissioner, which notice may be given anytime after a Federal Power Commission order denying El Paso Alaska in Docket No. CP75-96 a Certificate of Public Convenience and Necessity, becomes final and non-appealable, or after an order of the Federal Power Commission granting a Certificate of Public Convenience and Necessity to a project or system other than the Pipeline becomes final and non-

appealable. Such termination shall not prejudice Buyer's position in negotiations for subsequent purchases of gas from Seller.

11.6 This Agreement shall not take effect until approved by concurrent resolution of a majority of each house of the Alaska State Legislature.

Article XII

Exhibits and General Terms and Conditions

12.1 Exhibit A and the General Terms and Conditions attached to this Agreement are by this reference incorporated into and made a part of this Agreement.

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

"BUYER"

COMMISSIONER OF NATURAL RESOURCES
OF THE STATE OF ALASKA

ATTEST:

ATTEST:

This "General Terms and Conditions" is attached and
made part of Royalty Gas Sales Agreement dated _____
1976, by and between _____
as Buyer, and _____
as Seller.

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General Terms and Conditions

I. DEFINITIONS

The following terms, when used in this General Terms and Conditions and in the foregoing portion of this Royalty Gas Sales Agreement, shall have the following meanings, regardless of capitalization:

1.1 The term "lease or leases" shall mean the oil and gas leases and portions thereof which are described in Exhibit A hereto attached and made a part hereof.

1.2 The term "lessee" shall mean the party or parties owning working interest in the lease or leases.

1.3 The term "gas" shall include casinghead gas produced with crude oil, gas well gas, and residue gas resulting from processing either casinghead gas or gas well gas or both.

1.4 The term "casinghead gas", as used herein, excludes gas cap gas and shall mean gas produced with crude petroleum from an oil well, all or substantially all of which is indigenous to the oil strata from which such crude petroleum oil is produced, together with gas lift gas produced with oil whether originally produced from the same oil stratum or not.

1.5 The term "gas well gas" shall mean all other gas, including gas cap gas, or the mixture of hydrocarbon gases produced from the leases other than that includable within the definition of casinghead gas.

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

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

1.8 The term "cubic foot of gas" means the volume of gas contained in one cubic foot of space at a standard pressure base and a standard temperature base. The standard pressure base shall be fourteen and sixty-five one hundredths (14.65) pounds per square inch absolute and the standard temperature base shall be sixty (60) degrees Fahrenheit.

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

1.10 The term "anniversary date of first delivery" shall mean the same date of each succeeding year as the date of first deliveries.

1.11 The term "domestic and industrial needs of the State of Alaska" shall mean those present and projected residential, commercial and industrial uses for gas within Alaska as determined by the Alaska Royalty Oil and Gas Development Advisory Board in accordance with AS 38.05-.183(d).

2. RESPONSIBILITY

2.1 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 same has been delivered to Buyer at the delivery point or points hereunder, after which delivery Buyer shall be deemed in exclusive control and possession thereof and responsible for said gas and shall hold Seller harmless against any injury or damage caused thereby, except that while the gas is being processed by or on behalf of Seller, Buyer shall not be deemed in control or possession thereof and shall not be responsible for said gas.

3. METERS

3.1 Buyer, at its sole cost and expense, shall install, maintain and operate, or cause to have installed, maintained, and operated, at each delivery point, a standard

type orifice meter or meters for the measuring of the quantity of gas delivered hereunder. Orifice meters shall be installed and operated in accordance with the specifications prescribed in Gas Measurement Committee Report No. 3, as revised and reprinted September 1969, of the Natural Gas Department of the American Gas Association, as supplemented and modified from time to time. Buyer shall cause the charts on such meters to be changed each day, or at such other times as may be agreed upon by the parties hereto. The meters, meter readings and meter charts shall be accessible at all reasonable times to inspection and examination by Seller.

3.2 From time to time and at least once each month, the accuracy of Buyer's measuring equipment shall be verified by and at the expense of the Buyer. If either party at any time shall notify the other that it desires a special test of any meter, the other party shall cooperate to secure an immediate verification of the accuracy of such meter and joint observation of any adjustments. If any such test shall be requested by Seller and upon such test, the measuring equipment shall be found to be registering correctly, the cost of such test shall be charged to Seller, otherwise the cost of all such tests shall be borne by Buyer. Buyer shall give notice to Seller of the time of all tests made pursuant to this Section in order that Seller may conveniently have its representative present. Calibration and

adjustment of Buyer's meters and changing of charts shall be done only by Buyer.

3.3 If, upon any test, the percentage of inaccuracy shall be two percent (2%) or more, the registration of such meter shall be corrected at the rate of such inaccuracy for any period which is definitely known or agreed upon, but in case the period is not definitely known or agreed upon, then for a period extending back one-half (1/2) the time elapsed since the date of the last calibration. Following any test, metering equipment found inaccurate shall be immediately restored by Buyer as closely as possible to a condition of accuracy. If, for any reason, any meter is out of service or out of repair so that the amount of gas delivered cannot be estimated or computed from the reading thereof, the amount of gas delivered through the period such meter is out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best available data, using the first of the following methods which is feasible:

a. By using the registration of Seller's check meter if installed and accurately registering.

b. By correcting the error if the percentage of error is ascertainable by calibration test or mathematical calculation.

c. By estimating the quantity of deliveries by deliveries during preceding periods under similar conditions when the meter was registering accurately.

3.4 Seller may, at its option and expense, install and operate or cause to be installed and operated check meters to check Buyer's meters, but measurement of gas for the purpose of this Agreement shall be by Buyer's meter, except as hereinabove specifically provided to the contrary. Such check meters and equipment shall be so installed as not to interfere with the operation of the meters to be installed and maintained by Buyer at or near the points of delivery.

4. UNITS OF VOLUME

4.1 The unit of volume for all purposes hereunder (except as otherwise specified in Subsection 4.2 of this Section 4) shall be one thousand (1000) cubic feet at an absolute pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch at a temperature of sixty (60) degrees Fahrenheit.

4.2 The unit of volume for the determination of the gross heating value of the gas purchased hereunder shall be the amount of gas, saturated with water vapor, which would occupy a volume of one (1) cubic foot at a temperature of sixty (60) degrees Fahrenheit and under a pressure equivalent to thirty (30) inches of mercury at thirty-two (32)

degrees Fahrenheit. Such gross heating value shall be expressed in British thermal units per cubic foot.

5. GAS MEASUREMENT

5.1 The volumes of gas delivered hereunder shall be computed in accordance with the specifications prescribed in Gas Measurement Committee Report No. 3, as revised and reprinted September, 1969, of the Natural Gas Department of the American Gas Association, as supplemented and modified from time to time, applied in a practical and appropriate manner, and appropriate correction shall be made for deviation of the gas from Boyle's Law in accordance with said Gas Measurement Committee Report No. 3. Any additional data required to be developed in accordance with recommendations contained in such report shall be jointly determined by the parties hereto in a manner mutually agreeable.

5.2 For the purpose of measurement, the absolute atmospheric (barometric) pressure shall be agreed upon for each point of delivery hereunder based on the actual elevation or location of the delivery point above sea level and shall thereafter be deemed to remain constant regardless of variations in the actual barometric pressure from time to time.

For meters of the orifice type the following factors shall be given due consideration:

a. The temperature of the gas flowing through Buyer's meters shall be obtained by the use of a recording thermometer so installed by Buyer that it may properly re-record the temperature of such gas. The arithmetical average of the hourly temperature during the period gas passed shall be used to make proper computations of volumes hereunder.

b. The specific gravity of the natural gas shall be determined by Buyer by calculation (compensated for any difference between the specific gravity in the ideal state and in the real state in accordance with published procedures adopted by the Gas Measurement Committee of the American Gas Association) utilizing the analysis of the natural gas determined in accordance with Subsection 5.3 of this Section 5. The specific gravity so determined shall be utilized during the applicable period of time referred to in said Subsection 5.3.

5.3 Each three (3) months or as near the first of each three (3) months' period as practicable, Buyer shall sample and analyze the gas delivered hereunder at each delivery point for determination of its constituents and the total gross heating value thereof. The "Method for Natural Gas Analysis by Gas Chromatography, Revised and Adopted as Standard, 1964, by the Natural Gas Processors Association,"

as supplemented and modified from time to time, shall be used in making such determination. Copies of each such analysis shall be furnished by Buyer to Seller. Should Seller not be satisfied with the results of such analysis, it shall notify Buyer in writing. Promptly thereafter, representatives of the parties shall obtain simultaneously under normal operating conditions two (2) samples of the gas delivered hereunder at the point of delivery in question in appropriate sampling devices of the same type. Each of the parties shall take one (1) such sample and subject it to appropriate laboratory analyses to determine the total gross heating value thereof, reporting the results thereof in writing to the other. The average of the total gross heating value shown by such two (2) analyses shall be used for all purposes of this Agreement for the period covered by the analyses made by Buyer which gave rise to the joint determination.

5.4 Buyer reserves the right to install and utilize recording gravimeters and/or calorimeters at any and all delivery points for the determination of specific gravity and gross heating value in lieu of the testing procedures provided in Subsections 5.2(b) and 5.3 of this Section 5.

5.5 Buyer shall give notice to Seller of the time of all tests of gas delivered hereunder or of any equipment

used in measuring or determining the nature of quality of such gas, in order that Seller may conveniently have its representative present. Should Seller not be satisfied with any such tests, it shall so notify Buyer and Buyer shall perform such retests as may be necessary to assure an accurate test.

6. BILLING AND PAYMENT

6.1 On or before the fifteenth (15th) day of each month after deliveries of gas are commenced hereunder, Buyer shall render to Seller a statement showing the amount of gas delivered by Seller and the amount of gas purchased by Buyer hereunder during the preceding calendar month and payment for gas sold hereunder by Seller shall be made by Buyer to Seller on or before the twenty-fifth (25th) day of the calendar month in which such statement is rendered.

6.2 Upon request, Buyer shall furnish or cause to be furnished Seller the measurement charts applicable to any monthly statement. Seller shall return to Buyer all charts after thirty (30) days.

6.3 Any error or discrepancy in charts or statements furnished pursuant to the above shall be promptly reported to Buyer and Buyer shall make proper adjustment thereof within forty-five (45) days after final determination of the

correct volumes or values involved; provided, however, that if no such errors or discrepancies are reported to Buyer within two (2) years from the date of such chart or statement the same shall be conclusively deemed to be correct.

6.4. Seller shall have access to Buyer's records and books at all reasonable hours so far as they affect measurement and settlement for gas sold hereunder.

7. RECEIPT OF AVAILABLE GAS

7.1 In accordance with the provisions hereof, Buyer shall proceed diligently to seek such authorization as required to receive gas then available for delivery by Seller hereunder. Thereafter, as additional gas becomes available for delivery to Buyer hereunder at additional points of delivery, Seller shall notify Buyer in writing, or cause Buyer to be so notified, of the availability of such additional gas, and thereafter Buyer shall proceed diligently to seek such authorization as required for Buyer to receive such additional gas.

8. TITLE

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

9. FORCE MAJEURE

9.1 In the event of either Buyer or Seller being rendered unable by force majeure to perform a duty or an obligation under the Royalty Gas Sales Agreement, the performance of said duty or obligation by the party affected by such force majeure shall be suspended without liability to the other party to the Royalty Gas Sales Agreement during the continuance of the period of inability caused by force majeure but for no longer period, and the party whose performance is thus suspended shall, so far as possible, take all actions within its control to remedy the cause of its non-performance with all reasonable dispatch.

The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, military action, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, or storm warnings, crevasses, floods, washouts, arrests and restraints of governments and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, or making repairs or alterations to machinery or lines of pipe, the necessity for testing (as required by law, governmental regulation or for safe operation thereof, in the judgment of the testing party), freezing of wells or lines of pipe, partial or entire failure of wells, inability of any party

hereto to obtain necessary materials, supplies or permits due to existing or future rules, regulations, orders, laws or proclamations of governmental authorities (both Federal and State), including both civil and military, any inability on the part of any purchaser or purchasers to receive gas from Buyer by reason of force majeure affecting such purchaser or purchasers, provided that such inability of Buyer to take gas because of force majeure affecting its purchasers, shall be fairly apportioned among its various sources of gas supply, and any other causes, whether of the kind herein enumerated or otherwise, not within the control of the party claiming suspension, and which by the exercise of due diligence such party is unable to prevent or overcome; such term shall likewise include (a) in those instances where either party hereto is required to obtain servitudes, right-of-way grants, permits or licenses to enable such party to fulfill its obligations hereunder, the inability of such party in acquiring, at reasonable cost and after the exercise of reasonable diligence, such servitudes, right-of-way grants, permits or licenses, and (b) in those instances where either party hereto is required to furnish materials and supplies for the purpose of constructing or maintaining facilities, or is required to secure permits or permission from any governmental agency to enable such party to fulfill its obligations hereunder, the inability of such party to acquire, or the delays on the part of such party in acquiring, at reasonable cost and after the exercise of

reasonable diligence, such materials and supplies, permits and permissions; provided, however, Seller shall have the right but not the obligation to sell on a day to day basis free from this Agreement any gas which is committed to Buyer hereunder but which Buyer does not take because of force majeure. The word "party" as used in this Section 1 shall mean and include any person or persons, corporate or otherwise, with whom Seller enters into or has agreements for the conditioning, processing, compressing, or transportation, for its account, of the gas to be delivered hereunder from the point of delivery hereunder to Buyer's facilities.

9.2 It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

10. RULES AND REGULATIONS

10.1 This Agreement is subject to all present and future valid laws and valid orders, rules and regulations of the United States, the State of Alaska, or any duly constituted agency thereof.

11. SUCCESSORS AND ASSIGNS

11.1 This Agreement shall bind and benefit the parties hereto and their respective successors and assigns, provided that no conveyance or transfer of any interest of either party shall be binding upon the other party until such other party has been furnished with written notice and true copy of such conveyance or transfer; provided, further, that 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, as security for bonds or other obligations or securities, without such trustee or trustees assuming or becoming in any respect obligated to perform any of the obligations of the assignor, and if any such trustee be a corporation, without its being required by the parties hereto to qualify to do business in the State of Alaska, but no such assignment shall serve to relieve the assigning party of its obligations hereunder.

12. CONFORMITY WITH PRODUCER SALES CONTRACT

12.1 Seller and Buyer recognize that this Agreement is being entered into prior to sales agreements by the working interest owners. Each party further recognizes that Seller's royalty gas will be commingled with the gas of the working interest owners and that consequently Seller's gas will be produced, gathered and treated identically with the

gas of the working interest owners. It is therefore agreed between the parties that if terms, conditions, or clauses are included in contracts for the sale of gas from the leases identified in Exhibit A by the working interest owners which terms, conditions, or clauses are more favorable to the vendor than the terms, conditions or clauses of Sections 3, 5 and 6 of these General Terms and Conditions herein, Seller shall at its sole option have the right to include such term, condition or clause into this Agreement by giving Buyer written notice within ninety (90) days after approval by the Federal Power Commission of said working interest owner's contract for the sale of its gas.

13. MISCELLANEOUS

13.1 No waiver by either party of one or more defaults by the other in the performance of any of the provisions of this Agreement shall operate or be construed as a waiver of any other or further default or defaults, whether of a like or of a different character.

13.2 This Agreement, and the construction and interpretation thereof, shall be governed by the laws of the State of Alaska.

13.3 Article headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

13.4 This Agreement may be supplemented, amended or modified only by a written instrument duly executed by the parties hereto.

13.5 Except in the cases for which arbitration is specifically provided herein, if either party shall fail to perform any of the covenants or obligations imposed upon it by this Agreement (except where such failure shall be excused under the force majeure provisions hereof), then and in that event, the other party may, at its option (without waiving any other remedy for breach hereof), by notice in writing specifying wherein the default has occurred, indicate such party's election to terminate this Agreement by reason thereof. The party in default shall have sixty (60) days from the receipt of such notice to remedy such default and to pay or indemnify the other party all loss or damage incurred as a result thereof, and upon failure so to do, this Agreement shall terminate from and after the expiration of such sixty (60) day period. Any such termination shall be an additional remedy and 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.

13.6 If any provision or clause of this Agreement or application thereof to any person or circumstances is held

invalid, such invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provision or application.

13.7 Seller and Buyer shall each preserve all test data, charts and other similar records as required by the Federal Power Commission.

Exhibit A

Attached to and Made a Part of a Royalty Gas Sales
Agreement dated _____, 1976, Between
_____ "Buyer"
and _____
Seller", With Respect to Certain Royalty Gas Owned and Taken
In-Kind by _____
_____ Under the Leases Described Herein Covering
Lands in the State of Alaska.

Each of the following described Leases reserves to
the State of Alaska a one-eighth (1/8) royalty interest,
unless otherwise stated.

<u>Lease Serial No.</u>	<u>Legal Description</u>	<u>Gross Acres</u>
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EXPLANATION OF FOOTNOTES

The preceding agreement for the sale of royalty gas is a copy of the Agreement between the State of Alaska and Tenneco Alaska, Inc. The Agreements between the State and El Paso Natural Gas Co. and the State and Southern Natural Gas Company are virtually identical. The differences which exist have been footnoted in this contract and the changes which are appropriate to the El Paso and Southern contract are explained in each footnote.

The contract is being made available in this manner as it facilitates comparison of the three contracts and avoids the necessity of distributing widely three copies of contracts which are virtually identical. These footnotes, of course, do not appear in the original contracts.

Footnotes:

1/ Instead of the words "Tenneco Alaska Inc., an Alaskan corporation" substitute the words "El Paso Natural Gas Co., a Delaware corporation" for the El Paso contract and the words "Southern Natural Gas Company, a Delaware corporation" for the Southern contract.

2/ Instead of the words "fifty percent (50%)" substitute the words "twenty-five percent (25%)" for both the El Paso and Southern contracts.

3/ Instead of the words "one (1) trillion, three hundred (300) billion cubic feet" substitute the words "six hundred fifty (650) billion cubic feet" for both the Southern and El Paso contract.

4/ An additional sentence is added at the end of Section 3.7(b) to the El Paso and Southern contracts. For the El Paso contract that sentence reads as follows:

Buyer's right under this Section shall apply only to surplus royalty gas available after Seller has satisfied its obligations under Subsections 3.7 (a) and 3.7 (b) of that Agreement between the State of Alaska and Tenneco Alaska, Inc. dated_____.

For the Southern contract the added sentence reads as follows:

Buyer's right under this Section shall apply only to surplus royalty gas available after Seller has satisfied its obligations under Subsections 3.7 (a) and 3.7 (b) of that Agreement between the State of Alaska and Tenneco Alaska, Inc. dated_____, and that Agreement between the State of Alaska and El Paso Natural Gas Co. dated_____.

**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**

CONTRACT No. 3617

GAS SALE AND PURCHASE AGREEMENT

Prudhoe Bay Unit, Alaska

Between

EXXON CORPORATION, "Seller"

And

PACIFIC GAS AND ELECTRIC COMPANY, "Buyer"

Dated: March 27, 1979

GAS SALE AND PURCHASE AGREEMENT

Prudhoe Bay Unit, Alaska

Between

EXXON CORPORATION, "Seller"

and

PACIFIC GAS AND ELECTRIC COMPANY, "Buyer"

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GAS SALE AND PURCHASE AGREEMENT

Prudhoe Bay Unit, Alaska

THIS AGREEMENT, made and entered into as of the 27th day of March, 1979, by and between EXXON CORPORATION, a New Jersey corporation, hereinafter referred to as "Seller", and PACIFIC GAS AND ELECTRIC COMPANY, a California 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 requires natural gas to supply its markets and desires to purchase said gas from Seller;

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 Borehold 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. 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 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, as in effect on the date of this 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 and other gas purchasers and gas transporters to arrange for the installation of a transportation system, 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 gas distribution system in California. Upon execution of this Agreement, Buyer shall promptly seek to conclude all agreements and 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 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 acceptable to Seller and Buyer, the parties may amend the Agreement to conform to the decision. If the Federal Energy Regulatory Commission fails to approve the arrangements for the transportation system, in a form acceptable to both Seller and Buyer, or if 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 by giving notice thereof to the other party.

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 Not later than January 1, 1982, Buyer shall have received, 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 and Buyer each shall thereafter have the right and option, to be exercised at any time, to terminate this Agreement by giving notice of termination to the other party.

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.

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. It is recognized that the transportation system for Alaska gas, as described in Section 3.1 hereof, will not be operated at full capacity during a period of time following initial receipt of gas into the system. The transportation system will be tested and operated initially to gradually receive and transport larger and larger quantities of gas, until the system is receiving all gas available at Prudhoe Bay. During such period of initial operation of the transportation system,

Buyer shall purchase and take hereunder one-third (1/3) of Seller's Gas as received and transported in such system. Although considerations of system operation shall govern and determine the quantity of gas which Buyer shall be required to purchase and take under this Agreement during such initial period, it is the intent of the parties that the system shall be operated at all times to receive and transport the maximum quantity of Prudhoe Bay gas available. Buyer will exercise due diligence to that end and to the end that the transportation system shall be operated at design capacity as early as possible after the start of its operation. Commencing on the date when the transportation system is fully operational 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 in Seller's sole judgment is available for delivery and sale at the delivery point. 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 290,000 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) per cent.

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.

100%
take or pay,
no make-up

5.4 Buyer and Other Purchasers shall have the right to allocate gas purchases from Seller among themselves to the end that Other Purchasers may take part or all of the Contract Volume hereunder on any day and pay Seller therefor. Similarly, Buyer may take part or all of Seller's Gas committed to Other Purchasers under their agreements with Seller, and pay Seller under such agreements. Performance by Other Purchasers 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.

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 Buyer shall transport in the transportation system, as gas, all of the natural gas liquids recovered in the Conditioning Facility and attributable to Seller's 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 Sections 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.

9.4 If the Conditioning Facility is operated to remove carbon dioxide ("CO₂") 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 CO₂. If such residue CO₂ 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 CO₂ 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 CO₂ 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 CO₂ gas.

If Buyer is required to dispose by subsurface injection of residue CO₂ gas, Seller shall make a good faith effort to obtain rights for Buyer, at Buyer's sole cost, to inject such residue CO₂ 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 CO₂ 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 CO₂ gas, including any penalties Seller may incur for such injection. Upon injection of residue CO₂ gas into such Reservoir all rights and interests of Buyer in such residue CO₂ gas shall revert to and be vested in Seller.

ARTICLE X.

GAS MEASUREMENT AND TESTS

10.1 Units of Volume. The unit of volume for purposes of measurement of volumes hereunder shall be that amount of gas which will occupy one (1) cubic foot of space when held at a base temperature of sixty degrees Fahrenheit (60° F.) and when under a base pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch absolute; the volume measured shall be adjusted for deviation from the Ideal Gas Law.

10.2 Calculation of Volumes. The computation of volumes delivered hereunder shall be made by Buyer, using the orifice meter equation prescribed in American Petroleum Institute Publication 2530, "Orifice Metering of Natural Gas", as amended or revised from time to time.

10.3 Barometric Pressure. The atmospheric pressure shall be assumed to be 14.70 psia, irrespective of the actual

atmospheric pressure at the point of delivery or any factors that may cause fluctuation in the barometric pressure.

10.4 Flowing Gas Temperature. The temperature of the gas shall be determined by a recording thermometer(s) continuously used and installed so as to properly record the temperature of the gas. The arithmetic average of gas temperatures recorded during the periods of flow only shall be deemed the daily average gas temperature for the purpose of calculating volumes.

10.5 Specific Gravity. The specific gravity of the gas shall be determined by the use of a continuous recording gravitometer of make and type agreed upon by Buyer and Seller and so installed that it will monitor the specific gravity of the gas measured. The daily average specific gravity recorded during the periods of flow only shall be deemed the specific gravity of the gas for the purpose of calculating volumes. The continuous recording gravitometer shall be checked at least once each month by the use of the Acme gravity balance or any other approved method mutually agreed upon.

10.6 Ideal Gas Law Deviation. Except as otherwise agreed by Seller and Buyer, the gas delivered shall be assumed to deviate from the Ideal Gas Law to the extent determined from the American Gas Association's "Manual for the Determination of Supercompressibility Factors for Natural Gas" developed under P.A.R. Research Project NX-19 completed December 1962, as such manual may be hereafter

amended or changed, at the specific gravity and average flowing temperature of the gas, and at the arithmetic average static pressure recorded during period of gas flow only. At the request of either Seller or Buyer the deviation from the Ideal Gas Law for the gas delivered hereunder shall be experimentally determined by a method mutually agreed upon. If the results of such determination indicate that use of the above AGA Manual for the calculation of gas volumes will result in an error of one-half of one percent (.5%) or more then the experimentally determined deviation from the Ideal Gas Law shall be used.

10.7 Measurement Records. The original copy of all records and chart recordings shall remain the property of the owner of the equipment from which such record or recording was obtained, and shall be retained for a period of three (3) years, or such longer period as may be required by any public authority having jurisdiction, with the other party having the right to examine these records or recordings during this period. At the end of the three-year period or such longer required period, the owner shall have the right to destroy the records without permission or recourse from the other party; provided, however, that the owner electing to destroy any such records shall first give the other party advance notice thereof in writing and a period of sixty (60) days after receipt of such notice to request that such records be delivered into its possession for retention, as long as such party desires.

10.8 Measuring Equipment. Volumes delivered hereunder shall be calculated or otherwise determined from records and chart recordings which will be made from an orifice type metering station fabricated to conform to the "Construction and Installation Specifications" the American Petroleum Institute Publication 2530, "Orifice Metering of Natural Gas", as amended or revised from time to time.

10.9 Primary Measuring Equipment. Buyer shall install, maintain and operate at no expense to Seller all equipment required for the measurement, calculation and allocation of volumes delivered hereunder and the calibration and adjustment thereof shall be done by Buyer unless it is agreed by the parties hereto that Seller shall change charts. Seller shall be permitted to connect computerized production control monitoring devices to Buyer's measuring equipment.

10.10 Check Measuring Equipment. Seller shall have the option to install any measuring equipment it may desire, but same shall be installed so as not to interfere with Buyer's equipment, nor shall the recordings from such check measuring equipment be used in determination of deliveries hereunder unless Buyer's equipment be out of service or be found by test to be in error by an amount exceeding allowed tolerances as set out in Section 10.12 hereof.

10.11 Equipment Inspections. Buyer shall calibrate, test and otherwise inspect all measurement recorders, devices and equipment used in measuring gas delivered hereunder prior to the commencement of delivery, and thereafter at

least twice during each succeeding month that gas deliveries are made or at other mutually acceptable intervals. Buyer shall inspect orifice plates and meter tubes not less often than twice each year. Additional tests and inspections shall be made at irregular and non-scheduled intervals when in the judgment of either Buyer or Seller the equipment is believed not to be recording satisfactorily. Meter tubes may be inspected by use of a borescope or other comparable method.

Seller shall have the right to have a representative present to witness the installation, calibration, testing, cleaning, changing, repairing or adjustment of any portion of the primary measurement equipment or other equipment used in determining the volume delivered hereunder.

Seller and Buyer will each inform the other with reasonable notice of the date and time an equipment inspection or test is desired.

Any labor and transportation costs accruing as a result of a regularly scheduled test or inspection shall be borne by both Buyer and Seller to the extent each shall defray the expense of its own personnel. However, should either party request a test or inspection at an irregular interval, the cost accruing to the other party shall be reimbursed by the party requesting the test if it is found that the equipment is functioning within the allowed tolerance of accuracy; otherwise, each party shall defray its own expense.

10.12 Equipment Accuracy Tolerances. If, upon testing and inspecting all recorders and other equipment comprising a single metering installation, the aggregate volumetric error is found not to exceed plus or minus one percent (1%) of accuracy, then previous recordings shall be considered accurate in computing deliveries hereunder, but such equipment shall forthwith be adjusted to record accurately.

If, upon testing and inspecting all recorders and other equipment comprising a single metering installation, the aggregate volumetric error is found to exceed plus or minus one percent (1%) of accuracy, such equipment shall forthwith be adjusted to record accurately, and compensating adjustment shall be made to previous recordings and volumetric calculations for the period of time the recording was in error, if known. If the period of time is not known, recordings and calculations shall be adjusted for a period of time agreed to by Buyer and Seller, or in the absence of agreement, such correction shall be for a period covering the last half of the time elapsed since the previous test, but not exceeding a period of eight (8) days.

10.13 Failure of Measuring Equipment. If, for any reason, the measuring equipment installed for Buyer is out of service or out of tolerance, with the result that the quantity of gas delivered is not correctly indicated by the reading thereof, the gas delivered during the period in

which such measuring equipment is out of service or out of tolerance shall be estimated and agreed upon on the basis of the best data available, using one of the following methods listed in order of preference unless some other order is adjudged by both parties as more feasible:

(a) By using the registration of any check measuring equipment, if installed and accurately registering, or

(b) By adjusting for the error, if the percentage of error is ascertainable by calibrating, test, or mathematical calculations, or

(c) By estimating the quantity of delivery, by use of other metered volumes which may be available in Seller's facilities, or by reference to actual deliveries during preceding periods under similar conditions when the equipment in question was measuring accurately.

10.14 Heating Value. The gross (or total) heating value of the gas delivered by Seller to Buyer, expressed in Btu's per cubic foot, shall be determined by Buyer by means of a continuous sampler or other mutually agreeable method(s) in general use in the gas industry, as selected by Buyer and approved by Seller. Seller shall have the right to determine, at such time or times as it may desire, the gross heating value of the gas in British Thermal Units per cubic foot by means of any method in general use in the gas industry. Each party shall give to the other notice of the time of all