

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1075 SCOMM 28: JOINT GAS PIPELINE COMMITTEE, 1981-82

The proposals include plans for new instate refineries; expansion of existing Alaska refineries; increased taking by the North Slope producers; both long and short-term supplies for major crude oil refineries in the lower 48; and a request from a new refinery to be constructed in Arizona.

Among the proposals was a letter from Alaska Oil Co. (Alpetco), which asked for consideration of their plan to construct a 100,000 b/d refinery at Valdez. The state's existing contract with the company was terminated by an August 17 agreement. Alaska Oil's obligation to purchase royalty crude ends on January 12, 1982.

The company has refused to pay the state 17 million dollars for oil purchased in May, June and July, claiming that the prices submitted by the producers, which determine the oil's value, are in excess of the market value of the oil. State officials are investigating the charges, which are being presented by Alaska Oil as a "good faith" price dispute under Section 9.3 of their contract with the state. The company will likely be withholding several million dollars a month until resolution of the dispute, which is expected by January. The state is in litigation with the North Slope producers over the question of royalty oil pricing (Count V, State of Alaska v. Amerada Hess et al.); a loss in that case would result in the state owing Alaska Oil about thirty million dollars, plus interest at market rates. However, if the state is successful, it could collect more than a billion in back royalties from other takers of royalty oil (largely the North Slope producers).

A lawsuit challenging the validity of the Alaska Oil Contract was dismissed the by state's Supreme Court. The suit was filed by then-Reps. Joe McKinnon and Bill Parker and the Alaska Public Interest Research Group in the summer of 1980, following legislative approval of major amendments to the contract.

Alaska Oil Export Uncertain

A proposal to remove the ban on exporting North Slope oil is under serious consideration by the Reagan administration, along with proposals to allow export of other U.S. crude production. The Dept. of Energy estimates that the federal government would collect some 520 million dollars a year in additional tax revenues if 600,000 b/d of Prudhoe Bay oil went to Japan instead of the U.S. Gulf Coast; the state would collect an additional \$267 million per year, while the producing companies would gain only \$30 million a year. (The producer's gain would be substantially higher from upcoming Kuparuk production, since that field is exempt from the federal Windfall Profits Tax.) Informed sources report that new

numbers have been given to Cabinet officials which show federal revenues increasing by a billion dollars a year if Alaska oil were to go to Japan, but backup for the claim is not available.

The proposal has support from a variety of federal policymakers: budget officials like the increased federal tax collections; House Budget chairman James Jones is interested in promoting U.S.-Japanese trade; other proponents cite its free market philosophy. However, strong legal barriers stand in the way of any export arrangement. The Trans-Alaska Pipeline Authorization Act of 1973, Export Administration Amendments of 1977 and Export Administration Act of 1979 all block the export of North Slope oil. Although the federal Dept. of Commerce recently removed all restrictions on the export of refined products (including propane and butane), the legal barriers to crude exports remain intact.

Opponents include supporters of the U.S. shipping and maritime industry, proponents of the Panama and Northern Tier pipelines, and some guardians of U.S. "energy security." Their objections stem from concerns that non-U.S. tankers would be used to carry the oil to Japan, and that alternative transport options now being developed for Alaska crude would be killed by allowing export. The opponents have slowed down consideration of the export option within the Reagan administration, and can be expected to mount a strong effort in Congress to block the necessary statutory changes. Because of expected Congressional opposition, most observers expect the Reagan administration to delay any formal action until next year.

Pacific-Alaska LNG Project Requests State Assistance

The sponsors of a multi-billion dollar plan to liquefy Cook Inlet natural gas for shipment to California have asked the state for financial assistance. Officials of Pacific Lighting Corp. and Southern Calif. Gas Co., who met with various state officials last month, are seeking either state loans, guarantees or equity investment in the project's Cook Inlet facilities (pipelines, liquefaction plant and terminal). The project was first proposed in 1974, and has faced continuing opposition in California to construction of the receiving terminal. Other factors stalling the project include cancellation of Indonesian natural gas supply contracts and inadequate reserves in Cook Inlet.

Commissioner of Revenue Tom Williams has set up a cabinet-level meeting to discuss the proposal on October 15. The state's general fund, retirement funds and Permanent Fund have all been mentioned as possible candidates for support. If the project is successful, natural gas supplies for Southcentral consumers will likely be both much more expensive and less plentiful.

Leasing Notes

A state lease sale for onshore and offshore acreage on the southern Kenai Peninsula was held on August 25. The sale, which consisted of previously offered tracts, was dominated by Mapco and Texaco, with Simasko, Union, Oxy and Shell among the successful 12 bidders for the 59 tracts receiving bids. The winning royalty bids generally ranged from 20 to 33%, with a few tracts receiving bids of up to 59%; a fixed bonus of \$10 an acre was levied on all tracts.

Little industry interest was shown in a federal Lower Cook Inlet-Shelikof Strait lease sale held Sept. 29, largely due to the ten unsuccessful exploratory wells that were drilled in the Lower Cook Inlet area following a high-interest 1977 lease sale. Chevron was the only successful bidder, acquiring 13 tracts out of 153 offered (subject to a bid evaluation procedure to be completed before the end of the year).

The first private lease sale in the National Petroleum Reserve-Alaska, located west of Prudhoe Bay, will be held on December 16. The state will split the lease sale bonuses, rentals and royalties 50-50 with the federal government. A second sale will be held next May. Noncompetitive petroleum leasing on federal onshore lands is scheduled to open early in 1982, beginning with several block offerings in Interior Alaska. As required by the 1980 Alaska Lands Act (D2), the U.S. Fish & Wildlife Service has invited applications for preliminary petroleum and mineral surveys of the lands it manages, primarily wildlife refuges.

Interior Secretary Watt announced a delay in two federal sales that had been scheduled for 1983 in Bristol Bay and the Bering Sea, following pressure from Governor Hammond's "seaweed rebellion." A proposed federal regulation which would have sharply limited the voice of coastal states in the OCS leasing program was recently withdrawn in the face of pressure from those states. Two federal sales are scheduled for 1982: a September sale in the Beaufort Sea (Diapir) and a November sale in Norton Sound. Several other federal sales are scheduled for the waters north and west of Alaska in later years. A House proposal to share OCS lease revenues with the impacted coastal states is not expected to move past the subcommittee level before next year. All OCS receipts currently go exclusively to the federal government.

The state won the Superior Court round of a legal challenge by Chevron and Marathon of its ability to collect geological data from seismic exploration on state lands. The state uses the data on a confidential basis to help determine the petroleum potential of state lands. Chevron intends to appeal the case to the Alaska Supreme Court. Exxon filed a similar suit in a different Superior Court, but the state was not able to have the cases consolidated. The state has agreed

to wait until December 1 before requiring Exxon to submit data; if Exxon blocks data collection after that date, pending state North Slope lease sales may have to be delayed.

The state's newly-revised oil and gas leasing schedule contains sales at the following locations and dates:

a) Lower Cook Inlet	2/82, 5/86
b) Prudhoe Bay Uplands	5/82
c) Beaufort Sea	5/82, 5/83, 5/84
d) Tanana/Copper River Basin	8/82
e) Norton Basin	1/83
f) Upper Cook Inlet	9/83, 5/86
g) Minchumina Basin	1/84
h) Bristol Bay Uplands	9/84
i) Holitna Basin	1/85
j) Kuparuk Uplands	5/85, 1/86
k) Kotzebue Offshore	9/85
l) Offshore Arctic Wildlife Range	9/86

The post-1984 sales are proposed, pending the results of the call for comments on the schedule.

Northern Tier Disapproval Recommended

An administrative law judge charged with conducting hearings for Washington State's Energy Facility Site Evaluation Council on the proposed Northern Tier Pipeline has concluded that the project application should be rejected. The lack of need for the line was one of the major problems cited in the judge's report, which was based on eighteen months of testimony. Gov. or Spellman will make the final decision on the line's application before December. The Northern Tier Pipeline is slated to carry both North Slope and foreign crude from Port Angeles, Washington to the Midwest. None of the major Alaska North Slope producers has committed crude or any other form of support to the proposed line.

The "unused" PacTex pipeline, the central element of Sohio's 1979 proposal to carry North Slope crude from Southern California to Texas, is now being utilized at full capacity by El Paso to carry Southwest-produced natural gas to California consumers.

Petrochemicals in Alaska?

Petrochemical feasibility studies by the Dow-Shell Group and Exxon Chemicals foiled attempts by headline writers to assign a "yes" or "no" conclusion to their results. Both gave

a qualified "maybe" in answer to the question the studies addressed: is a large (multi-billion dollar) investment in facilities to manufacture petrochemicals from Prudhoe Bay natural gas liquids a profitable proposition? Exxon, as the world's second largest petrochemical producer (after Dutch Shell) and a leading owner of Prudhoe Bay natural gas, is likely to be involved in any effort involving petrochemical production in Alaska; however, only the Dow-Shell Group provided a detailed analysis of the factors upon which project feasibility turn.

Briefly, the future viability of the petrochemical manufacturing in Alaska requires an expansion of Pacific Rim petrochemical markets; at least a 2-3% per year real growth in oil prices; the succesful marketing of propane and the heavier gas liquids outside Alaska (which may be helped by the recent relaxation of export quotas on those products); and attractive feedstock (ethane) costs, which in turn depend on the outcome of the quest to build the Alaska gasline and the value of their alternative uses. The Dow report also pointed to the need for infrastructure development at the plant site, and warned of the problems that would be caused be simultaneous pursuit of other large construction projects, such as the gasline.

Alaska's attributes are its relatively stable political climate and its plentiful slupply of gas liquids. Its primary disadvantage is the higher cost of construction caused by the state's climate and location. Exxon Chemicals officials have pointed out that their study, conducted by Fluor, found this to be the single greatest barrier to feasibility.

One industry analyst has pointed out a key factor in petrochemical facility investment decisions:

"We expect return on investment for ethylene plants built in the 1985 to 1987 timeframe to be below the average company's cost of capital . . . only those companies with prefered feedstock positions should consider building new ethylene plants. Oil companies with such a position and huge cash flows are more likely to make the decision to add capacity."
(T.B. Tarrillon, "Will Profitability Return to U.S. Ethylene?" Oil & Gas Journal, Sept. 7, 1981; emphasis added)

A "preferred feedstock position" for potential Alaskan petrochemical producers will depend on what other value those feedstocks have. North Slope ethane, for example, could be sold to the gas transmission companies sponsoring the Alaska gasline for their value as fuel in the lower 48, used for petrochemical manufacture, or burned as fuel on the Slope.

The Dow study estimated a total investment in Alaskan petrochemical manufacturing facilities (extraction, transportation and plant) of about ten billion dollars. Construction on the project could start anytime after the mid-1980's, with production commencing in the late 1980's or early 1990's. The permanent workforce required would number several thousand, including secondary jobs, and would make a substantial contribution to the local tax base. Expansion of both the primary and secondary manufacturing capacity would be possible.

The Dow-Shell Group has asked the state for continued cooperation and aid in its efforts to plan for possible petrochemical development. The state assistance would include maintenance of Dow's first option on the state's royalty gas liquids; planning and developing infrastructure at possible sites; and consideration in permit requests, tax policy and other administrative and legal matters. A variety of state agencies are currently conducting a detailed review and analysis of the Dow-Shell Group's report. Public hearings at the potential sites will be held in October by a task force of legislators, mayors and commissioners recently appointed by Governor Hammond. The results of the state's review and of the public hearings will be considered by the Commissioner of Natural Resources, who must reach a "best interest" determination before negotiating an agreement with the Dow-Shell Group on further state cooperation. Any agreement negotiated by the Department will be submitted to the legislature for approval during the 1982 session.

Further information on the Dow-Shell Group's report and on followup actions by the state can be obtained from the author of this newsletter, or from Mary Halloran of DNR at 465-2400.

Other Items of Interest

-- The Kuparuk field, located west of Prudhoe Bay, is slated to begin oil production early in 1982. Initial production is expected to be 80,000, climbing to 250,000 b/d by 1986. Total production from the reservoir could amount to over half a billion barrels, depending on the effectiveness of secondary recovery systems. Arco's startup investment in the field is estimated at \$460 million, with two billion dollars estimated as the total development cost.

-- Conoco, recently acquired by DuPont, is in the process of developing its properties at Milne Pt., northwest of Prudhoe Bay, for production in the mid-1980's. Oil from the field would flow into the Kuparuk pipeline midway in its 26-mile run to the Trans-Alaska Pipeline System. Drilling to delineate three other potential oil producing areas in the vicinity of Prudhoe Bay, Gwyder Bay, Duck Island and West Mikkelson, is in

progress or planned by the oil companies with interests in those areas.

-- Sohio, Shell, Amoco, Tenneco, Exxon, Chevron and Phillips are prepared to spud exploratory wells at various locations in the Beaufort Sea during this winter's drilling season; Arco is planning Beaufort drilling for the following season. Geophysical crews are active in Norton Sound area, the Arctic Foothills and the Bering and Chukchi Seas, with additional winter activity planned for the Beaufort Sea. Chevron is currently drilling exploratory wells on Arctic Slope Regional Corp. lands.

-- Sohio has announced a multi-billion dollar plan to maintain Prudhoe Bay production. The projects include the drilling of a large number of additional wells; waterflood facilities; personnel and communications expansion; gas separation, transportation and reinjection equipment; and increased power generation.

-- The New Zealand government will proceed with construction of a billion dollar natural gas-to-gasoline conversion plant in a joint venture with Mobil Oil. The project will be the first major test of the process technology, and will utilize gas from the country's isolated Maui field.

* * *

This newsletter was prepared by Mark Wittow, staff to the Alaska Legislature's Joint Gas Pipeline Committee, for members of the legislature. Background information and further detail on items in this newsletter can be obtained by contacting Mr. Wittow at the following address:

Joint Gas Pipeline Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

(907) 465-4844

The next issue of this newsletter is planned for mid-November. Comments, suggestions and criticism are welcome.

SCOMM

28:29

ALASKA PETROCHEMICAL COMPANY

3700 BUFFALO SPEEDWAY

HOUSTON, TEXAS 77098

TELEPHONE 713 846-1243 TELEX 791461

December 13, 1979

Dr. Robert E. LeResche
Commissioner
Department of Natural Resources
State of Alaska
Pouch "M"
Juneau, Alaska 99811

Re: Article 10.2(3) of the Agreement for the Sale and Purchase of State Royalty Oil between Alaska Petrochemical Company and the State of Alaska dated February 22, 1978 (the "Agreement")

Dear Commissioner LeResche:

At our meeting with you on December 5, 1979 in Juneau, we submitted documentation which we believe satisfied all of the December 18, 1979 "Benchmarks" of the above Agreement except those relating to financial commitments. You and your attorney, Frederick H. Boness, Esq., made comments and suggestions regarding our submission.

Today we submit the following materials:

- (i) A Product Sales Contract revised to reflect Mr. Boness' comments and which, taken together with the Joint Venture Agreement, will result in payment of at least the floor price at all times after start-up.
- (ii) Materials which comply with Article 10.2(3)(d) and (e) relating to the financial commitments. These materials include equity commitments from the Joint Venturers and loan commitments from various partners and other important commitments.
- (iii) A revised binder which includes the above materials as well as those submitted on December 5, 1979.
- (iv) A letter of even date transmitting letters from major chemical and petrochemical companies expressing interest in Alpetco's petrochemical feedstocks and possible downstream petrochemical facilities.

Dr. Robert E. LeResche
Page Two

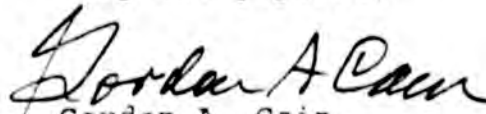
- (v) An executed copy of the Joint Venture Agreement between Alaska Petrochemical Company, Charter Oil (Alaska), Inc. and E. F. Hutton (Alaska) Inc.

Because of the Joint Venture Agreement, we request your approval to the Assignment of the Agreement from Alaska Petrochemical Company to the joint venture, The Alpetco Company.

We are also submitting, under separate cover as Volume II, notice that The Alpetco Company exercises its right to purchase the maximum quantity of State Royalty Oil available under the Agreement beginning July 18, 1980.

We believe we have successfully complied with all of the December 18, 1979 Benchmarks in the Agreement. The Alpetco Company, its partners, their attorneys and other advisors are ready to answer any questions and submit such additional information as you may require.

Very truly yours,


Gordon A. Cain
President

GAC:lu

Enclosures

ARTICLES 10.2(3)(a) - (h)

INDEX

Benchmark Requirement

Date Submitted to
Commissioner

(3) Within eighteen (18) months after the Effective Date:

- | | |
|--|----------|
| (a) Expend or commit to expend or cause contractually bound third parties to expend or commit to expend at least Ten Million Dollars (\$10,000,000.00) in Total Project Costs. | 12/5/79 |
| (b) Negotiate sale terms with prospective purchasers of products from the Petrochemical Facility; delineate product requirements, production ratios and quantities for the range of products to be produced from the Petrochemical Facility; and draft contracts for the sale of products from the Petrochemical Facility. | 12/5/79 |
| (c) Enter into contracts for the sale of at least seventy percent (70%) of the product output from the Petrochemical Facility. | 12/5/79 |
| Note: Revised contract to reflect Mr. Boness' comments | 12/13/79 |
| (d) Obtain or cause contractually bound third parties to obtain written commitments to lend or invest at least One Billion Five Hundred Million (\$1,500,000,000.00) in the aggregate for payment of Total Project Costs. | 12/13/79 |
| (e) Obtain a commitment or commitments for interim financing for the construction of the Petrochemical Facility. | 12/13/79 |
| (f) Complete and file an Environmental Impact Assessment on the Petrochemical Facility. | 11/19/79 |
| (g) Complete and file all material state, local and federal permit applications. | 11/19/79 |
| (h) Complete plant design and optimization necessary to obtain a definitive project cost estimate ("definitive" meaning a cost estimate containing no more than fifteen percent (15%) variance in anticipated costs). | 12/5/79 |

Article 10.2(3)(a)

"Expend or commit to expend or cause contractually bound third parties to expend or commit to expend at least ten million dollars (\$10,000,000) in total project costs."

A summary schedule showing total project cost expenditures of \$10,632,217.48 and contractual commitments totaling \$745,012.50 for a total of \$11,377,229.98 is enclosed.

Also enclosed is a copy of Peat, Marwick, Mitchell & Co.'s audit report prepared for the State of Alaska at the State's request confirming Alpetco's expenditures and contractual commitments totaling \$11,377,229.98. We understand that Peat, Marwick, Mitchell & Co. has sent a copy of this audit directly to the Commissioner.

We believe that Alpetco has fully complied with this benchmark requirement.

PEAT. MARWICK. MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

4300 ONE SHELL PLAZA

HOUSTON, TEXAS 77002

State of Alaska
Department of Natural Resources
and
The Board of Directors
Alaska Petrochemical Company:

At your request, we have performed the procedures enumerated below with respect to total project costs (as defined in the Agreement for the Sale and Purchase of State Royalty Oil between Alaska Petrochemical Company and the State of Alaska dated February 22, 1978, as amended May 17, 1978) for the period January 1, 1975 through November 30, 1979. We understand that you have requested these procedures to assist you in verifying compliance with the terms of Article 10.2(3)(a) of the Agreement, and our report is not to be used for any other purpose. The procedures we performed are summarized as follows:

1. We read the Agreement and made inquiries of Alaska Petrochemical Company personnel concerning the development of total project costs information pursuant to the Agreement.
2. The Company reported to us that total project costs expended or committed to be expended as of November 30, 1979 were \$11,377,229.98, as follows:

Expenditures by Alaska Petrochemical Company	\$ 8,480,807.36
Expenditures by shareholders of Alaska Petrochemical Company	1,151,410.12
Expenditures by former project engineering firm	1,000,000.00
Commitments to expend of Alaska Petrochemical Company and/or The Alpetco Company, a joint venture formed October 1, 1979 by and among Alaska Petrochemical Company, E. F. Hutton (Alaska), Inc. and Charter Oil (Alaska), Inc.	745,012.50

\$ 11,377,229.98

3. For the expenditures of Alaska Petrochemical Company, we examined supporting documentation, including the cash disbursements journal, cancelled checks, invoices and/or other documents for 91% (\$7,688,210.10) of such project costs. The remaining 9% consisted of a large number of small dollar items.
4. For the expenditures of the direct and indirect shareholders of Alaska Petrochemical Company and the expenditures of the former project engineer, we obtained written confirmations of such project costs directly from such shareholders and project engineer.
5. For the commitments to expend, we examined executed contracts and/or unpaid invoices dated on or before November 30, 1979.

Because the above procedures were not sufficient to constitute an examination in accordance with generally accepted auditing standards, we do not express an opinion on any of the individual amounts referred to above. However, in connection with the procedures referred to above, no matters came to our attention that caused us to believe that the total project costs reported by the Company, as described herein, should be adjusted.

Peet, Marnick, Mitchell & Co.

December 3, 1979

Summary Schedule of Expenditures and
Commitments to Expend for Alpetco's Total Project Costs
Through November 30, 1979

The following total project cost data is submitted in compliance with Article 10.2(3)(a) of the Agreement.

I. Expenditures through November 30, 1979

(A) Total project costs expended by Alaska Petrochemical Company for the period July 14, 1977-November 30, 1979	\$ 6,823,761.85
(B) Total project costs expended by The Alpetco Company, a partnership of Charter Oil (Alaska), Inc., Alaska Petrochemical Company and The E.F. Hutton (Alaska), Inc. for the period October 1, 1979-November 30, 1979	\$ 1,657,045.51
(C) Total project costs expended by shareholders of Alaska Petrochemical Company for the period January 1, 1975-December 18, 1979	\$ 1,151,410.12
(D) Total project costs expended by Brown and Root, Inc. (former project engineers for Alaska Petrochemical Company)	\$ <u>1,000,000.00</u>
Sub-total expenditures through November 30, 1979	\$10,632,217.48

II. Commitments to Expend at December 1, 1979

(A) Contractual Commitments	
(1) E.F. Hutton & Company	\$ 410,000.00
(2) M.B. Carmichael - Employment Contract	90,000.00
(3) CCC/HOK-Dowl - Accrued Retainage	<u>190,715.46</u>
Sub-total, Contractual Commitments	\$ 690,715.46

(B) Other commitments:

(1) Accounts payable	\$ 54,297.04
Sub-total, Other Commitments	<u>54,297.04</u>
Sub-total, Commitments at December 1, 1979	\$ <u>745,012.50</u>
Total Expenditures and Commitments at December 1, 1979	<u><u>\$11,377,229.98</u></u>

Note: In order to provide information to The State of Alaska prior to December 18, 1979, this report was prepared as of November 30, 1979. Expenditures and/or commitments made by the Buyer or "contractually bound third parties" from December 1 to December 18, 1979 have not been included but qualify to be included, if such is later deemed advisable. In addition, Total Project Costs have been expended, incurred or committed to be expended by the Buyer and other parties which are not included in the above summary and are not presently reported, because this amount is substantially in excess of the \$10,000,000.00 required by Article 10.2 (3)(a). Buyer reserves the right to determine these expenditures at a later date, if necessary to meet benchmark requirements.

Article 10.2(3)(b)

"Delineate product requirements, production ratios, and quantities for the range of products to be produced from the petrochemical facility; draft contracts for the sale of products from the petrochemical facility; and negotiate sale terms with prospective purchasers of products from the petrochemical facility."

A substantial amount of process optimization and market analysis by Company personnel and outside consultants has enabled Alpetco to delineate the products to be produced in the petrochemical facility. The attached schedule indicates the range of products that can be produced from the facility depending on current market requirements. As indicated, additional processing facilities are proposed in Stages II and III to further upgrade petrochemicals produced in Stage I.

We are not enclosing copies of draft contracts for the sale of products or material relating to negotiations of sale terms with prospective purchasers because we believe that the executed contract submitted in compliance with Article 10.2(3)(c) evidences full compliance with these benchmark provisions.

The ALPETCO Company

December 5, 1979

"...delineate product requirements, production ratios and quantities for the range of products to be produced from the Petrochemical Facility;..."

STAGE I

<u>Initial Product Slate</u>	<u>Range of Output B/D</u>	<u>% (Avg)</u>	<u>Projected 1985 Demand (B/D) *</u>	<u>% Demand Supplied By The ALPETCO Company</u>
Unleaded Gasoline:				
Premium	48,100 - 63,300	38.1	847,000	9.4%
Regular	19,300 - 28,000	16.2		
Jet Fuel/				
Arctic Diesel	13,600 - 34,100	16.3	599,000	3.4%
No. 4 Fuel	10,000 - 12,000	7.5	N/A	N/A
Clarified Oil	4,500 - 6,000	3.6	N/A	N/A
Subtotal Fuels	119,450	81.7		
Benzene	2,500	1.7	50,200	5.0%
Toluene	5,600	3.8	25,200	22.2%
Xylenes	6,200	4.2	21,900	28.3%
Paraffinic Naphtha	11,200 - 13,700	8.6	277,000	4.5%
Subtotal Chemicals	26,750	18.3		
TOTAL LIQUID PRODUCTS	<u>146,200</u>	100.0		

STAGE II

The second stage of project development will involve the upgrading of benzene and ethylene into ethylbenzene and styrene. This will require further investment in an ethylbenzene plant. In addition, propylene may be converted into oxoalcohols.

STAGE III

Depending on future market conditions, the third stage of the project will be development of an ethylene plant processing Alpetco's naphtha feedstock and/or North Slope gas liquids, if and when such liquids are available.

* Demand for fuel products was estimated by Sherman H. Clark Associates for PAD V. Demand for aromatics in Japan and on the West Coast and Japanese imports of naphtha estimated by Chem Systems, Inc.

The ALPETCO Company

"...draft contracts for the sale of products from the petrochemical facility, and negotiate sale terms with prospective purchasers of products from the petrochemical facility."

Please refer to the executed product sales contract submitted in compliance with Article 10.2(3)(c) as evidence of compliance with this Article 10.2(3)(b).

Article 10.2(3)(c)

"Enter into contracts for the sale of at least seventy percent (70%) of the product output from the petrochemical facility."

Enclosed is a fifteen year term product sales contract executed between The Alpetco Company and Charter Oil (Alaska), Inc. for seventy percent (70%) of the product output from the petrochemical facility. As a seventy percent partner in the project, Charter is an experienced and capable marketer of refined petroleum and petrochemical products. Charter presently markets approximately 400,000 B/D of products worldwide.

This contract has been revised since our meeting on December 5, 1979 to reflect comments made at that time by Mr. Boness.

We believe that we are in full compliance with this benchmark requirement.

- Non completion : They refer to the
- Operational risk : Jt. venture agreement 4.03/20.

TABLE OF CONTENTS

	<u>Page</u>
Parties	1
ARTICLE I DEFINITIONS	1
(a) AFRA	1
(b) ASTM	1
(c) Barrel	1
(d) Laydays	2
(e) Terminal	2
(f) Refining	2
(g) B/D	2
ARTICLE II PURCHASES AND PAYMENT	3
2.01 Purchases	3
2.02 Purchase Price	3
2.03 Change in Pricing Formula	3
ARTICLE III DELIVERY, MEASUREMENTS AND QUALITY	7
3.01 Delivery and Title	7
3.02 Quantity	7
3.03 Quality	7
3.04 Inspector	7
3.05 Cargo specifications	8
ARTICLE IV VESSEL MOVEMENT	9
4.01 Forecasted Scheduling	9
4.02 Naming of Vessels	9
4.03 Arrival Notice	10
4.04 Notice of Readiness	10
4.05 Laytime	11
4.06 When Laytime Ends	11
4.07 Demurrage	11
4.08 Berth	12
ARTICLE V TERM AND TERMINATION	13
5.01 Term	13
5.02 Default	13
5.03 Further Action	14

PRODUCT SALES AGREEMENT

Between

CHARTER OIL (ALASKA), INC.
a Florida corporation

and

THE ALPETCO COMPANY

Dated as of December 1, 1979

PRODUCT SALES AGREEMENT

THIS AGREEMENT is made as of December 1, 1979 by and between CHARTER OIL (ALASKA), INC., a Florida corporation, ("Buyer"), and THE ALPETCO COMPANY, a Florida general partnership composed of Charter Oil (Alaska), Inc., Alaska Petrochemical Company and E. F. Hutton (Alaska) Inc., ("Seller").

This agreement documents an arrangement by which Seller will sell and deliver and Buyer will purchase petroleum products as provided herein.

NOW, THEREFORE, the parties agree as follows:

ARTICLE I

DEFINITIONS

1.01 As used in this agreement, the following words or phrases have the following meanings:

(a) AFRA. "AFRA" is the Average Freight Rate Assessment.

(b) ASTM. "ASTM" is the American Society for Testing and Materials.

(c) Barrel. A "barrel" is a U.S. barrel of 42 gallons measured at 60° Fahrenheit.

	<u>Page</u>
ARTICLE VI FORCE MAJEURE	15
6.01 Excused by Law	15
6.02 Matters or Things	15
6.03 Unreasonable Demands of Labor	16
6.04 Time Lost by Force Majeure	17
ARTICLE VII ASSIGNMENT	18
7.01 Assignment by Seller	18
7.02 Assignment by Buyer	18
ARTICLE VIII PROVISIONS OF GENERAL APPLICATION	19
8.01 Waiver	19
8.02 Choice of Law	19
8.03 Amendment	19
8.04 Headings and Sections	19
8.05 Written Notices	19

ARTICLE II

PURCHASES AND PAYMENT

2.01 Purchases. During the term of this agreement, Seller will sell and deliver to Buyer and Buyer will purchase, receive and pay for seventy percent (70%) of the Refinery's total daily output presently estimated to be the following products and associated volumes.

<u>Product</u>	<u>Approx. Volume</u>
Unleaded Gasoline	67,400 B/D
Jet Fuel/Arctic Diesel	34,100 B/D
No. 4 Fuel Oil	12,000 B/D
Clarified Oil	6,000 B/D
Benzene	2,500 B/D
Toluene	5,600 B/D
Xylene	6,200 B/D
Naptha	13,200 B/D
Sulfur	260 T/D
All other Products	

2.02 Purchase Price. Buyer will pay to Seller a purchase price, FOB the Terminal, for all product delivered hereunder equal in amount to the higher of Market Price as defined in Section 2.02(a) below, or Floor Price as defined in Section 2.02(b) below.

(a) Market Price. The Market Price for all products delivered during a calendar month shall be equal to the sum of the Market Price for each product. The Market Price

(d) Laydays. "Laydays" are the five days upon which the parties agree pursuant to section 4.01 and set aside for a vessel's arrival at the Terminal.

(e) Refinery. The "Refinery" shall mean the refinery and petrochemical complex which Seller intends to construct at Valdez, Alaska, U.S.A.

(f) Terminal. The "Terminal" shall mean the marine loading terminal which Seller intends to construct at Valdez, Alaska, U.S.A.

(g) B/D. "B/D" means Barrels per day.

for each product delivered during a calendar month shall be equal to the posted price, herein defined for each product, less transportation cost from the posting site to Valdez, Alaska, multiplied by the volume of each product delivered.

For unleaded gasoline and diesel fuel, the posted price shall be equal to the simple average of Los Angeles, California rack prices reported for the prior month by the Lundberg Survey for the following companies: ARCO, Douglas, Gulf, Pacific, Powerine, Tosco, and USA PetroChem. The transportation cost for unleaded gasoline and diesel fuel shall be equal to the prior month's average AFRA postings for 32,000 ton clean tankers from Valdez to Los Angeles, California, plus \$.50 per barrel escalated monthly using the Department of Commerce Wholesale Price Index.

For all other products, the posted price and transportation cost shall be based on independently determined public postings representative of existing market conditions and satisfactory to both parties.

(b) Floor Price. Notwithstanding anything else to the contrary herein, when the requirements of Section 5.01 have been satisfied, Buyer shall pay to Seller as and when due 70% of the sum of all of Seller's costs, expenses, obligations and liabilities including but not limited to costs, expenses, obligations and liabilities relating to the operation and maintenance of the Refinery or otherwise. Seller shall furnish to Buyer at least thirty days prior to the first delivery of product hereunder and at least ten days prior to the commencement of each calendar month thereafter an estimate

of the Floor Price for all products for the next calendar month and within twenty-five days after the end of each calendar month Seller's Floor Price on an actual basis during the preceding calendar month. If the Floor Price is higher than the aggregate amounts determined under Section 2.02(a), payments shall be made on the basis of Seller's estimate of Floor Price and shall be adjusted on the basis of the actual Floor Price when it has been determined.

If during any calendar month the Floor Price for all products exceeds the Market Price for all products and excess shall be credited to Buyer's account and shall bear interest accrued and added to principal monthly at the prime rate in effect from time to time at Chemical Bank New York from the last day of such month until utilized as a credit as hereinafter provided. During any calendar month in which the Market Price for all products exceeds the Floor Price for all products, any credit which Buyer may have in its account (including interest) will be used to pay the portion of the purchase price for all products equal to the amount by which the Market Price for all products exceeds the Floor Price.

2.03 Change in Pricing Formula. If either or both of the two postings in subsections 2.02(a) should be changed, so that the prices contemplated by those subsections no longer are available in the Lundberg Survey, the parties shall negotiate in good faith on an alternate publicly posted price to be used as the basis of pricing, and if no

such alternate is reasonably available, on a substitute pricing formula. Any cargo lacking a price as a result of a change in the postings requiring negotiations under this section shall be priced at the last price calculated pursuant to section 2.02 the day before the posting was (postings were) changed. However, if the change in the posting is descriptive only and does not affect the substance of the price reported, then the new posting shall be substituted for the old for purposes of subsections 2.02(a), and no negotiations under this section shall be necessary.

2.04 Payment. On the twentieth (20th) day of each calendar month after the first delivery of product hereunder, Seller shall furnish Buyer its estimate of the purchase price for all product to be delivered to Buyer hereunder during such calendar month. On the first day of each succeeding calendar month, Buyer shall pay to Seller the full amount of such estimated purchase price, in immediately available U.S. dollar funds, by transferring such funds to Seller's account at a bank selected by Seller. By the tenth (10th) day of each month, any adjustment necessary to reconcile the estimated purchase price and the Market Price for the prior month, pursuant to section 2.02(a), shall be made. By the twenty-fifth (25th) day of each month, any adjustment necessary to reconcile the estimated purchase price (as adjusted above) and the Floor Price for the prior month, pursuant to section 2.02(b), shall be made.

ARTICLE III

DELIVERY, MEASUREMENTS AND QUALITY

3.01 Delivery and Title. Deliveries of product shall be made at the Terminal into vessels provided by Buyer. Title to and risk of loss of product shall pass from Seller to Buyer as the product reaches the flange of the receiving vessel's permanent hose connection.

3.02 Quantity. The quantity of product delivered shall be determined from measurements taken of the still storage tanks before and after the delivery to Buyer's vessel. Measurements shall be adjusted to 60° Fahrenheit in accordance with ASTM Petroleum Measurements Tables (ASTM Designation S-1250, Abridged Table 7).

3.03 Quality. All products shall be of commercial quality, and shall be verified from samples taken from the still storage tanks prior to loading. All tests for quality shall be conducted in accordance with the then latest ASTM-approved methods.

3.04 Inspector. The tests for quantity and quality called for by sections 3.02 and 3.03 shall be performed by an independent petroleum inspector selected by Seller and acceptable to Buyer. The inspector shall perform

the tests in its own laboratories with its own personnel, and shall not merely certify the results of tests performed by others. The cost of the testing shall be shared equally by the parties. The determinations made by the inspector shall be final and binding on both parties.

3.05 Cargo Specifications. If Seller anticipates that a cargo of product will not meet the specifications of Exhibit 1, Seller will notify Buyer at least 72 hours prior to loading at which time Buyer shall have the right to accept or reject the cargo. In the event Buyer accepts the cargo, a new price will be negotiated at that time, but in no event shall the new price be less than the applicable Floor Price.

ARTICLE IV
VESSEL MOVEMENT

4.01 Forecasted Scheduling. The parties anticipate rateable cargoes of product during each month will be delivered hereunder. By the 15th day of the preceding month, Seller shall nominate separate Laydays for the cargoes to be delivered in the 1st half of the succeeding month. By the twentieth day of the preceding month, Seller shall nominate separate Laydays for the cargoes to be delivered in the last half of the month. In each case Buyer shall accept or reject the nomination, and if it rejects it, the parties shall select alternate Laydays. When the Laydays have been selected, Buyer shall notify Seller of the size of the cargo pursuant to section 2.01.

4.02 Naming of Vessels. Buyer shall, in conformity with the Laydays, identify each vessel by notice to Seller given in writing at least seven days in advance of the commencement of the Laydays, stating the name and size of the vessel to be loaded and giving full instructions regarding it. If a ship's schedule is disrupted, Buyer shall notify Seller immediately of any change in its expected arrival date; but such notice shall not modify the Laydays agreed upon pursuant to section 4.01 unless Seller agrees to a change.

4.03 Arrival Notice. Buyer shall give (or cause to be given) Seller written notices of the expected day and hour of arrival of each vessel at least 72, 48 and 24 hours before arrival.

4.04 Notice of Readiness. Upon arrival at customary anchorage in Valdez, the master or his agent shall give Seller notice that the vessel is ready to load cargo, berth or no berth, whenever that may be so. If such notice is given within the Laydays, laytime shall commence six hours after receipt by Seller of such notice, or when the vessel is all fast at the Terminal, whichever first occurs. If the notice of readiness is given prior to the beginning of the Laydays, Seller may accept the vessel if it wishes, but has no obligation to do so until the first of the Laydays; but if Seller does accept the vessel, laytime shall commence when the vessel is all fast at the Terminal. If the notice of readiness is given after the last of the Laydays, Seller shall use its best efforts to berth the vessel as soon as possible after notice of readiness is given, but Seller shall not be liable for any demurrage incurred while the vessel is waiting to berth. However, where delay is caused to the vessel getting into berth after giving notice of readiness for any reason over which Buyer or Seller have no control, such delay shall not count as used laytime.

4.05 Laytime. There shall be allowed as laytime for loading 36 hours. Any delay in loading due to the vessel's condition or breakdown or inability of the vessel's facilities to load cargo within the time allowed shall not count as used laytime. If regulations of Seller or of port authorities prohibit loading of the cargo at night, time so lost shall not count as used laytime. If Buyer prohibits loading of the cargo at night, time so lost shall count as used laytime.

4.06 When Laytime Ends. Laytime shall end when the delivery hoses are disconnected after completion of loading or when the vessel is released by Seller or its agent, whichever last occurs.

4.07 Demurrage. Seller shall pay Buyer demurrage per running hour, prorata for a part thereof, of laytime used in excess of allowed laytime as set forth herein at the rate set forth in AFRA in effect on the date of loading for the size vessel being loaded in the case of vessels on term charter to Buyer, and at the rate set forth in the charter party for vessels under spot charter. If, however, demurrage shall be incurred by reason of fire, explosion or

storm, or by a strike, lockout, stoppage or restraint of labor, or by breakdown of machinery or equipment in or about the Refinery or Terminal, the rate of demurrage shall be reduced one-half for demurrage so incurred. Seller shall not be liable for any demurrage for delay caused by strike, lockout, stoppage or restraint of labor of master, officers and crew of the vessel or tugboats or pilots.

4.08 Berth. Seller shall provide a safe berth for Buyer's vessels free of all wharfage, dockage and quay dues, and of sufficient depth to permit Buyer's vessels to always lie safely afloat at all times of tide, and which such vessel can at all times safely reach and leave.

ARTICLE V

TERM AND TERMINATION

5.01 Term. The term of this agreement shall commence on the date of the first cargo loading after completion of the Refinery and Terminal and continue for a period of fifteen years thereafter provided that this agreement is subject to Buyer's final approval of definitive documents relative to long-term loan of funds for the Refinery, the Terminal and related facilities and to the execution by December 18, 1980 of such documents by Alpetco and the lenders providing such funds.

5.02 Default. If Buyer defaults in the performance of any of its obligations hereunder, Seller may give Buyer written notice of such default, and if such default is for the payment of money and it is not cured within ten days thereafter, or if such default is other than for the payment of money, and such default is not cured within thirty days thereafter Seller may either (a) take such legal action against Buyer as Seller may deem appropriate to enforce Seller's rights and Buyer's obligations hereunder and to recover any damages which Seller may have suffered by reason of Buyer's default, or (b) terminate this agreement by written notice to Buyer. In the event Seller defaults in the performance of any of its obligations hereunder, Buyer may take such legal action it deems appropriate to enforce Buyer's rights and Seller's obligations hereunder, but in no event shall Buyer's remedies include the right to terminate this agreement.

5.03 Further Action. Upon expiration of this agreement, the parties shall continue to be obligated to take such further action as is reasonable to account fully each to the other, and to be obligated to deliver such documents as reasonably may be required to effectuate the purposes of this agreement, in order to carry to conclusion the transactions contemplated hereunder and promptly to settle the accounts between them.

ARTICLE VI
FORCE MAJEURE

6.01 Excused by Law. No failure or omission to carry out or to observe any of the terms, provisions or conditions of this agreement except such failure or omission caused by or resulting from economic duress shall give rise to any claim by one party against the other, or be deemed to be a breach of this agreement, if such failure or omission is excused by law.

6.02 Matters or Things. No failure or omission by Seller to carry out or to observe any of the terms, provisions or conditions of this agreement shall give rise to any claim by Buyer or be deemed to be a breach of this agreement, if such failure or omission is caused by a matter or thing not within the control of Seller and Seller is not able to overcome such matter or thing by the exercise of due diligence. By way of illustration, but not by way of limitation, the following are matters or things embraced by the foregoing definition: war (whether declared or not, and whether or not involving the United States), hostilities, blockade, acts of the public enemy or of belligerents; sabotage, insurrection, riot or disorder; arrest or restraint of peoples; embargoes, export or import restrictions or rationing or allocation (whether imposed by law, decree or regulation, or by voluntary cooperation of industry at the instance or request of any government or person(s) purporting to act therefor); interference, [restriction or onerous regulation imposed upon Seller by any governmental authority to whose jurisdiction Seller is subject (whether civil or military, whether de jure or de facto, and whether purporting

to act under some constitution, decree, law or otherwise); failure or refusal of any government, governmental agency or organization owned or controlled by any government, to supply oil; act of God, fire, earthquake, storm, lightning, ice, tidal wave or perils of the sea; loss of tanker tonnage due to sinking by belligerents or to governmental taking (whether or not by formal requisition); barratry of the master and/or crew, collisions, strandings, accidents of navigation or breakdown or injury of vessels, and all dangers or accidents of the seas, canals or rivers and the navigation of vessels or whatever nature even when occasioned by negligence, default or error in judgment of the pilot, master, mariners, seamen or other servants of the vessel's owners; deviation of vessels to save life or property; accidents to or closing of harbors, docks, canals, channels or other assistance to or adjuncts of shipping or navigation; epidemic or quarantine; strikes or combinations of workmen, lockouts or other labor disturbances; explosions or breakdown of wells, pipes, storage facilities, refineries, installations, machinery or other facilities; unavailability of feedstock or necessary products; unavailability of materials or equipment; the failure of a manufacturing facility to operate for any reason beyond the reasonable control of the party which owns or operates such facility; shutdown of plant required for prudent maintenance.

6.03 Unreasonable Demands of Labor. Nothing in this Article VI shall be construed to require Seller to accede to demands of labor or labor organizations which it considers unreasonable in its absolute discretion.

6.04 Time Lost by Force Majeure. At the option of Seller the term of this agreement shall be extended for a period of time equal to any period that Seller's performance hereunder was excused by the provisions of Sections 6.01 and 6.02; provided Seller gives Buyer notice of such election within sixty days after the cessation of such excused performance.

ARTICLE VII

ASSIGNMENT

7.01 Assignment by Seller. Seller may at any time (and without the consent of Buyer) pledge, mortgage, collaterally assign, grant a security interest in or otherwise hypothecate all or any portion of its rights under this agreement, but only for the purpose of providing the security deemed necessary by Seller in order to finance the cost of constructing the Refinery and Terminal and related working capital. Except as provided above, Seller shall not pledge, mortgage, assign, grant a security interest in or otherwise transfer or hypothecate all or any portion of its rights or obligations hereunder without the prior written consent of Buyer.

7.02 Assignment by Buyer. Buyer may at any time (and without the consent of Seller) assign all or any portion of its rights under this agreement to any corporation, all the outstanding stock of which is owned by Buyer or a corporation which owns directly or indirectly all the outstanding stock of Buyer. Notwithstanding any such assignment, Buyer shall remain liable hereunder for all its obligations unless specifically released by Seller. Except as provided above, Buyer shall not pledge, mortgage, assign, grant a security interest in or otherwise transfer or hypothecate all or any portion of its rights or obligations hereunder without the prior written consent of Seller.

ARTICLE VIII

PROVISIONS OF GENERAL APPLICATION

8.01 Waiver. Failure of either party to insist upon strict observance of or compliance with all of the provisions of this agreement in one or more instances shall not be deemed to be a waiver of its rights to insist upon observance or compliance with the other provisions hereof, or of the same provision on a subsequent occasion.

8.02 Choice of Law. This agreement shall be governed by and construed in accordance with the laws of the State of Alaska.

8.03 Amendment. This agreement may be amended only in a writing signed by the party to be bound.

8.04 Headings and Sections. The headings contained in this agreement are for convenient reference only, and shall not in any way effect the meaning or interpretation of this agreement. All references to sections are to sections of this agreement, unless the context indicates otherwise.

8.05 Written Notices. All notices required or permitted hereunder shall be in writing and shall be deemed properly given only when received by the party to be served. Notices may be transmitted by TWX or Telex, or United States mail, and addressed as follows:

To Buyer:

Charter Oil (Alaska), Inc.
P. O. Box 4726
Jacksonville, Florida 32202
Telex 568415

To Seller:

The Alpetco Company
3700 Buffalo Speedway, Suite 806
Houston, Texas 77098
Telex 791461

Either party may change its address for purposes of this section by giving written notice to the other of such change in the manner herein provided.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in multiple originals as of the day and year first above written.

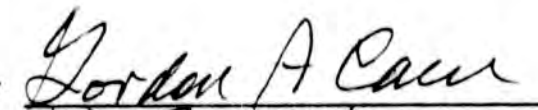
CHARTER OIL (ALASKA), INC.

By 

Title

President

THE ALPETCO COMPANY

By 

Title

President

EXHIBIT I

PRODUCT SPECIFICATIONS

1. BENZENE; TOLUENE, XYLENE

Benzene	ASTM D835-77
Toluene	ASTM D841-77
Xylene	ASTM D845-71

2. PARAFFINIC NAPHTHA

Blended Raffinate from Sulfolane BTX extraction
plus n-pentane/isohexane from naphtha prefractionation.

RVP, psia	9 Max.
Sulfur, wt. %	0.05 Max.
Distillation, °F	
Initial Boiling point	90 Min.
50%	205 Min.
End point	360 Max.
Olefins, Vol. %	1 Max.
Aromatics, Vol. %	6.5 Max.
Color, Saybolt	25 Min.

3. GASOLINE

(Must meet Los Angeles Basin gasoline specifications.)

		<u>Premium</u>	<u>Regular</u>
Octane	$\frac{R + M}{2}$	92	89
RVP	Max.	11.5	11.5
	Min.	7.0	7.0
Bromine Number		30 Max.	30 Max.
		(ASTM D-1159)	

4. JET JEL (JET A-1)

Acidity, total max. mg KOH/g	0.1
Aromatics, vol., max., %	25
Sulfur, Mercaptan, wt., max. %	0.003
Sulfur, total wt., max., %	0.125
Distillation temperature, °F	
10% recovered, max. temp.	400
Final boiling point, max. °F	572
Flash point, min., °F	123
Gravity, max., °API (Min., sp gr) at 60° F	51 (0.7753)

Gravity, min. °API (max., sp gr) at 60°F	37 (0.8398)
Freezing point, max. (°C)	(-50)
Viscosity -30°F(-34.4°C) max., cSt.	15
Net heat of combustion, min., Btu/lb.	18400

5. DIESEL (ARCTIC SPECIFICATION)

Flash point, °F	140 Min.
Cloud point, °F	-60 Max.
Kin. Vis. at 100°F., CS	1.2-2.5
ASTM Distillation, °F	
90% Evaporated at	550 Max.
End point	572 Max.
Carbon residue on 10% Btms.	0.1 Max.
Sulfur, Wt. %	0.2 Max.
Water + Sediment, Wt. %	0.01 Max.
Insolubles, Mg/100 ML	1.5 Max.
Neutralization No., TAN	0.05 Max.
Particulate Mg/L	8 Max.
Cetane No.	45 Min.

6. NO. 4 FUEL

Flash point, °F	130 Min.
Pour point, °F	20 Max.
Water + Sediment, Vol. %	0.5 Max.
Kin. Vis. at 100° F., cST	5.8 to 26.4
Sulfur, Wt. %	0.3 Max.

7. CLARIFIED OIL

Following is the specification for Carbon Black Feedstock. If Clarified Oil is not suitable, it will be sold as Bunker C.

Bureau of Mines Correlation Index (1)	120 Min.
API Gravity at 60°F	3.0 Max.
Ash, %	0.06 Max.
Sediment, %	0.2 Max.
Sulfur, % by Wt.	2.25 Max.
Asphaltenes, % by Wt.	5 Max.
Sodium, ppm	10 Max.
Potassium, ppm	1 Max.
SSU Viscosity at 210°F	70 Max.
Initial Boiling Point, °F	400 Min.

$$(1) \text{ BMCI} = \frac{87,552}{^{\circ}\text{R}} + 473.5 \left(\frac{1}{\text{s.g.}} \right) - 456.8$$

Where °R = average volumetric boiling point in °F., corrected to 760 mmHg pressure, plus 460

s.g. = specific gravity

8. SULFUR

Purity, Wt. %
Color

99.8 Min.
Bright Yellow

9. COKE

Sulfur, Wt. %
Nickel, ppm
Vanadium, ppm

1.8 Max.
9,350
19,890



The Charter Company
208 Laura Street - Post Office Box 2017
Jacksonville, Florida 32231
Telephone 904-358-4111 - Telex 561329

December 13, 1979

The Alpetco Company
c/o Alaska Petrochemical Company
3700 Buffalo Speedway
Houston, Texas 77098

Dear Sirs:

The undersigned, The Charter Company, is the 100% shareholder of Charter Oil (Alaska), Inc., which is a 70.0% partner in The Alpetco Company ("Alpetco"). Charter Oil (Alaska), Inc. has entered into a Product Sales Agreement dated as of December 1, 1979, (the "Sales Agreement").

In support of Charter Oil (Alaska), Inc.'s obligations under the Sales Agreement the undersigned, if required by the lenders providing funds as long-term loans for Alpetco's refinery and petrochemical project in Alaska, commits to take such actions as are necessary to cause Charter Oil (Alaska), Inc. to fulfill its obligations under the Sales Agreement subject to final approval by the undersigned of definitive documents relating to such long-term loans and to the execution by December 18, 1980, of such documents by Alpetco and the lenders providing such funds.

The above commitment of the undersigned is made solely for the purpose of supporting Charter Oil (Alaska), Inc.'s obligations under the Sales Contract and is not intended for the benefit of any person other than Charter Oil (Alaska), Inc.

Very truly yours,

THE CHARTER COMPANY

By 

Article 10.2(3)(d)

"Obtain or cause contractually bound third parties to obtain written commitments to lend or invest at least One Billion Five Hundred Million (\$1,500,000,000.00) in the aggregate for payment of Total Project Costs."

Alpetco has obtained written commitments for \$1.7 billion for payment of Total Project Costs. The issuers of the commitments and the amounts of each are as follows:

Thyssen Rheinstahl Technik GmbH	\$ 750,000,000.00
City of Valdez	600,000,000.00
Partners of The Alpetco Company	350,000,000.00
	<u>\$1,700,000,000.00</u>

This amount represents the total anticipated long term financing requirements for the Project. Attached and separately tabbed are letters and related documents to substantiate these financing commitments.

We believe that Alpetco has fully complied with this benchmark.

Thyssen Rheinstahl Technik GmbH - \$750,000,000.00

On December 7, 1979 Alpetco entered into an agreement with Thyssen Rheinstahl Technik GmbH (Thyssen) and Foster Wheeler Energy Corporation (Foster Wheeler) for engineering and construction of Alpetco's refinery and petrochemical facility. In consideration of this agreement, Thyssen has given Alpetco its commitment to arrange financing of up to \$750,000,000.00.

Thyssen is a member of the Thyssen Group, one of the world's largest industrial corporations, with assets in excess of \$8 billion. Headquartered in Dusseldorf, West Germany, Thyssen is experienced in financing and constructing major industrial facilities including refining and petrochemical facilities on a worldwide basis. Thyssen's capability to finance, construct and guarantee this project is underscored in a reference letter from Deutsche Bank, one of the world's largest commercial banks in which Deutsche Bank states:

"THYSSEN RHEINSTAHL TECHNIK GMBH ranks with our most esteemed customers, we know this Company to be capable of accomplishing and financing the projects it undertakes and we further know it would not enter into liabilities it could not meet."

Included under this tab is Thyssen's commitment letter, Deutsche Bank's letter of reference and the Engineering and Construction Contract executed on December 7, 1979 between Thyssen, Foster Wheeler and Alpetco.

In addition to the above financial commitments of Thyssen, the Engineering and Construction Contract with Thyssen and Foster Wheeler also adds significant other strengths to the viability of the Project. The Thyssen/Foster Wheeler agreement:

1. Eliminates the risk of cost overrun by giving Alpetco a fixed price for construction.
2. Eliminates the risk that construction will not be completed by giving Alpetco a completion guarantee.
3. Eliminates the risk that the facility will not operate by giving Alpetco a performance guarantee.



Thyssen Rheinstahl Technik GmbH · Postfach 80 23 · 4000 Düsseldorf 1

THYSSEN RHEINSTAHL TECHNIK GMBH

The Alpetco Company
3700 Buffalo Speedway
Houston, Texas 77098
U. S. A.

Thyssen Technik-Haus
Königsallee 106
Düsseldorf

Ihre Zeichen

Ihre Nachricht vom

Unsere Zeichen

Unser Hausruf (Direktwahl)
(02 11) 38 03 -

Düsseldorf

Recht/Dr.W./ho

December 7, 1979

Betreff

Gentlemen:

In consideration of Alpetco entering into the attached Engineering- and Construction-Contract with Thyssen Rheinstahl Technik GmbH (Thyssen), or a Joint Venture consisting of Thyssen and another party nominated by Thyssen, for the engineering, supplies and construction of the facilities of Alpetco's Valdez, Alaska Refinery and Petrochemical Facility (Project), such Project headed by The Alpetco Company (Alpetco) - a Joint Venture partnership owned by Charter Oil (Alaska), Inc., a subsidiary of The Charter Company, Alaska Petrochemical Company and E.F. Hutton (Alaska), Inc. - we hereby commit to arrange financing of up to US\$ 750,000,000.-- (sevenhundredandfifty million US-Dollars) to cover cost for the engineering, equipment, materials, construction and other services required for the Project.

Our commitment hereunder is subject to Alpetco's acquiring and contributing to the Project financing of at least US\$ 750,000,000.- (sevenhundredandfifty million US-Dollars) by the issuance of industrial revenue bonds, equity investment and other satisfactory forms of financing by Alpetco's partners as are required for the Project implementation.

- 2 -

"best efforts." ?

Secure &
Guaranteed

Definitive agreements for all the financing required shall be entered into by December 18, 1980, on such terms and conditions as are customarily required for similar financings by lenders at such time. If such definitive agreements are not entered into by such date, we reserve the right to terminate our commitment hereunder without any liability on our part.

The financing shall be subject to Alpetco obtaining all necessary approvals and permits required by the responsible authorities for the construction and operation of the Project, the Royalty Crude Oil Contract being in effect and Alpetco having the right to take crude oil not later than July 18, 1980.

Yours faithfully,

THYSSEN RHEINSTAHL TECHNIK
G.m.b.H.

G.m.b.H.
Hilbert Decker

No obligation if H: non-recourse
agreement fails
ie: still contingent on eventual
(1 to 400) economics



To whom it may concern

Filiale Düsseldorf

Postanschrift/Postal Address/Adresse
Postfach/P. O. Box/Boîte Postale 11 17
D-4000 Düsseldorf 1
Telephon: (02 11) 88 31
Telex: 8 582 586
Telegramme/Cables/Télégrammes
deutschbank

Bitte in der Antwort angeben
Please quote/Prière d'indiquer

Garantien sey/bö

Ihre Zeichen und Nachricht vom
Your reference and date/Votre référence et date

Durchwahl/Direct
line/Ligne directe
883 376

Datum
Date

9th February, 1978

R e f e r e n c e

Since many years THYSSEN RHEINSTAHL TECHNIK GMBH, Düsseldorf, is experienced in the turn-key implementation of refineries, petro-chemical plants, gas-, oil- and water-pipelines and supplies also complete plants including know-how and engineering for iron-, steel-, raw materials-industry as well as other technical goods and machinery for various industries throughout the world.

THYSSEN RHEINSTAHL TECHNIK GMBH ranks with our most esteemed customers, we know this Company to be capable of accomplishing and financing the projects it undertakes and we further know it would not enter into liabilities it could not meet.

*Character ~~not~~ ref
not guaranteed*

Deutsche Bank AG

Fussangel

Janssen

ENGINEERING- and CONSTRUCTION-CONTRACT

"Binding"

This Contract effective as of 7th day of December, 1979,
between, on the one hand,

THYSSEN RHEINSTAHL TECHNIK GMBH
having its registered office in Düsseldorf,
Federal Republic of Germany,
and hereinafter called "THYSSEN",

*No request
on either side
Gin*

and

FOSTER WHEELER ENERGY CORPORATION
having an office in Houston, Texas/USA,
and hereinafter called "FOSTER WHEELER",

and on the other hand

THE ALPETCO COMPANY, - a Joint Venture partnership
owned by Charter Oil (Alaska), Inc., a subsidiary of
the Charter Company, Alaska Petrochemical Company
and E.F. Hutton (Alaska), Inc.-, having an office in
Houston, Texas/USA, and hereinafter called "ALPETCO"

W I T N E S S E T H

WHEREAS, ALPETCO desires to have constructed a grass roots
150,000 BPCD crude oil refinery and petrochemical facility
on property provided by ALPETCO located at Valdez, Alaska,
together with financing arrangements for implementation
of said construction, hereinafter called the "PROJECT" and

WHEREAS, FOSTER WHEELER AND THYSSEN have entered into a Joint
Venture Agreement to associate themselves under the name
of FOSTER WHEELER-THYSSEN, Joint Venture, hereinafter called
"JOINT VENTURE", for the purpose of implementing the
PROJECT on the basis of this contract with
ALPETCO, hereinafter referred to as "CONTRACT" and

WHEREAS, the JOINT VENTURE has responded to ALPETCO's request and has proposed to ALPETCO a procedure, as outlined in this Contract; and

WHEREAS, ALPETCO desires the JOINT VENTURE to undertake certain services hereinafter referred to as "WORK" to develop a fixed price for the turnkey construction of the PROJECT, and to implement the Project; and

WHEREAS, the JOINT VENTURE desires so to do,

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties agree as follows:

1.0 SERVICES BY JOINT VENTURE

The JOINT VENTURE shall in accordance with the provisions of this Contract:

- 1.1 Perform such engineering design and related activities as is necessary to prepare a fixed price for the implementation of the PROJECT.
- 1.2 Perform with the cooperation of ALPETCO, required activities for development of a Project Labor Agreement with appropriate labor unions to enable JOINT VENTURE to obtain firm quotes from sub-contractors.
- 1.3 Develop a time schedule for completion and start-up of the PROJECT.
- 1.4 Obtain all permits and licenses necessary for the performance of JOINT VENTURE's services which are

- 1.5 Provide engineering specifications acceptable to and not now available from ALPETCO.

2.0 SERVICES BY ALPETCO

ALPETCO shall perform the following services in connection with WORK to be performed under this CONTRACT without cost to JOINT VENTURE. Such services shall include but be not limited to the following:

- 2.1 Provide any necessary basic design data, engineering reviews and approvals and any other engineering services not to be provided by JOINT VENTURE under Article 1.0. This shall include necessary soil bearing data and foundation design criteria, topographic survey, and proper benchmarks for design and construction.
- 2.2 Procure all necessary permits, licenses, easements, rights of way, and real property for the construction and operation of the plant other than permits and licenses to be provided by the JOINT VENTURE under subsection 1.4.
- 2.3 ALPETCO will make available as required by the JOINT VENTURE, the information requested by the JOINT VENTURE resulting from the license agreements and ALPETCO will conclude any license agreements for process licenses by third parties.
- 2.4 ALPETCO will negotiate and finalize commitments on long term marketing of products from customers at terms and conditions which are acceptable to lending institutions as a collateral for the financing if necessary.

2.5 ALPETCO will arrange the interim construction financing and will cooperate with the JOINT VENTURE in arranging the long term financing. ALPETCO will arrange for the issuing of the City of Valdez Industrial Revenue Bonds.

2.6 Activities specified in 2.1 through 2.4 will be finalized on or before finalization of the JOINT VENTURE's activities as specified in 1.0.

3.0 FIXED PRICE CONTRACT

The parties shall promptly negotiate and finalize by March 31, 1980, the terms and conditions of the definitive Fixed Price Contract. On or before September 1, 1980, the JOINT VENTURE shall propose

- a) a fixed price for the project implementation
- b) a contractual guarantee for timely completion of the plant,
- c) a contractual performance guarantee

and if accepted by ALPETCO within three months, the definitive Fixed Price Contract shall become effective.

4.0 COMPENSATION

ALPETCO shall pay the JOINT VENTURE in the manner and at the times designated in Article 5.0 below the costs and charges specified in attached Annex 1.

5.0 TERMS OF PAYMENT

The JOINT VENTURE shall invoice ALPETCO monthly for costs and charges incurred pursuant to Article 4.0 and ALPETCO shall pay the JOINT VENTURE ten days after presentation of respective invoices all costs and charges incurred by the JOINT VENTURE as per Annex 1 in US-Dollars.

6.0 TERMINATION

6.1 Either party may terminate this Contract under any of the following circumstances:

- (i) The Royalty Crude Oil Contract is for any reason terminated or ALPETCO ceases for any reason to be able to receive crude oil in quantities commensurate with the Project,
- (ii) The other party fails to perform its obligations under this Contract.

In the event of such termination ALPETCO shall pay to the JOINT VENTURE the amounts specified in Article 5. ALPETCO agrees to release, hold harmless and indemnify the JOINT VENTURE, FOSTER WHEELER, THYSSEN, or their affiliates from any loss, cost, damages or against any claims thereof resulting from ALPETCO's, its successors' and assigns' or any third party's use of such drawings, specifications or other data delivered to ALPETCO pursuant hereof. The provisions of this paragraph will survive the termination or expiration of this Contract.

6.2 If this Contract terminates, or if the Contract expires without having been replaced by the fixed Price Contract, then Thyssen's letter dated December 7, 1979, shall become null

7.0

PERIOD OF PERFORMANCE AND VALIDITY OF CONTRACT

- 7.1. It is presently estimated (but the JOINT VENTURE does not guarantee) that the WORK will be completed by the JOINT VENTURE by September 1, 1980, provided that ALPETCO timely furnishes the information required in Article 2.0 above.
- 7.2 The validity of this Contract expires three (3) months from the submission of the fixed price to ALPETCO by the JOINT VENTURE.
- 7.3 If the validity of the Contract expires neither the JOINT VENTURE nor ALPETCO shall have the right of claim against the other party as a consequence of the expiration of this Contract other than those rights expressly agreed upon in this Contract.

8.0

JAPANESE PARTICIPATION

It is contemplated that the JOINT VENTURE will subcontract with Japanese companies acceptable to ALPETCO for the supply of components and services for the PROJECT including transportation to the jobsite.

9.0

REPRESENTATIONS

ALPETCO represents that it undertakes this Contract on an exclusive basis, i. e., ALPETCO will not implement the PROJECT with third parties, unless the JOINT VENTURE will have given its consent or either party will have terminated this Contract pursuant to Article 6.0.

10.0 WARRANTEES

- 10.1 ALL WORK performed by the JOINT VENTURE under this Contract which requires correction and ALPETCO having so indicated to the JOINT VENTURE shall be corrected by the JOINT VENTURE provided ALPETCO requests such correction within thirty (30) days after submission of the fixed price to ALPETCO by the JOINT VENTURE. The JOINT VENTURE's responsibility shall be limited solely to redoing its own and subcontractor's own WORK.
- 10.2 The JOINT VENTURE's warrantees and guarantees stated herein are exclusive and in lieu of all other warranties and guarantees, whether written or oral or implied in the fact or in law, and whether based on statute, contract, tort (including negligence) strict liability or otherwise.

11.0 ACCOUNTING

- 11.1 The JOINT VENTURE shall keep full and detailed accounts and records in accordance with its established accounting procedure.
- 11.2 The JOINT VENTURE shall submit to ALPETCO by February 1, 1980 a forecast of monthly expenditures under this Contract.

11.3 The JOINT VENTURE shall permit ALPETCO to have access to and currently to review and audit at all reasonable times all records and accounts relating to costs reimbursable by ALPETCO under this Contract exclusive, however, of any fixed overlays or fixed rates. If as a result of any review or audit the invoices and statements submitted in accordance with Article 4.0 are found to be in error, such errors shall be adjusted in the next subsequent invoices. Such audits may be made as work progresses and final audit shall be completed within 60 days after completion of the services as provided for herein.

12.0 INSURANCE

The partners of the JOINT VENTURE shall maintain during the performance of the WORK hereunder the insurance required by the applicable jurisdictions.

13.0 BROWN & ROOT, INC.

Prior to the date hereof, BROWN & ROOT, INC. has performed certain services ("B&R SERVICES"). On behalf of ALPETCO in connection with the initial B&R SERVICES, ALPETCO shall defend, indemnify and hold harmless JOINT VENTURE claims, demands, liabilities, damages and courses of action of any nature whatever arising out of or incidental to such B&R SERVICES.

14.0 CONSEQUENTIAL DAMAGES

Notwithstanding anything in this Contract to the contrary, it is agreed that neither party to this Contract, their affiliates and subcontractors shall have no liability, whether in contract, tort, strict liability or otherwise, for loss of product, loss of profit, loss of use or any other indirect or consequential damages.

15.0 GOVERNING LAWS

This Contract will be governed and interpreted under the laws of the State of Florida.

16.0 ENTIRE AGREEMENT/AMENDMENTS

16.1 This Contract and THYSSEN's letter dated December 7, 1979 constitute the entire agreement between the parties hereto relating to the services and supersedes any previous agreement or understanding relating to the services, and shall not be altered or amended except by the written agreement of the parties.

16.2 The validity of this Contract shall not be affected should one or more of its stipulations be or become legally invalid. In such case the invalid clause shall be replaced by a stipulation which is in accordance with the law and which shall be as close as possible to the parties' original intent

17.0 NOTICES

17.1 All notices required under this Contract shall be in writing and shall be sufficient in all respects if delivered in person or sent by registered mail addressed to :

Foster Wheeler /Thyssen Joint Venture
c/o Thyssen Rheinstahl Technik GmbH
Attention: Mr. Wolfgang Schwarze
Königsallee 106
Postfach 80 23
D 4000 Düsseldorf

and if ALPETCO shall be sufficient in all respect if delivered in person or sent by registered mail addressed to

The Alpetco Company
Attention: Mr. Gordon Cane
3700 Buffalo Speedway, Suite 806
Houston, Texas 77098

17.2 Either party may change the person/or address to which notice shall be given by giving the other party written notice of such change.

IN WITNESS WHEREOF the parties have executed this Contract on the date first written above.

The Alpetco Company

Joint Venture

Gordon A. Cane
.....
[Signature]

Thyssen Rheinstahl Technik GmbH

Foster Wheeler Energy Corporation

[Signature]
.....
[Signature]

ANNEX I

COMPUTATION OF JOINT VENTURE'S COSTS

The JOINT VENTURE will charge their costs to ALPETCO on a cost reimbursable basis including but not limited to:

1. Wages and Salaries

The wages and salaries, for such time as is devoted to the PROJECT by home office personnel, whether such services are performed in the office abroad, or in the field for personnel such as, but not limited to, managers, engineers, designers, draftsmen, purchasers, expeditors, project accountants, secretaries.

2. Payroll Burdens

An amount equal to seventy percent (70%) for THYSSEN and an amount equal to forty-five percent (45%) for FOSTER WHEELER's total wages and salaries for payroll burdens to cover the costs of payroll taxes and insurance, group medical and life insurance, as well as pro rata share of the cost to employer of vacation, sick benefits, holiday pay and other employee benefits.

3. Indirect Costs

An amount equal to one hundred percent (100%) for THYSSEN and an amount equal to one hundred percent (100%) for FOSTER WHEELER's total wages, salaries and payroll burden costs reimbursable in accordance with the sum of section 1. and 2. to cover for the related overhead and indirect office costs.

4. Transportation, Relocation and Travel Expenses

The cost of transportation, relocation, and travel expenses for personnel engaged in the project in accordance with established policies.

5. Communication Expenses

Long distance telephone, telegraph, postage, and teletype expenses incurred in the direct prosecution of the project at cost.

6. Prints and Reproduction

Prints and reproductions in accordance with established rates.

ANNEX I - COMPUTATION OF JOINT VENTURE'S COSTS - continued

7. Computer Services

Computer services for the prosecution of technical and commercial programs in accordance with established rates.

8. Third Party Services

Services performed by a third party, such as financial and legal advisers, soil investigation, etc., at cost.

9. Miscellaneous Expenses

Miscellaneous expenses, including, but not limited to, custom printed forms, special book bindings, special drafting room and office materials and supplies, model shop material, freight, express, duties, fees, permits, and any other cost incurred in connection with the project.

City of Valdez, Alaska - \$600,000,000.00

On November 19, 1979 the City of Valdez unanimously passed Ordinance 7917 authorizing the City to issue tax exempt industrial revenue bonds to finance the Alpetco project. Also, on November 19, 1979 the City Council unanimously passed Resolution 7953 authorizing the Mayor of Valdez to execute a commitment to lend Alpetco \$600,000,000.00 from the proceeds of the sale of tax exempt industrial revenue bonds.

To support this commitment, the City of Valdez has obtained an underwriting commitment, dated November 19, 1979, from E. F. Hutton & Company to purchase \$600,000,000.00 of the tax exempt bonds.

Copies of the City Ordinance 7917, Resolution 7953, the City's commitment letter and E. F. Hutton's underwriting commitment follow.

AS 37.0.085

Emergency 160 days

CITY OF VALDEZ, ALASKA

ORDINANCE NO. 7917

AN ORDINANCE OF THE CITY OF VALDEZ,
ALASKA, CREATING ARTICLE II, CHAPTER 9, OF
THE VALDEZ CITY CODE ESTABLISHING PRO-
CEDURES FOR ISSUING ECONOMIC DEVELOPMENT
BONDS AND MATTERS RELATED THERETO

WHEREAS, the City of Valdez, Alaska is a home rule city and under Section 11 of Article X of the Alaska Constitution may exercise all legislative powers not prohibited by law or by the Charter of the City, and it has been determined that the matters set forth in this Ordinance are not prohibited by law or the Charter; and

WHEREAS, it is necessary and for the best interests of the City to provide employment opportunities and to encourage the economic development of the City, thereby reducing the evils attendant upon unemployment and furthering the welfare and prosperity of the residents of the City; and

WHEREAS, the issuance of revenue bonds to finance in whole or in part the costs of the acquisition, purchase, construction, reconstruction, improvement, equipping, betterment, extension, addition, repair, alteration, rehabilitation, renovation or enlargement of economic development facilities as aforesaid is a public purpose and is a proper exercise of a governmental function of the City; and

WHEREAS, the establishment of procedures for the issuance of such revenue bonds is authorized by the Charter including, but not limited to, Section 14.8, and is necessary and desirable to provide clarity in law and direction for subsequent actions;

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF
THE CITY OF VALDEZ, ALASKA, THAT:

Section 1. Article II, Chapter 9 of the Valdez City Code is
hereby created to read as follows:

ARTICLE II - ECONOMIC DEVELOPMENT BONDS

Sec. 9-40. Definitions. Whenever used in this Article unless
a different meaning clearly appears from the context:

(1) "bonds" means revenue bonds issued as herein
provided.

(2) "Charter" means the Charter of the City as from
time to time amended and supplemented.

(3) "City" means the City of Valdez, Alaska.

(4) "construction" of or with respect to a project means
and includes the acquisition, purchase, construction, reconstruc-
tion, improvement, equipping, betterment, extension, addition,
repair, alteration, rehabilitation, renovation or enlargement of the
project.

(5) "impact aid payment" or "administrative fee" means
the impact aid payment or administrative fee pursuant to Section
9-54 of this Article.

(6) "person" means any individual, partnership, co-
partnership, firm, company, corporation (including a public utility),
association, joint stock company, trust estate, political subdivision,
state agency, or any other legal entity, or its legal representa-
tive, agent or assigns.

(7) "project" means any land, building, structure, facility, system, fixture, improvement, addition, appurtenance, machinery and equipment, and any real and personal property deemed necessary in connection therewith, including but not limited to machinery and equipment whether or not now in existence or under construction, which shall be suitable for any of the following:

(a) Any enterprise for the manufacturing, processing or assembling of any agricultural, manufactured or natural resource product.

(b) Any commercial enterprise for the storage, warehousing, distributing, selling or providing of products or services and including research and development therefor.

(c) Any health care institution.

(d) Sport facilities.

(e) Convention or trade show facilities.

(f) Airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related thereto.

(g) Sewage or solid waste disposal facilities or facilities for the furnishing of electric energy, gas or water.

(h) Industrial park facilities.

(i) Air or water pollution control facilities.

(j) Any educational institution.

(8) "project costs" means and includes the sum total of all reasonable or necessary costs incidental to the construction of a

project and the issuance of bonds to finance the project in whole or in part, including without limiting the generality of the foregoing the following, which may be payable by or to the City or any other person:

(i) obligations incurred or assumed by the City or any other person for labor, materials, and equipment in connection with the construction of the project;

(ii) the cost of performance, labor and material bonds and insurance of all kinds that may be required or necessary during the course of construction of the project;

(iii) all costs of architectural and engineering services, including the costs incurred or assumed by the City or any other person for preliminary design and development work, test borings, surveys, estimates and plans and specifications, and for supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of the project;

(iv) all costs required to be paid by the City or any other person under the terms of any contract or contracts for the construction or financing of the project;

(v) payment of the initial or acceptance fees of any trustees; the costs of any title search, insurance or opinions; any fees and expenses for recording and filing all documents and instruments in connection with ~~the~~ project and the construction and the financing thereof; and overhead and

administrative expenses properly chargeable to capital or similar accounts in connection with the project;

(vi) payment of the legal, underwriting, financial advisory, rating service and accounting fees and expenses and printing and engraving costs incurred in connection with the authorization, sale and issuance of bonds issued to finance the project in whole or in part and the preparation of all documents in connection with the project and the construction thereof and the issuance of the bonds;

(vii) an initial bond and interest reserve;

(viii) interest to accrue on all bonds issued to finance the project in whole or in part to a date six (6) months subsequent to the estimated date of completion of the project; and

(ix) the impact aid payment or administrative fee.

(9) "revenues and receipts" of a project or derived from a project includes payments under a lease, sublease, agreement of sale or loan agreement and under notes, debentures, bonds and other secured or unsecured debt obligations of any person executed and delivered to the City or its designee or assignee (including a trustee) pursuant to such lease, sublease, agreement of sale or loan agreement but excluding the impact aid payment or administrative fee.

Sec. 9-41. Legislative Declaration of Purpose. It is hereby determined and declared that the purpose of this Article is to provide a

method for financing the cost of economic development facilities in the City in order to provide employment opportunities and relieve conditions of unemployment and encourage the economic development of the City, thereby reducing the evils attendant upon unemployment and furthering the welfare and prosperity of the residents of the City, and any and all of the same are hereby declared and determined to be public purposes and a proper exercise of a governmental function of the City. It is hereby further determined and declared that each and every matter and thing as to which provision is made in this Ordinance is desirable in order to carry out and effectuate the purposes of the City in accordance with the constitution and statutes of the State of Alaska and the Charter of the City and to issue bonds in accordance with the terms of this Article.

Sec. 9-42. Additional Powers. In addition to other powers which it may have, the City shall have the power under this Article:

(1) To acquire by gift, purchase, lease or sublease, to construct and to finance one or more projects, whether or not now or hereafter in existence, within the City.

(2) To issue its revenue bonds to defray in whole or in part the project costs of any project and to designate an appropriate name for, and all other details of, such bonds.

(3) To rent, lease, sublease, sell or finance any project to any person in such manner that payments to be received with respect to the project shall produce revenues and receipts sufficient to provide for the prompt payment at maturity of principal,

Interest and redemption premiums, if any, upon all bonds issued to finance in whole or in part project costs of such project, and without limiting the generality of the foregoing to enter into a lease-leaseback, leveraged leasing, purchase-saleback, loan or other arrangement whereby project costs may be financed.

(4) To pledge the revenues and receipts to be received from a project and its rights to bring actions and proceedings under any lease, sublease, agreement of sale, loan or other instrument for the enforcement of remedies thereunder to the punctual payment of bonds issued to finance in whole or in part project costs of such project, and the interest and redemption premiums, if any, thereon.

(5) To sell and convey any project for such price and at such time (whether prior or subsequent to or concurrently with the payment in full of bonds authorized under this Article) as the Council may determine.

(6) To issue its bonds to refund in whole or in part bonds theretofore issued under this Article, and to extend the term of the refunding bonds beyond the term of the refunded bonds.

Sec. 9-43. Exercise of Powers. The exercise of all powers pursuant to this Article may be authorized by resolution of the Council which may in each instance be adopted at the same meeting, either regular or special or an adjournment of either, at which ~~It is~~ introduced and shall take effect immediately upon adoption.

Sec. 9-44. Bonds. Bonds issued pursuant to this Article may (i) bear interest at such rate or rates payable at such time or times; (ii) be in one or more series; (iii) bear such date or dates; (iv) mature at such time or times not exceeding 40 years from their respective dates; (v) be payable in such medium of payment at such place or places; (vi) carry such registration privileges; (vii) be subject to such terms of redemption at such premiums or otherwise; (viii) be executed in such manner; (ix) contain such terms, covenants and conditions; and (x) be in such form, either coupon or registered, or both, with conversion and reconversion privileges, all as may be prescribed by the resolution of the Council authorizing their issuance; provided that such resolution (a) need not prescribe a definitive interest rate or rates for the bonds but may instead prescribe a maximum interest rate or rates within which the bonds may be sold, (b) need not prescribe the definitive terms upon which the bonds may be redeemed by the City but may instead prescribe minimum and maximum terms of years within which the bonds may be redeemed by the City and the minimum and maximum premiums, if any, payable in the case of such redemptions, (c) need not prescribe the principal amount of the bonds but may instead prescribe a maximum principal amount of bonds to be issued, (d) need not prescribe the definitive principal maturities of or sinking fund payments with respect to the bonds but may instead prescribe minimum and maximum terms of years within which the bonds shall mature or be subject to sinking fund payments and minimum and maximum amounts of such principal securities or sinking fund payments, and (e) need not

designate a trustee and additional paying agents but may instead indicate whether or not a trustee and additional paying agents are to be designated and prescribe qualifications for such trustee and paying agents; provided further that such resolution may appoint the Mayor, City Manager, or such other official as the Council deems advisable, to sell the bonds upon terms and conditions which comply with the provisions of such resolution, and all definitive terms and conditions with respect to the bonds, including the designation of a trustee and additional paying agents, if any, which are not prescribed by the resolution authorizing their issuance shall be established by the terms and conditions upon which the bonds are sold.

Sec. 9-45. Sale of Bonds. Bonds may be sold at public or private sale at such price (which may be at par, at a premium above par or at a discount below par), in such manner and upon such terms and conditions as comply with the provisions of the resolution authorizing the issuance of the bonds, all as may be approved by the official appointed to sell the bonds or by the Council if no such official be appointed.

Sec. 9-46. Interim Receipts or Certificates. Pending the preparation of the definitive bonds, interim receipts and certificates in such form and with such provisions as the Council may determine may be issued to the purchaser or purchasers of bonds sold pursuant to this Article.

Sec. 9-47. Bonds, etc., to be Negotiable Instruments. The bonds and interim receipts or certificates shall be deemed to be securi-

ties and negotiable instruments within the meaning and for all purposes of the "Uniform Commercial Code".

Sec. 9-48. Covenants in Bonds. Any resolution authorizing the issuance of bonds under this Article may provide that the principal of and the interest and premium, if any, on the bonds shall be secured by an indenture of trust covering the revenues and receipts derived from the leasing, subleasing, sale or financing of the project for which the bonds are issued and such other funds and rights, if any, as are assigned and pledged under such indenture of trust. Any such resolution or indenture of trust, or any such lease, sublease, agreement of sale or loan agreement may contain such covenants and provisions as the Council may determine to be advisable, including, but not limited to, covenants and provisions with respect to the project and the bonds, and the security therefor, such as to (a) the application, use and disposition of the proceeds of the bonds and of the revenues and receipts from the project for which the bonds are to be issued, including the creation and maintenance of reserves, if any; (b) the issuance of other or additional bonds relating to the project or any construction of the project; (c) the maintenance and repair of such project; (d) the insurance to be carried thereon and the use and disposition of insurance moneys; (e) the appointment of, or the prescription of qualifications for, any bank or trust company within or outside the State of Alaska, having the necessary trust powers, as trustee for the benefit of the bondholders, paying agent, and bond registrar and the vesting in the trustee of rights, powers, duties, ~~funds~~ and properties for the

benefit of bondholders; (f) the appointment of, or the prescription of qualifications for, any bank or banks or trust company or companies within or outside the State of Alaska, having the necessary trust powers, as additional paying agent or agents for the bonds and the interest thereon; (g) the investment of any funds held under such resolution or indenture of trust; (h) the terms and conditions upon which the holders of the bonds or any portion thereof, or any trustees therefor, are entitled to the appointment of a receiver; and (i) any other matters of like or different character which in any way affect the security or protection of the bonds. Any such resolution and indenture of trust shall be enforceable by any bondholder by appropriate suit, action or proceeding in any court of competent jurisdiction, provided the resolution or indenture of trust under which the bonds are issued may provide that all such remedies and rights to enforcement may be vested in a trustee for the benefit of all the bondholders.

Sec. 9-49. Signatures of Officers on Bonds - Validity of Bonds. The bonds shall bear the manual or facsimile signatures of such officers of the City as may be designated in the resolution authorizing such bonds and such manual or facsimile signatures shall be the valid and binding signatures of the officers of the City, notwithstanding that before the delivery thereof and payment therefor any or all of the persons whose signatures appear thereon have ceased to be officers of the City. The validity of the bonds is neither dependent on nor affected by the validity or regularity of any proceedings relating to the construction of the project for which the bonds are issued. The reso-

lution authorizing the bonds may provide that the bonds shall contain a recital that they are issued pursuant to this Article, which recital shall be conclusive evidence of their validity and of the regularity of their issuance.

Sec. 9-50. Pledge and Lien of Bonds. All bonds issued under this Article shall have a lien upon the revenues and receipts derived from the leasing, subleasing, sale or financing of the project for which the bonds have been issued to the extent such revenues and receipts are pledged pursuant to this Article, and the Council may provide in the resolution authorizing such bonds for the issuance of additional bonds to be equally and ratably secured by a lien upon such revenues and receipts or by a subordinate lien upon such revenues and receipts.

Sec. 9-51. Limited Liability for Bonds. All bonds issued under and pursuant to this Article shall be limited obligations of the City payable solely out of the revenues and receipts derived from the leasing, subleasing, sale or financing of the project with respect to which such Bonds are issued. Bonds issued under this Article are not payable from taxes levied upon the taxable real and personal property in the City and are not a charge against the general credit or taxing power of the City. No holder of any bonds issued under this Article shall have the right to compel any exercise of the taxing power of the City to pay the bonds or the interest or premiums, if any, thereon, and the bonds do not constitute an indebtedness of the City or a loan of credit thereof within the meaning of any constitutional or statutory

provision. It shall be plainly stated on the face of each bond that it has been issued under the provisions of this Article and that it is not payable from taxes levied upon the taxable real and personal property in the City and is not a charge against the general credit or taxing power of the City and does not constitute an indebtedness of the City or a loan of credit thereof within the meaning of any constitutional or statutory provision.

Sec. 9-52. Exemption from Construction and Other Requirements for Public Buildings. The construction of a project shall not be subject to any requirements relating to public buildings, structures, grounds, works or improvements imposed by any ordinance or resolution of the City, or to any other similar requirements, and any requirement of competitive bidding or other restriction imposed on the procedure for award of contracts for such purpose or the lease, sublease, sale or other disposition of property of the City is not applicable to any action taken pursuant to this Article.

Sec. 9-53. Procedures Established as Additional and Supplemental - Limitations Imposed - Effect. The procedures established by this Article are in addition and supplemental to, and the limitations imposed by this Article shall not affect, the exercise of powers conferred by the Charter, any law or any other ordinance. Construction of any projects may be accomplished and financed, and bonds may be issued under this Article for such purposes, notwithstanding that any law or any other ordinance may provide for the construction and financing of a like project, or the issuance of bonds for like purposes, and

without regard to the requirements, restrictions, limitations or other provisions contained in any law or any other ordinance.

Sec. 9-54. Impact Aid Payment or Administrative Fee. The City shall require an impact aid payment or administrative fee each time that bonds are issued under the provisions of this Article in order to enable the City to defray, in whole or in part, costs associated with the development, administration and expansion occasioned by the project. The impact aid payment or administrative fee shall be one percent (1%) of the principal amount of the bonds then being issued. The impact aid payment or administrative fee shall not constitute a part of the revenues and receipts of a project or derived from a project.

Sec. 9-55. Contract with Bondholders. The provisions of (i) this Article; (ii) the resolution of the Council authorizing the issuance of the bonds; (iii) the contract of sale of the bonds; (iv) any indenture of trust executed in connection therewith; and (v) the bonds shall collectively constitute a contract with the holder or holders of the bonds, and no subsequent change in this Article or in any law may in any way limit the rights of the holder or holders of the bonds or alter the obligations of the City under the terms of such contract until the entire principal of and interest and redemption premiums, if any, on such bonds have been fully paid or provision for the payment thereof made in accordance with the terms of such contract.

Sec. 9-56. Severability Clause. The provisions of this Article, except Section 9-51 hereof, are severable and if any such provisions or any sentence, clause or paragraph thereof shall be held

unconstitutional or ineffective by any court of competent jurisdiction, the decision of such court shall not affect or impair any of such remaining provisions.

Section 2. Sections 9-1 through 9-39, inclusive, of Chapter 9 of the Valdez City Code shall be designated: Article I. In General.

Section 3. Effective Date. The provisions of this Ordinance shall take effect immediately.

PASSED AND APPROVED by the Council of the City of Valdez, Alaska, on the 19th day of November, 1979.


Mayor

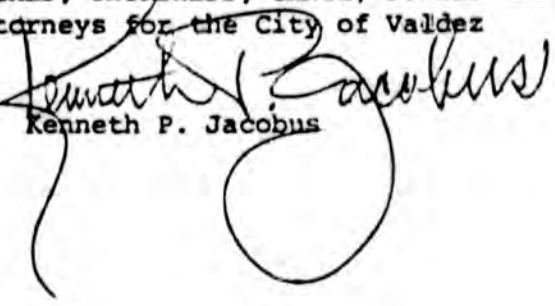


City Clerk / City Manager

First Reading: November 12, 1979
Second Reading: November 19, 1979
Adoption: November 19, 1979
Ayes: 6
Noes: 0
Absent: 1

APPROVED AS TO FORM:

HUGHES, THORSNESS, GANTZ, POWELL AND BRUNDIN
Attorneys for the City of Valdez

By 
Kenneth P. Jacobus

CITY OF VALDEZ

ALASKA

RESOLUTION NO. 7953

A RESOLUTION RELATING TO THE FINANCING OF
CERTAIN ECONOMIC DEVELOPMENT FACILITIES
AND OTHER FACILITIES FOR GENERAL PUBLIC
USE.

WHEREAS, the City of Valdez, Alaska (the "City") is authorized to issue economic development bonds pursuant to Article II of Chapter 9 of the City Code; and

WHEREAS, The Alpetco Company (the "Company"), a joint venture partnership organized or to be organized among Alaska Petrochemical Company, Charter Oil (Alaska) Inc. and The E. F. Hutton Group, Inc., desires to borrow funds made available through the issuance of such bonds in order to acquire, construct and develop certain economic development facilities and other facilities for general public use (the "Project") more fully described in Exhibit A attached hereto; and

WHEREAS, Federal Income Tax Regulations require that the City adopt a bond resolution with respect to such bonds or take some other similar official action toward the issuance of such bonds prior to the commencement of construction or acquisition of the Project; and

WHEREAS, the City considers the acquisition, construction and development of the Project to be in furtherance of its needs and public purposes and that the financing of the Project will have the effect of increasing employment, increasing the tax base in the City and promoting the general health and welfare of the inhabitants of the City

and that it is in the best interests of the City to issue such bonds in order to loan the proceeds to the Company; and

WHEREAS, the construction of the dock facility is consistent with and promotes the development of the Port of Valdez within the jurisdiction of the City as a major public port in Southcentral Alaska and as a gateway to Fairbanks and Interior Alaska; and

WHEREAS, the Project (except for the dock facility) will be located in an industrial park to be developed by the City for building sites for enterprises engaged in industrial, distribution or wholesale business and it is the intention of the City to proceed with the planning, development and construction of said industrial park;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF VALDEZ, ALASKA, AS FOLLOWS:

1. The City will issue and sell its economic development bonds in one or more issues (the "Bonds") in a principal amount sufficient to provide funds to the Company in order to pay the cost as defined in Section 9-40 of the City Code of financing the Project, together with costs incident to the authorization, sale and issuance of the Bonds, the total of all such Project and incidental costs to be financed through the issuance of the Bonds being presently estimated to be \$600,000,000.

2. The City will also issue and sell additional bonds in a principal amount sufficient to provide funds to the Company in order to pay any cost overruns or additional costs of the Project in excess of

the presently estimated costs, or the costs of any modifications or additions to the Project.

3. The proceeds of the Bonds will be loaned or otherwise provided to the Company in order to acquire, construct and develop the Project or any modifications or additions thereto.

4. The Mayor is hereby authorized and directed to execute and deliver a commitment letter to the Company substantially in the form provided in Exhibit B attached hereto.

5. The City will enter into a loan agreement or other financing agreement with the Company or other owners, lessees, users or beneficiaries of the Project to provide revenues to the City sufficient for the payment of the Bonds.

6. The City will adopt such proceedings and authorize the execution and delivery of such documents as may be necessary or advisable for the authorization, issuance and sale of the Bonds, the acquisition, construction and development of the Project, and the execution of a loan agreement or other financing agreement with respect to the Project with the Company or other owners, lessees, users or beneficiaries of the Project. The terms of the Bonds, including the rates of interest thereon shall be determined by the Council as set forth in Section 9-44 of the City Code.

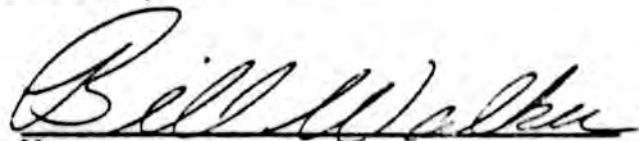
7. The City will take or cause to be taken such other acts and adopt such further proceedings as may be required to implement the aforesaid undertakings or as it may deem appropriate in pursuance thereof.

8. The Bonds shall specify on their face that they shall be payable solely out of the revenues derived from the loan agreement or other financing agreement with respect to the Project and that they shall not constitute a debt or indebtedness of the City within the meaning of any provision or limitation of the Constitution or statutes of the State of Alaska.

9. The City shall develop a plan for an industrial park which shall be created upon submission and approval of the plan by the Council. Such industrial park shall be open for use as building sites by enterprises engaged in industrial, distribution or wholesale business including the Project.

10. It is intended that this Resolution shall constitute "some other similar official action" toward the issuance of the Bonds within the meaning of Section 1.103-8(a)(5) of the Federal Income Tax Regulations.

PASSED AND ADOPTED by the City Council of the City of Valdez, Alaska, this 19th day of November, 1979.


Mayor


ATTEST:

City Clerk/City Manager