

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1076 SCOMM 28: JOINT GAS PIPELINE COMMITTEE, 1981-82 1076

EXHIBIT A

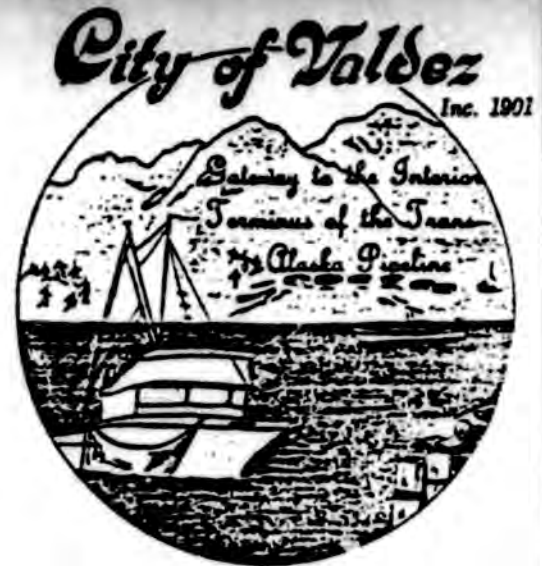
TO RESOLUTION NO. 7953, ADOPTED NOVEMBER 19,
1979 BY THE COUNCIL OF THE CITY OF VALDEZ, ALASKA

DESCRIPTION OF PROJECT

The facilities comprising the Project to be acquired, constructed and developed within the city limits of Valdez, Alaska, include:

A dock facility for the loading and unloading of petroleum products and the associated piping and incidental facilities, storage facilities associated with the dock, general site development incidental to the preparation of the site as an industrial park (said industrial park to be used for building sites for industrial, distribution and wholesale businesses including the Project), air and water pollution control facilities, sewage and solid waste disposal facilities, facilities for the generation of electric energy for general use within the industrial park and by the general public; all to be used in connection with a petroleum refinery facility to be acquired, constructed and developed in conformity with the specifications of the Alaska Royalty Crude Oil Contract dated February 22, 1978 between Alaska Petrochemical Company and the State of Alaska, as heretofore and hereafter amended, and such other portions of the refinery facility as may be financed with economic development bonds, the interest on which is exempt from federal income taxation.

OFFICE OF ADMINISTRATION
November , 1979



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

Gentlemen:

On behalf of the City of Valdez, Alaska (the "City"), I am pleased to confirm the City's commitment to loan or otherwise provide up to \$600,000,000 or such additional amount as shall be deemed necessary to The Alpetco Company (the "Company") from the proceeds of the sale of the City's economic development bonds (the "Bond") in accordance with the provisions of Ordinance No. 7917 of the City (the "Ordinance") adopted on November 19, 1979, on the terms and subject to the conditions set forth below.

This commitment is subject to (i) entering into a loan agreement or other financing agreement with the Company in accordance with Resolution No. 7953 of the City adopted on November 19, 1979, and (ii) receipt of an opinion of bond counsel to the effect that the Bonds will be in conformity with the Ordinance and that interest thereon will be exempt under the existing statutes, regulations, court decisions and rulings from Federal income taxes.

All funds provided shall be expended in the acquisition, construction and development of the project facilities described in Exhibit A of the Resolution and for no other purpose. All funds provided shall be expended at such times and for such purposes as shall comply with the provisions of the Ordinance and shall preserve the tax-exempt nature of interest payable on the Bonds.

All expenses incurred by the City in connection with the preparation of the loan agreement or other financing agreement and the issuance of the Bonds, including fees of the City's counsel, bond counsel, financial advisory fees, administrative fees, printing and other expenses, will be paid out of the proceeds from the sale of the Bonds or by the Company.

The Alpetco Company
November , 1979
Page 2

This commitment shall remain in effect for a period of 60 months from the date hereof. The Company shall not be obligated to pay a commitment fee in connection with this transaction, nor shall it be obligated to take down the full amount of the amount committed or any part thereof.

Sincerely,

CITY OF VALDLZ, ALASKA

By Bill Walker
Mayor



220 Battery Park Plaza
New York, New York 10004
Telephone (212) 742-5000

November 19, 1979

The Honorable Bill Walker
Mayor
City Hall
Valdez, Alaska 99686

Dear Mayor Walker:

E. F. Hutton & Company Inc. ("E. F. Hutton") is pleased to confirm its commitment to purchase from the City of Valdez, Alaska (the "Issuer"), on the terms and conditions set forth in this letter, certain issues of economic development bonds (the "Bonds") aggregating up to \$600,000,000, the proceeds of which are to be loaned or otherwise provided to The Alpetco Company (the "Company") in connection with the acquisition, construction and development of that portion of a petroleum refinery to be located in Valdez, Alaska, which may be financed with tax-exempt bonds.

E. F. Hutton will undertake to form an underwriting syndicate for the purpose of reoffering the Bonds to the general public or institutional investors. The price at which each issue of the Bonds will be purchased from you, the price at which they will be reoffered, the respective maturities and the other material terms of the Bonds will be fixed and agreed upon between E. F. Hutton and the Company at such time as the Bonds are available for re-offering. All material terms of the indenture of trust, the loan agreement or other financing agreement and any other security arrangements relating to the Bonds will be subject to the approval of the City.

Prior to the purchase of any issue of the Bonds, the Company in cooperation with the City must provide E. F. Hutton with an official statement for the reoffering of



The Honorable Bill Walker
November 19, 1979
Page Two

the Bonds, and all other necessary information and materials as may be necessary for use therein in order that the official statement will fairly state the material facts relating to the offer and sale of the Bonds and relating to the description of the Company, including financial statements and other matters as may be required.

The obligations of E. F. Hutton shall be subject to the due performance of the following conditions:

(1) Receipt of an unqualified and approving legal opinion of bond counsel;

(2) Receipt of a legal opinion in a form satisfactory to E. F. Hutton from counsel to the Company as to the Company's participation in the transactions relating to the issuance of the Bonds;

(3) Receipt of a legal opinion of counsel for the underwriters approving the underlying documents and offering materials and compliance with applicable rules and regulations of the Securities and Exchange Commission;

(4) Receipt of all documents as may be reasonably required by E. F. Hutton or its counsel to evidence that the obligations undertaken by the Company are legal, valid and binding obligations;

(5) Receipt from Standard & Poor's Corporation of an investment grade rating on the Bonds;

(6) Receipt of such other certificates and documents as are customarily delivered in connection with an offering of industrial development bonds in the State of Alaska; and

(7) Agreement by the Company to maturity schedules, interest rates and other terms which are commercially reasonable given all of the facts and circumstances prevailing at the time the Bonds are available for reoffering.

E. F. Hutton shall have the right to cancel its obligation to purchase the Bonds prior to the closing of any of such issues if (1) any event shall have occurred which



The Honorable Bill Walker
November 19, 1979
Page Three

would adversely affect the business or earnings of the Company or the feasibility of the Project; (2) any event shall have occurred which in the opinion of counsel to E. F. Hutton makes untrue or misleading in any material respect the statements in the official statement; (3) there shall have occurred any national calamity or any conflict involving the armed forces of the United States of America of such a magnitude as to markedly adversely affect the ability of the Underwriter to reoffer the Bonds; (4) there shall have been entered a stop order, ruling or regulation by the Securities and Exchange Commission or other Federal or state governmental agency making the sale of the Bonds or any similar class of securities a violation of law; or (5) the Congress of the United States or the Internal Revenue Service or the Treasury Department shall have proposed or enacted any legislation or proposed or adopted any regulation which would adversely affect the tax-exempt status of the interest on the Bonds.

It is understood that all expenses in connection with the proposed transactions, including fees and expenses of the Company's counsel, bond counsel, your counsel; the cost and expenses of preparing and printing official statements and all necessary documents; blue sky fees and expenses, including the fees of blue sky counsel; and the fees of the investment rating agency will be paid by the Company whether or not the proposed sales of the Bonds are completed.

Sincerely,

E. F. HUTTON & COMPANY INC.

A handwritten signature in dark ink, appearing to read 'W. James Lopp II'.

W. James Lopp II
Executive Vice President

Partners of The Alpetco Company - \$350,000,000.00

Charter Oil (Alaska), Inc., Alaska Petrochemical Company, and E. F. Hutton (Alaska) Inc. have given The Alpetco Company letters committing to provide \$350,000,000.00 in equity funds for payment of Total Project Costs, as follows:

Charter Oil (Alaska), Inc.	\$245,000,000.00
Alaska Petrochemical Company	81,900,000.00
E. F. Hutton (Alaska) Inc.	23,100,000.00
	<u>\$350,000,000.00</u>

In order to confirm the above companies' commitment to invest \$350,000,000.00 in equity funds, the shareholders of each company have given letters to The Alpetco Company committing to contribute such equity funds to The Alpetco Company.

The letters from Alpetco's partners and letters from the partners' shareholders follow.

North

<i>AKI</i>	<i>111 m</i>
<i>AP</i>	<i>26 m</i>
<i>Charter</i>	<i>509 m</i>
<i>EFH</i>	<i>163 m</i>

CHARTER OIL (ALASKA), INC.
208 Laura Street
Jacksonville, Florida 32201
904/358-4395

December 13, 1979

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

Dear Sirs:

The undersigned, Charter Oil (Alaska), Inc., is a 70.0% partner in The Alpetco Company ("Alpetco"). Alpetco, a joint venture partnership, was established as of October 1, 1979, by the undersigned, Alaska Petrochemical Company and E. F. Hutton (Alaska) Inc. (collectively, the "Partners") to receive an assignment of the rights and to assume the obligations of Alaska Petrochemical Company under the Agreement for the Sale and Purchase of State Royalty Oil dated February 22, 1978, and amended May 17, 1978 (the "Royalty Oil Contract"), between Alaska Petrochemical Company and the State of Alaska.

The Partners have determined that in order to proceed with the petrochemical and refining project in Alaska ("The Alpetco Project") contemplated by the Royalty Oil Contract, and to assist Alpetco's compliance with Article 10.2(3)(d) of the Royalty Oil Contract, it would be desirable for the Partners to commit to each other to contribute a substantial minimum amount of equity to Alpetco.

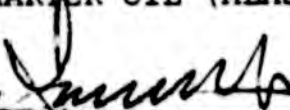
Accordingly, in consideration of similar commitments being made on the date hereof by the other Partners to contribute, with the undersigned, as equity up to \$350 million in the aggregate to Alpetco, the undersigned commits to make partnership contributions to Alpetco of up to \$245 million in the aggregate solely for use in connection with The Alpetco Project as its pro rata share of funds requested by Alpetco by thirty days' prior written notice to all its Partners, provided each of the other Partners makes its similar contribution pro rata in accordance with its partnership interest. [The commitment of the undersigned hereunder is subject to final approval by the undersigned of the definitive documents relative to the long-term loan of funds for The Alpetco Project 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 assisting Alpetco in satisfying the Commissioner of Natural Resources of the State of Alaska as to Alpetco's compliance with Article 10.2c(3)(d) of the Royalty Oil Contract.

Attached hereto are commitments by the sole shareholder of the undersigned in support of the above commitment.

Very truly yours,

CHARTER OIL (ALASKA), INC.

By  _____




The Charter Company
208 Laura Street • Post Office Box 2017
Jacksonville, Florida 32231
Telephone 904-358-4111 • Telex 56-239
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 made certain commitments today to Alpetco to contribute to Alpetco as equity up to \$245 million ("Charter Oil (Alaska), Inc.'s Equity Commitment") in furtherance of Alpetco's refinery and petrochemical project in Alaska ("The Alpetco Project").

In support of Charter Oil (Alaska), Inc.'s Equity Commitment, the undersigned commits to make investments in Charter Oil (Alaska), Inc., in the form of equity or loans, of up to \$245 million in the aggregate solely as required in respect of Charter Oil (Alaska), Inc.'s Equity Commitment, as and when requested by Charter Oil (Alaska), Inc. by twenty days' prior written notice and subject to final approval by Charter Oil (Alaska), Inc. of definitive documents relating to the long-term loan of funds for The Alpetco Project 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 Equity Commitment, and is not intended for the benefit of any person other than Charter Oil (Alaska), Inc. in respect of Charter Oil (Alaska), Inc.'s Equity Commitment.

Yours very truly,

THE CHARTER COMPANY

By 

ALASKA PETROCHEMICAL COMPANY

3700 BUFFALO SPEEDWAY

HOUSTON, TEXAS 77098

TELEPHONE 713 840-1243 TELEX 791461

December 13, 1979

The Alpetco Company
3700 Buffalo Speedway
Houston, Texas 77098

Dear Sirs:

The undersigned, Alaska Petrochemical Company, is a 23.4% partner in The Alpetco Company ("Alpetco"). Alpetco, a joint venture partnership, was established as of October 1, 1979, by the undersigned, Charter Oil (Alaska), Inc. and E. F. Hutton (Alaska) Inc. (collectively, the "Partners") to receive an assignment of the rights and to assume the obligations of Alaska Petrochemical Company under the Agreement for the Sale and Purchase of State Royalty Oil dated February 22, 1978, and amended May 17, 1978 (the "Royalty Oil Contract"), between Alaska Petrochemical Company and the State of Alaska.

The Partners have determined that in order to proceed with the petrochemical and refining project in Alaska ("The Alpetco Project") contemplated by the Royalty Oil Contract, and to assist Alpetco's compliance with Article 10.2(3)(d) of the Royalty Oil Contract, it would be desirable for the Partners to commit to each other to contribute a substantial minimum amount of equity to Alpetco.

Accordingly, in consideration of similar commitments being made on the date hereof by the other Partners to contribute, with the undersigned, as equity up to \$350 million in the aggregate to Alpetco, the undersigned commits to make partnership contributions to Alpetco of up to \$81.9 million in the aggregate solely for use in connection with The Alpetco Project as its pro rata share of funds requested by Alpetco by thirty days' prior written notice to all its Partners, provided each of the other Partners makes its similar contribution pro rata in accordance with its partnership interest. The commitment of the undersigned hereunder is subject to final approval by the undersigned of the definitive documents relative to the long-term loan of funds for The Alpetco Project 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 assisting Alpetco in satisfying the Commissioner of Natural Resources of the State of Alaska as to Alpetco's compliance with Article 10.2c(3)(d) of the Royalty Oil Contract.

Attached hereto are commitments by the principal shareholders of the undersigned in support of the above commitment.

Very truly yours,

ALASKA PETROCHEMICAL COMPANY

By Gordon A Cair

ALASKA INTERSTATE COMPANY

P. O. Box 6554

HOUSTON, TEXAS 77005

December 13, 1979

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

Dear Sirs:

The undersigned, Alaska Interstate Company, is a 75.45% shareholder of Alaska Petrochemical Company which is a 23.4% partner in The Alpetco Company ("Alpetco"). Alaska Petrochemical Company has made certain commitments today to Alpetco to contribute to Alpetco as equity up to \$81.9 million ("Alaska Petrochemical Company's Equity Commitment") in furtherance of Alpetco's refinery and petrochemical project in Alaska ("The Alpetco Project").

In support of Alaska Petrochemical Company's Equity Commitment, the undersigned commits to make investments in Alaska Petrochemical Company, in the form of equity or loans, of up to \$62,500,000 in the aggregate solely as required in respect of Alaska Petrochemical Company's Equity Commitment, as and when requested by Alaska Petrochemical Company by twenty days' prior written notice and subject to final approval by Alaska Petrochemical Company of definitive documents relating to the long-term loan of funds for The Alpetco Project 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 Alaska Petrochemical Company's Equity Commitment, and is not intended for the benefit of any person other than Alaska Petrochemical Company in respect of Alaska Petrochemical Company's Equity Commitment.

Yours very truly,

ALASKA INTERSTATE COMPANY

By D. Charles Henning



Seatrains Lines, Inc.

Howard M. Pack
Chairman of the Board

1 Chase Manhattan Plaza
New York, New York 10005

Phone: (212) 554-3400

Telex:

International: 232740 (RCA)

421225 (ITT)

Domestic: 710-551-2334 (TWX)

127-356 (WU)

Cables: SHIPTRAMP or OBTICORPO

December 13, 1979

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

Dear Sirs:

The undersigned, Seatrain Lines, Inc. is the 100% shareholder of Barbour Oil Company, which is a 22.12% shareholder of Alaska Petrochemical Company which is a 23.4% partner in the Alpetco Company ("Alpetco"). Alaska Petrochemical Company has made certain commitments today to Alpetco to contribute to Alpetco as equity up to \$81.9 million ("Alaska Petrochemical Company's Equity Commitment") in furtherance of Alpetco's refinery and petrochemical project in Alaska ("The Alpetco Project").

In support of Alaska Petrochemical Company's Equity Commitment, the undersigned commits to make investments in Alaska Petrochemical Company, in the form of equity or loans, of up to \$19,500,000 in the aggregate solely as required in respect of Alaska Petrochemical Company's Equity Commitment, as and when requested by Alaska Petrochemical Company by twenty days' prior written notice and subject to final approval by Alaska Petrochemical Company of definitive documents relating to the long-term loan of funds for the Alpetco Project 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 Alaska Petrochemical Company's Equity Commitment, and is not intended for the benefit of any person other than Alaska Petrochemical Company in respect of Alaska Petrochemical Company's Equity Commitment.

Yours very truly,

SEATRIN LINES, INC.

By Howard M. Pack

E. F. Hutton (Alaska) Inc.
One Battery Park Plaza
New York, NY 10004
212/742-5005

December 13, 1979

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

Dear Sirs:

The undersigned, E. F. Hutton (Alaska) Inc., is a 6.6% partner in The Alpetco Company ("Alpetco"). Alpetco, a joint venture partnership, was established as of October 1, 1979, by the undersigned, Alaska Petrochemical Company and Charter Oil (Alaska), Inc. (collectively, the "Partners") to receive an assignment of the rights and to assume the obligations of Alaska Petrochemical Company under the Agreement for the Sale and Purchase of State Royalty Oil dated February 22, 1978, and amended May 17, 1978 (the "Royalty Oil Contract"), between Alaska Petrochemical Company and the State of Alaska.

The Partners have determined that in order to proceed with the petrochemical and refining project in Alaska ("The Alpetco Project") contemplated by the Royalty Oil Contract, and to assist Alpetco's compliance with Article 10.2(3) (d) of the Royalty Oil Contract, it would be desirable for the Partners to commit to each other to contribute a substantial minimum amount of equity to Alpetco.

Accordingly, in consideration of similar commitments being made on the date hereof by the other Partners to contribute, with the undersigned, as equity up to \$350 million in the aggregate to Alpetco, the undersigned commits to make partnership contributions to Alpetco of up to \$23.1 million in the aggregate solely for use in connection with The Alpetco Project as its pro rata share of funds requested by Alpetco by thirty days' prior written notice



One Battery Park Plaza
New York, N.Y. 10004
Telephone (212) 742-5000

December 13, 1979

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

Dear Sirs:

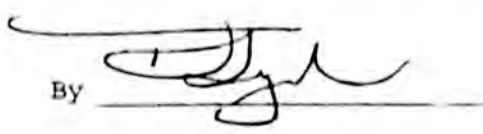
The undersigned, The E.F. Hutton Group Inc., is the 100% shareholder of E.F. Hutton (Alaska) Inc. which is a 6.6% partner in The Alpetco Company ("Alpetco"). E.F. Hutton (Alaska) Inc. has made certain commitments today to Alpetco to contribute to Alpetco as equity up to \$23.1 million ("E.F. Hutton (Alaska) Inc.'s Equity Commitment") in furtherance of Alpetco's refinery and petrochemical project in Alaska ("The Alpetco Project").

In support of E.F. Hutton (Alaska) Inc.'s Equity Commitment, the undersigned commits to make investments in E.F. Hutton (Alaska) Inc., in the form of equity or loans, of up to \$23.1 million in the aggregate solely as required in respect of E.F. Hutton (Alaska) Inc.'s Equity Commitment, as and when requested by E.F. Hutton (Alaska) Inc. by twenty days' prior written notice and subject to final approval by the undersigned of definitive documents relating to the long-term loan of funds for The Alpetco Project 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 E.F. Hutton (Alaska) Inc.'s Equity Commitment and is not intended for the benefit of any person other than E.F. Hutton (Alaska) Inc. in respect of E.F. Hutton (Alaska) Inc.'s Equity Commitment.

Yours very truly,

THE E.F. HUTTON GROUP INC.

By 

to all its Partners, provided each of the other Partners makes its similar contribution pro rata in accordance with its partnership interest. The commitment of the undersigned hereunder is subject to final approval by the undersigned of the definitive documents relative to the long-term loan of funds for The Alpetco Project 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 assisting Alpetco in satisfying the Commissioner of Natural Resources of the State of Alaska as to Alpetco's compliance with Article 10.2c(3)(d) of the Royalty Oil Contract.

Attached hereto are commitments by the sole shareholder of the undersigned in support of the above commitment.

Very truly yours,

E. F. HUTTON (ALASKA) INC.

By *W. J. Hutton, Jr.*

Article 10.2(3)(e)

"Obtain a commitment or commitments for interim financing for the construction of the petrochemical facility."

Chemical Bank (New York) and Manufacturers Hanover Trust Company have been named co-agent banks to provide a line of credit for payment of interim construction costs of non-tax exempt financed costs of the project. Alpetco's financial projections and funding schedule (attached Exhibit e-1) indicates that the maximum line of construction financing needed is \$ 92,500,000.00. The banks' commitment letters, totaling \$150,000,000.00, are attached.

In addition to the above \$150,000,000.00, up to \$600,000,000.00 in interim funds for construction costs for items qualifying for tax exempt financing will be provided by serialized take-down of the tax exempt bonds. A letter from Kutak, Rock & Huie, underwriter's counsel, explaining this procedure, is enclosed.

While we have provided for interim financing if needed, it is possible that the partners will determine to contribute the total equity required during the early months of construction, thus eliminating the need for interim construction financing. A funding schedule indicating this possibility is attached as Exhibit e-2.

We believe we have fully complied with this benchmark requirement.

much less than anticipated

CHEMICALBANK

Energy & Minerals Division
277 Park Avenue, New York, NY 10017, Tel (212) 922-6936

Everett M. Schenk
Vice President

December 11, 1979

The ALPETCO Company
3700 Buffalo Speedway
Suite 806
Houston, TX 77096

Dear Sirs:

During recent discussions with representatives of the owners of The ALPETCO Company ("ALPETCO"), ALPETCO requested that Chemical Bank and Manufacturers Hanover Trust Company ("the Banks") submit a letter or letters to ALPETCO outlining each Bank's commitment to lend up to \$75 million in interim construction funds to ALPETCO in connection with ALPETCO's proposed plans to build a petrochemical and oil refining complex in Valdez, Alaska.

With reference to these discussions, we are pleased to confirm that we will participate in the amount of \$75 million in such a \$150 million facility, subject to our satisfaction with the following items:

1. Our review of the economic projections and the underlying assumptions which demonstrate the viability of the project.
2. The availability of guarantees and undertakings from various parties covering completion of the project, construction of the project, and cost overruns which may occur during the life of the project.
3. The continuance in effect of the Alaska Royalty Crude Oil Contract; the continued fulfillment in accordance with their terms of all agreements and obligations of the parties contained therein; and assurance that the Alaska petroleum reserves available to ALPETCO under the Contract are adequate to support all project financing.

4. The final written form of the ALPETCO joint venture agreement among E. F. Hutton (Alaska) Inc., Alaska Petrochemical Company and Charter Oil (Alaska) Inc.
5. The availability to ALPETCO of sufficient equity to complete the project as presently contemplated, whether through the sale of royalty crude oil or otherwise.
6. Sufficient collateral and undertakings as may be necessary to assure repayment of the construction loans.
7. The availability from responsible lenders or permanent financing sufficient to provide a complete "take-out" for the interim bank construction financing.
8. The commitment of Manufacturers Hanover Trust Company to become a party to the bank credit facility pursuant to which it will make available an amount equal to the amount to be provided by this bank.

The foregoing financing is, of course, subject to our satisfaction with the above requirements and with any other matters that may become relevant from a banking point of view and, by December 18, 1980, our entering into with you a definitive credit agreement containing such terms (including a satisfactory interest rate) and such representations and warranties, conditions, covenants, and events of default and other provisions as may be relevant in the circumstances.

If we may be of further assistance to you in this matter, please do not hesitate to call me.

Sincerely,



Everett M. Schenk
Vice President



MANUFACTURERS HANOVER TRUST COMPANY

350 PARK AVENUE, NEW YORK, N. Y. 10022

December 10, 1979

The ALPETCO Company
3700 Buffalo Speedway
Suite 806
Houston, TX 77096

Dear Sirs:

During recent discussions with representatives of the owners of The ALPETCO Company ("ALPETCO"), ALPETCO requested that Chemical Bank and Manufacturers Hanover Trust Company ("the Banks") submit a letter or letters to ALPETCO outlining each Bank's commitment to lend up to \$75 million in interim construction funds to ALPETCO in connection with ALPETCO's proposed plans to build a petrochemical and oil refining complex in Valdez, Alaska.

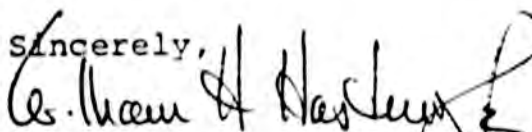
With reference to these discussions, we are pleased to confirm that we will participate in the amount of \$75 million in such a \$150 million facility, subject to our satisfaction with the following items:

1. Our review of the economic projections and the underlying assumptions which demonstrate the viability of the project.
2. The availability of guarantees and undertakings from various parties covering completion of the project, construction of the project, and cost overruns which may occur during the life of the project.
3. The continuance in effect of the Alaska Royalty Crude Oil Contract; the continued fulfillment in accordance with their terms of all agreements and obligations of the parties contained therein; and assurance that the Alaska petroleum reserves available to ALPETCO under the Contract are adequate to support all project financing.

4. The final written form of the ALPETCO joint venture agreement among E.F. Hutton (Alaska) Inc., Alaska Petrochemical Company and Charter Oil (Alaska) Inc.
5. The availability to ALPETCO of sufficient equity to complete the project as presently contemplated, whether through the sale of royalty crude oil or otherwise.
6. Sufficient collateral and undertakings as may be necessary to assure repayment of the construction loans.
7. The availability from responsible lenders of permanent financing sufficient to provide a complete "take-out" for the interim bank construction financing.
8. The commitment of Chemical Bank to become a party to the bank credit facility pursuant to which it will make available an amount equal to the amount to be provided by this bank.

The foregoing financing is, of course, subject to our satisfaction with the above requirements and with any other matters that may become relevant from a banking point of view and, by December 18, 1980, our entering into with you a definitive credit agreement containing such terms (including a satisfactory interest rate) and such representations and warranties, conditions, covenants and events of default and other provisions as may be relevant in the circumstances.

Sincerely,



William H. Hastings Jr.
Assistant Vice President

KUTAK ROCK & HUIE

THE OMAHA BUILDING

1630 FARNAM STREET

OMAHA, NEBRASKA 68102

(402) 346-6000

December 11, 1979

ROMAN L. HRUSKA
WILLIAM GRODINSKY
FRANK L. BURBRIDGE
GAIL E. BURBRIDGE
COUNSEL

ATLANTA

1200 STANDARD FEDERAL
SAVINGS BUILDING
ATLANTA, GEORGIA 30303
(404) 522-8700

DENVER

1330 COLORADO NATIONAL BUILDING
DENVER, COLORADO 80202
303-524-1330

MINNESOTA

4846 IDS TOWER
MINNEAPOLIS, MINNESOTA 55402
(612) 338-1400

WASHINGTON

1101 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036
(202) 628-2400

ROBERT J. KUTAK
HAROLD L. ROCK
WILLIAM G. CAMPBELL
ALLAN JAY BARFINKLE
THOMAS A. WOODWARD
SLEN A. BURBRIDGE
BILLY L. WEILL
JIM MUSELMAN
WILLIAM H. JOHNSON
RICHARD A. SPELLMAN
STEVEN S. HUFF
GREGORY DUBOIS ERWIN
THOMAS J. MCFUSHER
GEORGE H. KRAUSS
MAUREEN E. MCGRATH
HUGH W. MCHULTY, JR.
KENNETH J. STUART
DIRK W. BROOKS
ANGELO P. PARKER
J. MICHAEL GOTTSCHALK
KENNETH E. ILTZ
JAMES D. ARUNDEL
JOHN J. WAGNER
DONALD A. KRESS
DANIEL S. HOROWITZ
PAUL R. TUFT
RONALD T. PFEIFER
GREGORY W. SEARSON
JOHN E. HUBBARD
HARRY D. DIXON, JR.
JOE E. ARMSTRONG
WILLIAM E. HOLLAND
RICHARD D. CIMINO
GARETH G. MORRIS
HAYEN H. B. PELL
PAUL D. BUDD
JOEL T. BOEHM
TERRENCE J. FERGUSON
C. GREGORY H. EDEN
LARRY L. CARLILE
SARAH J. PENN

LAUREN M. RONALD
PATRICIA J. WINTER
LINDSEY MILLER LERMAN
JOYCE A. DIXON
DIANNE L. STODDARD
TIMOTHY J. KINCAID
JOHN C. MINAHAN, JR.
FRED W. GREGURAS
PAUL E. BELITZ
DENIS R. BURKE
SCOTT C. HOYT
DANIEL S. REYNOLDS
DAVID A. JACOBSON
P. THOMAS ROGGE
J. THOMAS MARTEN
D. CHARLES SHOEMAKER
KENNETH R. DODDS
WALTER L. GRIFFITHS
THOMAS B. HOLLEY
JO E. BASS
FRANK A. TAYLOR
RANDALL R. ELEY
CURTIS L. CHRISTENSEN
MICHAEL L. CURRY
LOREN E. DESSONVILLE
DAWN R. DUVEN
JANE ERDENSBERGER
FELICIA O. FLOWERS
LYNNE A. FRIEDEWALD
DENNIS L. HOLBAPPLE
FRANK W. SCHERERS
JULIA G. GINSBURG
CLIFTON R. JESSUP, JR.
DAVID A. GARDELS
CHRISTIAN I. KALABI
JEDD S. PALMER
SHEILA A. PHILLIPS
MOLLY M. ROMERO
PATRICIA K. SCHUETT
STEVEN W. SELINE
JUDY A. WEILL
DENNIS B. WILSON

Mr. Gordon A. Cain
President
The Alpetco Company
c/o Alaska Petrochemical
Company
Suite 806
3700 Buffalo Speedway
Houston, Texas 77098

Re: The Proposed Tax-Exempt Financing
for the Alpetco Refinery

Dear Mr. Cain:

We have been asked to comment on the use of tax-exempt bond proceeds to finance a portion of the construction costs of Alpetco's proposed refinery and related facilities at Valdez, Alaska.

In a tax-exempt financing such as the one under consideration, bond proceeds are available to pay construction costs, which eliminates the need for interim bank financing during the construction period. The indenture pursuant to which the bonds are issued will permit the periodic takedown of bond proceeds to pay construction costs as they are incurred.

Mr. Gordon A. Cain
December 11, 1979
Page Two

In the current economic climate, the use of bond proceeds to pay construction costs as they are incurred is preferable to an interim financing of such costs with a bank loan followed by a long-term tax-exempt bond financing. The prime rate for conventional corporate borrowings is now 15 1/4% while the interest rate on long-term tax-exempt bond issues similar to the one proposed by Alpetco is in the range of 8 1/2%.

Moreover, federal tax law permits unexpended moneys in the construction fund established with tax-exempt bond proceeds to be invested in taxable obligations at whatever yield is obtainable in the market.

Federal tax law does impose limitations on the earnings which may be legally derived from investment of tax-exempt bond proceeds. Those limitations are, however, subject to a number of exceptions. One exception relates to temporary periods during which bond proceeds are held pending their use in a construction project. If certain tests relating to the availability of a temporary period are met, bond proceeds can be invested during the period without limitation as to permissible earnings.

The maximum temporary period is generally three years, but may be as long as five years if an independent engineer certifies that a period longer than three years is necessary for construction and explains the reasons for it.

The requirements for the availability of a temporary period are that there be a binding obligation incurred within six months after the issuance of the bonds to expend at least \$100,000 on the project, that at least 85% of the proceeds of the bond issue be reasonably expected to be expended during the temporary period, and that the project proceed with due diligence to completion.

Not only is there no limitation on the amount by which the yield on a temporary period investment may exceed the yield on the bonds, there is also no limitation on the duration of an investment maturing during the temporary period

Mr. Gordon A. Cain

December 11, 1979

Page Three

other than the availability of funds to pay for construction as it progresses under the due diligence requirement. Assume, for example, a \$600 million bond issue for a four year construction period, with \$100 million to be expended in the first year, \$125 million in the second year, \$150 million in the third year and \$225 million in the fourth year. If the investment of the \$225 million to be expended in the fourth year will produce a higher yield through investment in securities with a term of three years rather than through investment in shorter term securities, such an investment may be made.

The use of bond proceeds to pay construction costs, which avoids the need for interim construction financing, is a conventional technique in tax-exempt financings. From the foregoing discussion, it is apparent that the present yield curve and the permissibility of unrestricted investment earnings during the construction temporary period make such use desirable for the Alpetco project.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Robert J. Kutak', written in a cursive style.

Robert J. Kutak

ljm

Exhibit 1

THE ALPETCO COMPANY
Pro Forma Funds Flow Statement
(\$Millions)

December 12, 1979

Sources	1977 to 3rd Qtr, 1979	1979 4th Qtr.	1980				1981				1982				Total
			1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	
Equity:															
Charter Oil (Alaska), Inc.	-0-	5.0	6.0	60.2	13.5	-0-	12.1	13.4	14.6	13.0	14.5	13.2	6.4	73.4	244.2
Alaska Petrochemical Company	7.0	-0-	-0-	17.0	4.5	-0-	4.0	4.5	4.9	4.4	4.8	14.4	2.2	24.5	81.5
E.W. Hutton (Alaska), Inc.	-0-	-0-	-0-	4.8	1.3	-0-	1.2	1.2	1.4	1.2	1.4	1.2	.6	6.9	23.0
Total Equity	7.0	5.0	6.0	82.0	19.3	-0-	17.3	19.1	20.9	18.6	20.7	18.8	9.2	104.8	348.7
Debt:															
Supplier Credits-Takedown ⁽¹⁾	-0-	-0-	-0-	-0-	-0-	-0-	43.5	78.1	86.1	87.6	88.8	92.5	88.6	170.5	735.7
Tax Exempt Bonds-Use ⁽²⁾	-0-	-0-	-0-	-0-	-0-	-0-	68.2	75.4	76.9	78.6	92.0	89.0	92.8	-0-	572.9
Interim Financing-Takedown ⁽³⁾	-0-	-0-	-0-	-0-	-0-	43.5	78.1	86.1	87.6	88.8	92.5	88.6	84.0	-0-	--
Interim Financing-Payback	-0-	-0-	-0-	-0-	-0-	-0-	(43.5)	(78.1)	(86.1)	(87.6)	(88.8)	(92.5)	(88.6)	(84.0)	--
Total Debt	-0-	-0-	-0-	-0-	-0-	43.5	146.3	161.5	164.5	167.4	184.6	177.5	176.8	86.5	1308.6
Total Sources	7.0	5.0	6.0	82.0	19.3	43.5	163.6	180.6	185.4	186.0	205.3	196.3	186.0	191.3	1657.3
Uses															
Development Cost	7.0	5.0	6.0	7.0	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	25.0
Construction Cost	-0-	-0-	-0-	75.0	18.3	39.1	154.4	168.2	171.1	166.1	177.8	163.8	149.1	149.1	1432.0
Interest Expense	-0-	-0-	-0-	-0-	-0-	2.6	3.5	6.0	7.5	12.1	13.5	18.0	21.9	26.3	111.4
Taxes & Insurance	-0-	-0-	-0-	-0-	1.0	1.0	2.0	2.7	3.1	4.0	4.5	5.0	5.5	6.5	35.4
Training & Misc.	-0-	-0-	-0-	-0-	-0-	.8	3.7	3.7	3.7	3.8	9.5	9.5	9.5	9.4	53.6
Total Uses	7.0	5.0	6.0	82.0	19.3	43.5	163.6	180.6	185.4	186.0	205.3	196.3	186.0	191.3	1657.3
Cumulative Totals	7.0	12.0	18.0	100.0	119.3	162.3	326.4	507.0	692.4	878.4	1083.7	1280.0	1466.0	1657.3	

(1) Takedown of supplier credits occurs on the first day of each quarter according to the amounts expended during the preceding quarter.

(2) Tax-exempt bonds are syndicated prior to December 18, 1980 and sold and drawn down in three equal amounts of \$191.0 million each beginning January 1, 1981.

(3) Interim construction financing is used to bridge the takedown of supplier credits.

Exhibit 2

December 12, 1979

THE ALPETCO COMPANY
Pro Forma Funds Flow Statement
(\$Millions)

Sources	1977 to 3rd	1979	1980				1981				1982				Total
	Qtr, 1979	4th Qtr.	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	
Equity:															
Charter Oil (Alaska), Inc.	-0-	5.0	6.0	60.2	13.5	30.5	47.7	30.3	27.0	25.2	-0-	-0-	-0-	-0-	244.2
Alaska Petrochemical Company	7.0	-0-	-0-	17.0	4.5	10.2	15.9	10.1	9.0	8.4	-0-	-0-	-0-	-0-	81.5
E. F. Hutton (Alaska), Inc.	-0-	-0-	-0-	4.8	1.3	2.8	4.5	2.9	2.6	2.4	-0-	-0-	-0-	-0-	23.0
Total Equity	7.0	5.0	6.0	82.0	19.3	43.5	68.1	43.3	38.6	36.0	-0-	-0-	-0-	-0-	348.7
Debt:															
Supplier Credit-Takedown (1)	-0-	-0-	-0-	-0-	-0-	-0-	43.5	78.1	86.1	87.6	88.8	92.5	88.6	170.5	735.7
Tax Exempt Bonds-Use (2)	-0-	-0-	-0-	-0-	-0-	-0-	68.2	75.4	76.9	78.6	92.0	89.0	92.8	-0-	572.9
Interim Financing-Takedown (3)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Interim Financing-Payback	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Debt	-0-	-0-	-0-	-0-	-0-	-0-	111.7	153.5	163.0	166.2	180.8	181.5	181.4	170.5	1308.6
Total Sources	7.0	5.0	6.0	82.0	19.3	43.5	179.8	196.8	201.6	202.2	180.1	181.5	181.4	170.5	1657.3
Uses															
Development Cost	7.0	5.0	6.0	7.0	-0-	41.7	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	25.0
Construction Cost	-0-	-0-	-0-	75.0	18.3	-0-	154.4	168.2	171.1	166.1	177.8	163.8	149.1	149.1	1432.0
Interest Expense	-0-	-0-	-0-	-0-	-0-	-0-	3.5	6.0	7.5	12.1	13.5	18.0	21.9	26.3	111.4
Taxes & Insurance	-0-	-0-	-0-	-0-	1.0	1.0	2.0	2.7	3.1	4.0	4.5	5.0	5.5	6.5	35.4
Training & Misc.	-0-	-0-	-0-	-0-	-0-	.8	1.7	3.7	3.7	3.8	9.5	9.5	9.5	9.4	53.6
Investment Account	-0-	-0-	-0-	-0-	-0-	-0-	16.2	16.2	16.2	16.2	(24.5)	(14.8)	(4.6)	(20.9)	-0-
Total Uses	7.0	5.0	6.0	82.0	19.3	43.5	179.8	196.8	201.6	202.2	180.8	181.5	181.4	170.5	1657.3
Cumulative Totals	7.0	12.0	18.0	100.0	119.3	162.3	342.1	538.9	740.5	942.7	1123.5	1305.0	1486.4	1657.3	

(1) Takedown of supplier credits occurs on the first day of each quarter according to the amounts expended during the preceding quarter.

(2) Tax-exempt bonds are syndicated prior to December 18, 1980 and sold and drawn down in three equal amounts of \$191.0 million each beginning January 1, 1980.

(3) Interim construction financing is provided by early equity contributions as needed.

Article 10.2(3)(f)

"Complete and file an Environmental Impact Assessment on the petrochemical facility."

As stated in Commissioner LeResche's letter to Gordon Cain dated September 27, 1979 (enclosed herein under tab 10.2(3)(g):

"Based upon the Notice of Intent, we conclude that Alpetco has complied with Section 10.2(3)(f) of the 'Agreement for the Sale and Purchase of State Royalty Oil' approved by Legislative Resolve No. 42 (CONTRACT)."

We submitted a letter to the Commissioner and Mr. Tom Cook, Director of Division of Minerals and Energy Management on November 19, 1979 stating that we believed the Commissioner's September 27 letter verified compliance with this benchmark requirement.

Although not required by any benchmarks, we are pleased to note that the Alpetco Environment Impact Statement has been completed and a copy was submitted to the Commissioner on December 5, 1979 and further that notice of the EIS was published in the Federal Register on December 7, 1979.

Article 10.2(3)(g)

"Complete and file all material state, local and Federal permit applications."

As stated in Commissioner LeResche's letter to Gordon Cain dated September 27, 1979 (enclosed under this tab):

"Further we find that if Alpetco files all of the applications for permits as indicated in Attachment #1 by December 18, 1979, Alpetco will have complied with Section 10.2(3)(g) of the CONTRACT."

We submitted a letter to the Commissioner and Mr. Tom Cook, Director of Division of Minerals and Energy Management on November 19, 1979 which contained copies of all the permits filed by Alpetco pursuant to the list of permits included in Attachment #1 to the Commissioner's September 27, 1979 letter. In addition, we submitted the name of a contact at each governmental agency which could verify that the permits have been timely filed.

Having filed all permits as indicated by the Commissioner, we believe we have complied with this benchmark requirement.

ALASKA PETROCHEMICAL COMPANY

601 WEST 5TH AVENUE

ANCHORAGE, ALASKA 99501

TELEPHONE 907 272-1517 TELEX 090-25157

November 19, 1979

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

Mr. Tom Cook, Director
Division of Minerals and Energy Management
Department of Natural Resources
State of Alaska
703 W. Northern Lights Blvd.
Anchorage, Alaska 99503

Gentlemen:

This letter is submitted in response to Tom Cook's letter to me of October 21, 1979 and pursuant to Section 10.2 (3) (f) and (g) 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).

Section 10.2 (3)(f)

Enclosed (#1) is a copy of Commissioner LeResche's letter of September 27, 1979 to Gordon Cain concerning Section 10.2 (3)(f) of the Agreement. As stated in the September 27 letter, Alpetco's previous submittals and a review by the Commissioner of the Department of Environmental Conservation, an attorney designated by the Attorney General, and the permit coordinator have established that Alpetco has complied with Section 10.2 (3)(f) of The Agreement.

In addition, the United States Environmental Protection Agency's (EPA) "Notice of Availability" for a Draft Environmental Impact Statement will be announced in the Federal Register on Friday, December 7, 1979.

Section 10.2 (3)(g)

Attached to Commissioner LeResche's letter of September 27, 1979 to Gordon Cain was a list of all material state, federal, and local permit applications required to be filed by December 18,

1979 under Section 10.2 (3)(g). Enclosed (#2) with this letter are the cover or transmittal letters for each of the required permit applications or the appropriate state or federal agency's waiver or determination of inapplicability.

Verification of the filing for each of the applications required by Commissioner LeResche may be obtained from the appropriate agency. For your convenience, a list providing the name, mailing address and telephone number of a contact person for each agency is enclosed (#3).

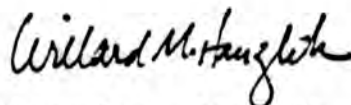
A separate transmittal is being made this date to Mr. Ed Park of the Division of Minerals and Energy Management. This transmittal includes a copy of this letter with enclosures and copies of all the permit applications required under Section 10.2 (3)(g). Copies of each of these permit application have been previously provided to Commissioner LeResche's office in Juneau.

If you have any further questions regarding Alpetco's performance under Section 10.2 (3)(f) and (g) of the Agreement, please direct them to:

Ronald R. Dagon, Manager
Environmental Programs and Permitting
ALASKA PETROCHEMICAL COMPANY
601 West 5th, Suite 320
Anchorage, Alaska 99501
(907) 272-1517

Sincerely yours,

ALASKA PETROCHEMICAL COMPANY



Willard M. Hanzlik
Vice-President

Enclosures: 3

cc: Mr. Ed Park (DMEM)
Ronald R. Dagon (Alpetco-Anchorage)

ENCLOSURE #1

Commissioner Robert E. LeResche letter to
Gordon A. Cain dated September 27, 1979
with Attachment #1

ATTACHMENT #1

PERMIT APPLICATIONS REQUIRED BY SECTION 10.2(3)(g) OF THE
AGREEMENT FOR THE SALE AND PURCHASE OF STATE
ROYALTY OIL APPROVED BY LEGISLATIVE RESOLVE NO. 42

STATE PERMITS

Department of Environmental Conservation Air Quality Control
Permit to Operate.

Department of Environmental Conservation Discharge Into
Navigable Waters Certificate of Reasonable Assurance.

Department of Environmental Conservation Solid Waste Disposal Permit.

Department of Environmental Conservation Waste Water Disposal Permit
[required only if this permit is not waived pursuant to
A.S. 46.03.110(e)].

Department of Natural Resources Pipeline Right-of-Way Permit.

Department of Natural Resources Tidelands Permit [required only if
Alpetco will secure tidelands for the construction dock from
the State].

Department of Natural Resources Water Use Permit.

FEDERAL PERMITS

U.S. Army Corps of Engineers' Structures Permit.

U.S. Department of Transportation Coast Guard Bridge Permit
[required only if the Coast Guard determines that waters to be
bridged are navigable; Alpetco is required to obtain the
Coast Guard's determination].

U.S. Environmental Protection Agency National Pollutant Discharge
Elimination System Permit.

STATE OF ALASKA

OCT 15 1979

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OCT 22 1979

OFFICE OF THE COMMISSIONER

POUCH M - JUNEAU 95811

September 27, 1979

Mr. Gordon A. Cain
President
Alaska Petrochemical Company
3700 Buffalo Speedway
Suite 806
Houston, Texas 77098

Dear Mr. Cain:

On December 7, 1978, Region X of the U.S. Environmental Protection Agency (EPA) issued a Notice of Intent concerning the petrochemical facility to be constructed near Valdez, Alaska by Alaska Petrochemical Company (ALPETCO). The Notice of Intent sets forth EPA's conclusions based upon an initial assessment of the project. EPA has concluded that the proposed facility is a new source and that the issuance of a NPDES permit for the facility would be a major federal action requiring the preparation of an Environmental Impact Statement (EIS). ALPETCO has entered a Memorandum of Understanding with EPA which provides for the preparation of the EIS. It is my understanding that ALPETCO is currently intending to file for the federal, state, and local permits indicated in Attachment #1 to this letter by December 18, 1979.

The Notice of Intent and Attachment #1 have been reviewed by the Commissioner of the Department of Environmental Conservation, an attorney designated by the Attorney General, and the permit coordinator. Based upon the Notice of Intent, we conclude that ALPETCO has complied with Section 10.2(3)(f) of the "Agreement for the Sale and Purchase of State Royalty Oil" approved by Legislative Resolve No. 42 (CONTRACT).

Mr. Gordon A. Cain

-2-

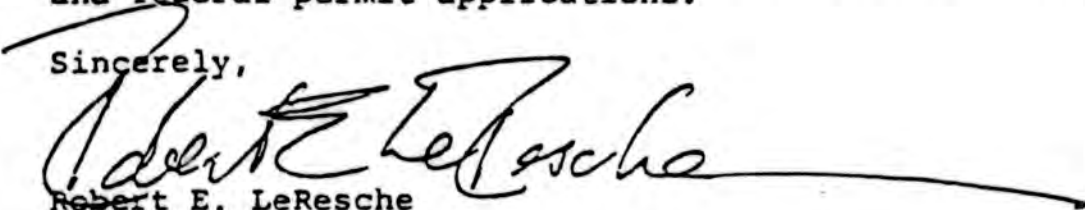
September 27, 1979

Further, we find that if ALPETCO files all of the applications for permits as indicated in Attachment #1 by December 18, 1979, ALPETCO will have complied with Section 10.2(3)(g) of the CONTRACT. For convenient reference the pertinent sections of the CONTRACT are quoted below:

(f) Complete and file an Environmental Impact Assessment on the Petrochemical Facility.

(g) Complete and file all material state, local and federal permit applications.

Sincerely,



Robert E. LeResche
Commissioner

Attachment

List No. 1 - Federal Permits (Continued)

U.S. Environmental Protection Agency Permit for Treatment, Storage or Disposal of Hazardous Wastes (not required until such time as an application may be made pursuant to regulations promulgated by EPA pursuant to 42 U.S.C., §6925 and which are effective pursuant to 42 U.S.C., §6930(b)).

U.S. Environmental Protection Agency Prevention of Significant Deterioration Permit.

LOCAL PERMITS

Ground Lease from City of Valdez.

Tidelands Lease from the City [required only if Alpetco will secure tidelands for the construction dock from the City].

Enclosure #2

Cover or transmittal letters for each
required permit application or the
waiver or determination of inapplicability.

PERMIT APPLICATIONS REQUIRED BY SECTION 10.2(3)(g) OF THE
AGREEMENT FOR THE SALE AND PURCHASE OF STATE
ROYALTY OIL APPROVED BY LEGISLATIVE RESOLVE NO. 42

STATE PERMITS

Date permit
filed and/or
waiver or
determination
received

Department of Environmental Conservation Air Quality Control
Permit to Operate.

10/30/79

Department of Environmental Conservation Discharge Into
Navigable Waters Certificate of Reasonable Assurance.

10/30/79

Department of Environmental Conservation Solid Waste Disposal Permit.

10/16/79

Department of Environmental Conservation Waste Water Disposal Permit
[required only if this permit is not waived pursuant to
A.S. 46.03.110(e)].

11/1/79

Department of Natural Resources Pipeline Right-of-Way Permit.

9/26/79

Department of Natural Resources Tidelands Permit [required only if
Alpetco will secure tidelands for the construction dock from
the State].

NA

Department of Natural Resources Water Use Permit.

9/26/79

FEDERAL PERMITS

U.S. Army Corps of Engineers' Structures Permit.

9/20/79 and
9/21/79

U.S. Department of Transportation Coast Guard Bridge Permit
[required only if the Coast Guard determines that waters to be
bridged are navigable; Alpetco is required to obtain the
Coast Guard's determination].

10/31/79

U.S. Environmental Protection Agency National Pollutant Discharge
Elimination System Permit.

9/19/79
(update)

List No. 1 - Federal Permits (Continued)

U.S. Environmental Protection Agency Permit for Treatment, Storage or Disposal of Hazardous Wastes [not required until such time as an application may be made pursuant to regulations promulgated by EPA pursuant to 42 U.S.C., §6925 and which are effective pursuant to 42 U.S.C., §6930(b)].

11/1/79

U.S. Environmental Protection Agency Prevention of Significant Deterioration Permit.

10/8/79

LOCAL PERMITS

Ground Lease from City of Valdez.

10/11/79 and
10/30/79

Tidelands Lease from the City [required only if Alpetco will secure tidelands for the construction dock from the City].

10/11/79

Article 10.2(3)(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)."

In support of compliance with this benchmark, attached is a letter from Gordon Cain describing in general the work completed for plant design and optimization and reports discussing in more detail Plant Design and Optimization Studies. We are also submitting separately today eleven (11) bound volumes of engineering design, optimization studies and reports prepared for Alpetco by its engineers and process licensors and consultants. An index of these volumes follows Mr. Cain's letter. Two of the volumes, "Exxon Technology" and "Sulfur Recovery Facilities" are subject to secrecy agreements between Alpetco and the respective engineering companies and therefore are submitted with a request for confidential treatment.

This work has been underway for over eighteen months and represents design and optimization necessary to obtain a definitive project cost estimate.

Five of the volumes referred to above were prepared by The Lummus Company, former Managing Contractor for Alaska Petrochemical Company. In November, 1979, the partners of The Alpetco Company named C. F. Braun Company as Managing Engineers and Contractors for the petrochemical facility. C. F. Braun will assume the responsibilities previously assigned to Lummus.

We understand that The Pace Company, Houston, Texas has been retained by the Department of Natural Resources to review Alpetco's plant design and optimization and that the State's consultants will submit a report to the Commissioner by December 14, 1979 regarding Alpetco's compliance with this benchmark.

We believe that Alpetco is in full compliance with this benchmark requirement.

ALASKA PETROCHEMICAL COMPANY

3700 BUFFALO SPEEDWAY
HOUSTON, TEXAS 77098
TELEPHONE 713 840-1243 TELEX 791461

December 3, 1979

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

Dear Commissioner LeResche:

Following is a summary of information which has been prepared as required by Article 10.2(3)(h) 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. A brief memorandum covering the work which has been done on plant design and process optimization is attached. More detailed information is available in each of these areas and can be made available for your review at your request. We are submitting to you today under separate cover copies of detailed engineering studies prepared for us by UOP Process Division, C-E Lummus Company, R. M. Parsons Company, Heat Research Corporation and Exxon Research and Engineering Company. An index of these materials is attached to this letter.

1. Plant Design

Preliminary studies of required facilities were prepared by Chem Systems, Inc. and Brown & Root. After approval of The Agreement on June 18, 1978, Chem Systems began more definitive studies with the assistance of Brown & Root personnel. Late in 1978, UOP Process Division was retained to carry out additional plant design studies based on their basic technology supplemented by special technology from Exxon Research and Engineering Co., R. M. Parsons Company, and Heat Research Corp. (a subsidiary of M. W. Kellogg, Inc.) These studies resulted in a processing plan to produce fuel products such as unleaded gasoline and jet fuel and chemical products such as benzene, toluene, and xylene. Using projected product demands and prices, the optimum plant design for the first phase of construction would produce fuel products, petrochemicals and petrochemical feedstocks that could be used in subsequent construction phases.

The products to be produced in the first phase are outlined in the report which has been submitted covering Article 10.2(3)(b) on product requirements, production ratios and quantities.

2. Optimization Studies

After completion of the preliminary plant design, studies were undertaken to further optimize the design. These studies were carried out by UOP and Alpetco personnel, using marketing data developed specifically for the West Coast and Pacific basin market area. Various computer studies were carried out to determine the economics of each unit which had been included in the plant design and the economics of various production levels of products. After extensive analysis, it was concluded that the original plant design should be retained with only minor revisions.

The optimized plant design includes four major units to produce such fuels as unleaded gasoline and jet fuel and petrochemicals such as benzene, toluene and xylene. In addition, olefins such as propylene and ethylene and such petrochemical feedstocks as paraffinic naphtha are available which could be converted into additional petrochemicals in subsequent phases of plant construction.

In addition to the plant design and optimization work which has been outlined above, additional process engineering has been carried forward. This work has covered the onsite and off-site facilities and has been done by the following organizations:

Exxon Research & Engineering Co.	-	Flexicoking
R. M. Parsons Company	-	Sulfur Recovery
Heat Research Corporation	-	Hydrogen Plant
UOP Process Division	-	All other plants including catalytic reforming, catalytic cracking and mild hydrocracking
C-E Lummus Company	-	All offsite facilities such as tankage, waste treatment, power plant, etc.
Santa Fe Engineering Co.	-	Product Dock

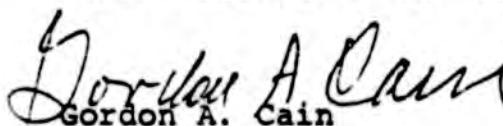
December 3, 1979

This engineering work has recently been completed and will serve as the basis for a project cost estimate.

We believe that the work which has been summarized above satisfies Article 10.2(3)(h) of The Agreement. We will be glad to discuss any aspect of this work if you so desire.

Very truly yours,

ALASKA PETROCHEMICAL COMPANY


Gordon A. Cain
President

GAC:br

w/attachment

List of Detailed Engineering Studies

INDEX

1. Alaska Petrochemical Company, Valdez Refinery and Petrochemical Project, UOP Process Division
 - Volume 1 - Process Selection
 - Volume 2 - Process Optimization
2. Engineering for Cost Estimating, Alaska Petrochemical Refinery at Valdez, Alaska; UOP Process Division.
3. The Alpetco Company Oil Refining and Petrochemical Facility at Valdez, Alaska; Project Definition, C-E Lummus Company
 - Section I
 - Volumes 1 and 2 - Project Definition, General
 - Section II
 - Volume 1 - Project Definition, Onsite (ISBL) Facilities
 - Section III
 - Volumes 1 and 2 - Project Definition, Offsite (OSBL) Facilities
4. Sulfur Recovery Facilities, Proposal; The Ralph M. Parsons Company.
5. Process Specification - 40 MMSCF/D Hydrogen Plant; Heat Research Corporation.
6. Exxon Technology (Flexicoking Unit); Exxon Research and Engineering Company.

THE ALPETCO COMPANY
Refinery & Petrochemical Plant
Valdez, Alaska

PLANT DESIGN

Preliminary Studies:

Some of the preliminary studies for definition of the plant facilities for the project were carried out by Chem Systems, Inc. and Brown & Root. These studies visualized a major refining facility producing fuels with extensive petrochemical plants for processing available petrochemical raw materials into finished petrochemicals. These studies were developed to the point where a proposal could be prepared for submission to the State of Alaska. Preliminary cost estimates and preliminary economic analyses were made. These indicated that a very major facility would be required to provide refining capability and production facilities for large quantities of petrochemicals to be produced from the ethylene and benzene which were available raw materials.

More Definitive Planning Studies:

After the approval of the Royalty Oil Contract in June, 1978, additional studies were undertaken by Chem Systems and Brown & Root. For these studies the Chem Systems personnel carried out extensive computer simulations using data on individual process units which they obtained from process licensors. Brown & Root personnel developed cost estimates for each of these processing studies so that economic analyses

could be completed. Many of these studies were devoted to the definition of the optimum combination of refining capacity and petrochemical production capacity.

The general decline in the petrochemical market during 1978 and early 1979 and the significant upswing in the fuel products marketing picture prompted concentration on the facilities to produce fuel products and some petrochemicals with the production of additional petrochemicals deferred to a later phase. Because of their strong market position, primary petrochemical emphasis was placed on the production of benzene, toluene and xylene which are important building blocks for further petrochemical operations.

Late in 1978 the studies were carried into a second phase when the Process Division of UOP was retained to carry forward more extensive computer studies using their technology and technology which had been developed by other companies. Other technology selected for further study included the Flexicoking process by Exxon Research & Engineering for the conversion of the heavy fraction of the crude. The combination of this process technology with the capability to produce hydrogen and recover sulfur resulted in a complete plant which can produce a large quantity of high quality fuel products and substantial amounts of aromatic chemicals. Various alternative process combinations were studied, all directed toward the production of a product slate with the highest possible economic return which could be built in the severe Alaskan environment.

This processing scheme consisted of the basic refining processes provided by UOP including catalytic cracking, catalytic reforming and very mild hydrocracking. In addition, the Flexicoking technology from Exxon Research & Engineering was included in order to deal with the heavy fraction from crude. The combination of these produced an attractive return and was presented in the product slate and process flow plan descriptions which were prepared for presentation to possible participants in the project.

The process plan which was ultimately developed included the following key processing steps designed primarily to provide the most economical plant configuration.

Catalytic Reforming:

This process produces benzene, toluene and xylene, which can be extracted for sale as petrochemicals. It also produces high octane material for the production of gasoline. After the extraction of the aromatics, the remaining material is a very high quality paraffinic naphtha which can be used as a steam cracking feedstock to produce ethylene.

Mild Hydrocracking:

This process converts gas oil into high quality jet fuel. In the process, a large quantity of isobutane is produced which is required for olefin processing.

Catalytic Cracking:

This process converts gas oil into gasoline components with a large production of olefins. At the present time these olefins are to be converted into high octane blend stocks for gasoline, but could ultimately be recovered for the production of additional petrochemicals.

Flexicoking:

This process breaks up the heavy fraction of crude, normally sold as heavy fuel oil, and converts it into light products which can be fed to the other processing steps to produce additional fuel products and petrochemicals. By the use of this technology, a low BTU gas stream is produced which can be used to provide a substantial amount of the energy required for plant operation. The combination of this process

with the other conversion processes makes it possible to produce a large volume of high quality fuel products and petrochemicals from North Slope crude.

Offsite Design:

After the designs for the onsite part of the plant had been put together, the C-E Lummus Company prepared preliminary designs for the offsite facilities. These consist of tanks, docks, pipelines, blending facilities, power facilities, utility systems, and other support facilities required to provide an operable plant. During the design of these facilities, a plant layout was developed showing the location of each piece of equipment.

THE ALPETCO COMPANY
Refinery & Petrochemical Plant
Valdez, Alaska

OPTIMIZATION STUDIES

Upon completion of the work to preliminarily define the process plan, a major study was undertaken by the Process Division of UOP to optimize the design in preparation for more definitive process design. In order to carry out these studies the marketing situation was reassessed along with the pricing basis for products in 1984 and thereafter. In addition to this, the technology which had been considered for processing the heavy fraction of the crude was also reassessed. A detailed program was then developed for a series of computer runs to define the optimum process plan for the plant at Valdez.

The various computer runs, which have been summarized by UOP indicate that the original process configuration was very close to the optimum. Various size units have been considered in the main processing sequence in order to assure that the optimum design is carried forward into the next phase of the project. The specific areas which have been considered and the general conclusions which have been reached regarding them are as follows:

a. Mild Hydrocracking

The mild hydrocracking operation is a desirable process for upgrading light gas oil into jet fuel. Because of the large demands of the jet fuel market and the economic attractiveness of this fuel, a large hydrocracking unit is being included in the process

plan. The size of the unit has been determined by the volume of light gas oil which is available and the pressure level of the unit has been limited by the severity required to produce high quality jet fuel. Any further modifications to include heavier feed result in a larger unit, operating at a higher pressure level and requiring additional hydrogen production. After consideration of the various operating factors involved, it has been concluded that the low pressure unit feeding light gas oil should be included in the process design in the first phase of plant construction.

Additional aromatics production could be obtained by construction of a high pressure hydrocracking unit to produce naphtha from heavy gas oil as a second phase of plant construction.

b. Catalytic Cracking

The catalytic cracking unit has been revised to remove any recycle material from the feed. For satisfactory cracking of this recycle material, which is highly aromatic, a major investment would have to be made in hydrotreating and hydrogen production facilities to improve the quality of this stream. After a thorough economic evaluation it has been concluded that the catalytic cracking unit should be designed for once through conversion and that no treating of the cycle stock should be included in the design at this time. This is the only significant change from the original process plan.

c. Flexicoking

After a thorough evaluation of all bottoms processing schemes the Flexicoking technology provide the best combination of high liquid yields and minimum coke disposal. Other processing techniques make it necessary to produce a low value fuel oil. Further

steps have been taken to improve the design of the sulfur handling facilities for cleaning up the low BTU gas. It has been concluded that these facilities are sound and can be satisfactorily included in the design.

d. Catalytic Reforming

The catalytic reformer, which is a continuous reforming process of the latest design from UOP, will be increased in size so that in the event large quantities of virgin naphtha are available for production of gasoline, adequate reforming capacity will also be available. This naphtha can be produced by high severity hydrocracking of light gas oil.

Marginal Processing Steps:

In addition to an overall optimization of the plant, studies have been conducted on each of the peripheral processing plants in order to determine whether or not they should be included in the processing scheme. These peripheral plants are the Sulfolane extraction facilities for production of aromatics and the facilities for processing light olefins by polymerization or alkylation.

In the case of Sulfolane extraction of aromatics, it has been concluded that aromatics recovery is highly attractive provided that the raffinate can be disposed of at an attractive price based primarily on its value in gasoline. These facilities will produce a large quantity of aromatic petrochemicals which are very much in demand. The low octane byproduct raffinate is a very desirable steam cracking feedstock, or it can be used as a component for gasoline blending.

The alkylation facilities for handling mixed butylenes and propylenes to make alkylate for gasoline blending and the polymerization facilities for handling propylene will be sized

to optimize the processing of these olefins. These olefin streams could be used as petrochemical feedstocks for the next phase of plant construction. For the first phase these olefinic hydrocarbons will be converted to gasoline blending components.

ALPETCO JOINT VENTURE AGREEMENT

between

ALASKA PETROCHEMICAL COMPANY,

CHARTER OIL (ALASKA), INC.,

and

E. F. HUTTON (ALASKA) INC.

PARENT'S ASSETS ?

TABLE OF CONTENTS

	<u>Page</u>
ALPETCO JOINT VENTURE AGREEMENT	
ARTICLE I	
ORGANIZATION, PURPOSE AND TERM	1
1.01. Formation of Venture	1
1.02. Name and Places of Business	2
1.03. Purpose	2
1.04. Term	3
ARTICLE II	
MANAGEMENT	4
2.01. Overall Management	4
2.02. Policy Committee	6
2.03. General Manager	8
2.04. Loaned Employees	10
2.05. Contractor Parties	11
2.06. Corporate Officers	11
ARTICLE III	
OWNERSHIP AND ADJUSTMENTS THEREIN	12
3.01. Ownership Interests	12
3.02. Capital Contributions	13
3.03. Failure to Make Capital Contributions	15
3.04. Procedure for Capital Calls	18
3.05. Allocations	18
3.06. Distributions	18
ARTICLE IV	
FURTHER OBLIGATIONS	20
4.01. Venture's Assumption of APC's Obligations	20
4.02. Royalty Oil Contract	20
4.03. Product Purchase Contracts to Support Financing .	20
ARTICLE V	
TAX STATUS	22
5.01. Election With Respect to Taxation as Partnership	22
5.02. Other Partnership Elections	22
5.03. Tax Ruling	22

TABLE OF CONTENTS
(Cont'd)

	<u>Page</u>
ARTICLE VI	
FISCAL YEAR, ACCOUNTING AND BANK ACCOUNTS	24
6.01. Fiscal Year	24
6.02. Records	24
6.03. Audit	24
6.04. Reports	25
6.05. Bank Accounts	25
6.06. Method of Accounting	26
ARTICLE VII	
TECHNOLOGY AND PATENTS	27
7.01. Ownership of Technology and Patents	27
7.02. Patents of Third Parties	28
7.03. Non-Use of Venture Technology	29
7.04. Rights in Venture Technology Upon Termination of Venture	30
ARTICLE VIII	
CONTRIBUTION AND INDEMNITY	31
8.01. Indemnification	31
8.02. Contributions	32
ARTICLE IX	
RESTRICTIONS ON ASSIGNMENT; WITHDRAWAL	34
9.01. Restrictions on Withdrawal and Assignment	34
9.02. Withdrawal Procedure	35
(a) Notice of Intention to Withdraw	35
(b) Option to Meet Offer to Purchase	36
(c) Purchase by More Than One Nonwithdrawing Venturer	38
(d) Withdrawal of All Venturers	39
(e) Withdrawal of Less Than All Venturers	39
9.03. Additional Right to Withdraw Prior to December 18, 1980.....	41

TABLE OF CONTENTS
(Cont'd)

	<u>Page</u>
ARTICLE X	
DEFAULTS AND REMEDIES	41
10.01 Default of a Venturer	41
(a) Definition of a Default	42
(b) Expulsion Procedure at Option of Nonde- faulting Parties	43
(c) Purchase by More Than One Nondefaulting Party	45
(d) Appraisal Procedure	45
ARTICLE XI	
DEFINITIONS	48
ARTICLE XII	
GENERAL PROVISIONS	50
12.01. Nondelegation	50
12.02. No Restrictions	51
12.03. Additional Documents and Acts; Insurance	51
12.04. Notices	52
12.05. Waiver	53
12.06. Severability	53
12.07. Applicable Laws	53
12.08. Binding Agreement	53
12.09. Counterparts	54
12.10. Entireties	54
12.11. Captions	54
12.12. Number	54

ALPETCO JOINT VENTURE AGREEMENT

THIS AGREEMENT is made effective as of the 1st day of October, 1979, by and among Alaska Petrochemical Company (herein, "APC"), an Alaska corporation, Charter Oil (Alaska), Inc. (herein, "Charter"), a Florida corporation, and E. F. Hutton (Alaska) Inc. (herein, "EFH"), a Delaware corporation. APC, Charter and EFH are each herein also sometimes referred to individually as a "Venturer" and collectively as "Venturers."

NOW, THEREFORE, in consideration of the mutual covenants contained herein the Venturers agree as follows:

ARTICLE I

ORGANIZATION, PURPOSE AND TERM

1.01. Formation of Venture. APC, Charter and EFH hereby enter into and form The Alpetco Company, a general partnership under the Florida Uniform Partnership Act (the "Venture") for the purposes set forth herein. Except as expressly provided herein to the contrary, the rights and obligations of the Venturers shall be governed by the Florida Uniform Partnership Act. All real and personal property owned by the Venture shall be held in the Venture's name and not in the names of the individual Venturers, and no Venturer shall have any individual ownership in such property except for its property rights as a Venturer.

1.02. Name and Places of Business. The business of the Venture shall be conducted under the name of "The Alpetco Company". It may establish such places of business as may be desirable. Each Venturer shall execute all assumed or fictitious name certificates required by law in connection with the use of such name.

1.03. Purpose. The purpose of the Venture is to be a profit-making enterprise to construct, acquire, own, operate and maintain a refinery and petrochemical manufacturing facility and related facilities in Alaska with the capacity to process approximately 150,000 barrels of crude oil per day (herein, the "Complex"); to make appropriate arrangements for the acquisition and subsequent processing, sale or other disposition of crude oil, and products derived therefrom, during the time before startup of the Complex; to acquire all necessary feedstock for and to sell and otherwise dispose of products from the Complex; to obtain financing necessary to carry out such purposes; to secure any such financing by mortgaging, pledging or granting security interests in some or all of the Venture's assets; to perform APC's obligations under that certain Agreement for the Sale and Purchase of State Royalty Oil dated February 22, 1978, as amended under date of May 17, 1978, between the State of Alaska, as Seller, and APC, as Buyer (herein, "Royalty Oil Contract"); and to

do all other things which are necessary or proper in the conduct of the business of the Venture. The undertakings to accomplish the above purposes of the Venture are hereinafter referred to as the "Project". The Venture may conduct any of its authorized activities either by itself or through a joint venture, partnership or corporation jointly owned by the Venture and third parties.

1.04. Term. The Venture shall commence effective as of October 1, 1979, shall continue for the longer of (i) fifty (50) years from October 1, 1979, or (ii) the full term of the Royalty Oil Contract and any renewals or extensions thereof and shall continue thereafter for subsequent terms of one (1) year each but subject to earlier termination as provided in Subsection 2.01(ii) or Section 9.02(d) below, and provided that the Venture shall terminate upon the Royalty Oil Contract being surrendered or terminated at any time prior to December 18, 1980.

ARTICLE II

MANAGEMENT

2.01. Overall Management. Except as herein specifically provided, the business of the Venture shall be managed by the Policy Committee referred to in Section 2.02. Any action authorized by the Policy Committee by the vote of a member or members representing Venturers holding a majority of the Ownership Interest shall authorize action by the Venture, except as provided in Section 3.03(c) and except as to the following matters which shall require agreement of either eighty-five percent (85%) or one hundred percent (100%) of the Ownership Interests, as indicated:

- (i) The sale, lease or other disposition of all or substantially all of the Venture's assets (100%).
- (ii) Termination of the Venture prior to its term stated in Section 1.04 notwithstanding Section 9.02(d) below (85%).
- (iii) Approving the initial design, plans and specifications for initial construction of the minimum Complex (herein, the "Minimum Complex") that will satisfy the requirements of the Royalty Oil Contract, and changes thereto which would result in a material increase (anything less than \$20,000,000 in the aggregate in any calendar year not being considered material) in the cost of the Minimum Complex (85%).
- (iv) Approval and execution of definitive documents for financing the Minimum Complex (100%).
- (v) Approving any budgets (85%).

- (vi) Surrendering, amending, or assigning the Royalty Oil Contract (85%).
- (vii) Selecting the operator of the Complex and approving the contract pursuant to which such operator shall act (85%).
- (viii) Making any commitment for the sale, exchange, other disposition, or processing or refining, of any of the Venture's crude oil or resulting products for a period of more than three months, including any renewal provisions to which the Venture is bound but excluding those not binding on the Venture (with respect to which 100% approval shall again be required to bind the Venture) (100%).
- (ix) Approving or entering into any contract between the Venture and any Venturer, any Affiliate (as defined in Section 2.04 below) of any Venturer, or any principal owner of an entity owned in conjunction with a Venturer or an Affiliate thereof (85%).
- (x) Making of any capital contributions to the Venture other than in cash, except for the capital contribution referred to in Section 3.02(a) below (100%).
- (xi) Payment of any Venture funds or distribution of any Venture assets to any Venturer other than in proportion to the Venturer's respective Ownership Interest at the time, except as expressly provided herein or pursuant to agreement between the Venture and a Venturer approved as provided herein (100%).
- (xii) Investment of any Venture funds other than as provided in Section 6.05 hereof (85%).
- (xiii) Making of any filing by the Venture with the United States Department of Energy or any successor agency affecting the Venture or any Venturer or Affiliate relating to the sale or disposition of crude oil or products by the Venture (85%).

Should any Venturer propose a capital investment or expenditure program or project which is rejected by the Venture, notwithstanding a favorable vote by the proposing Venturer, such Venturer shall have the right to proceed with such program or project itself, at its own cost, liability and expense, separately from the Venture except that approval of any transaction with the Venture in respect thereto shall be subject to the terms and conditions of this Agreement including without limitation this Section 2.01, provided that any approvals required under this Section 2.01 shall not be unreasonably withheld.

2.02. Policy Committee.

(a) Subject to Section 2.01 hereof, the business of the Venture shall be managed and controlled by a Policy Committee. Each Venturer shall be entitled to appoint one member to the Policy Committee. All appointments of members on the Policy Committee shall be in writing and directed to each of the Venturers, and the same shall designate the person or persons authorized to vote the Ownership Interest of the appointing Venturer. Each Venturer at any time shall have the right to appoint alternates for its Policy Committee member by written notice to the General Manager, and shall have the right to change its member on the Policy Committee.

(b) Subject to Sections 2.01 and 3.03 hereof, each Venturer shall have a vote in Policy Committee decisions equal to its then current actual Ownership Interest in the Venture, and the vote of a majority of the Ownership Interest in the Venture shall constitute a majority vote of the Policy Committee.

(c) Except as herein otherwise provided, the Policy Committee will conduct its proceedings in accordance with such rules as it may, from time to time, establish by majority vote, and shall keep minutes of its meetings and the actions taken by it.

(d) Members of the Policy Committee, or their designated alternates, may attend meetings and vote either in person or through duly authorized powers of attorney. The presence in person or by power of attorney of a representative or representatives of a majority of the Ownership Interest shall constitute a quorum of the Policy Committee for the transaction of business. Members of the Policy Committee may participate in meetings of the Policy Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear and speak to each other, and participation in a meeting in such manner shall constitute presence in person at such meeting.

(e) Meetings of the Policy Committee may be called by any member or by the General Manager, on at least three days' advance notice to all members, given as provided in Section 12.04 hereof, and directed to the address of each Venturer, or by telephone to the President, any Vice President, or the designated Policy Committee member of a Venturer having a

member on the Policy Committee, which notice shall be effective when received but shall be confirmed in writing sent within two days of the telephone notice.

(f) The Policy Committee may act without a meeting if, following notice of the proposed action to all Venturers, members representing the required percentage of Ownership Interest consent in writing to the action taken, or, without prior notice upon unanimous written consent of all Venturers.

(g) Actions taken by representatives of the required percentage of Ownership Interest at a Policy Committee meeting at which a quorum is present, and for which notice either is given or is waived before or after such meeting by such representatives, or pursuant to Subsection (f) immediately above, shall authorize action by the Venture.

2.03. General Manager.

(a) Promptly upon selection of the Policy Committee, it shall hold a meeting and by majority vote appoint a General Manager for the Venture. The General Manager may be removed at any time by majority vote of the Policy Committee and a new General Manager appointed by like vote. Subject to the direction and control of the Policy Committee, the General Manager will have the responsibilities and authorities for the operations of the Venture and will be provided

a staff of financial, technical, commercial and administrative personnel sufficient to enable the General Manager to perform the responsibilities assigned to him. The General Manager will operate within and give effect to the programs, budgets, plans and policies appropriately approved by the Policy Committee, and his specific duties and responsibilities will include the following:

- (i) Take all steps necessary for the Venture to satisfy or cause others to satisfy the obligations of APC and the Venture under the Royalty Oil Contract;
- (ii) Direct the preparation of the work required to complete plans for construction, financing, and operation of the Complex, as the Policy Committee may assign to him from time to time;
- (iii) Direct the preparation of quarterly, annual, 5 year and other long-term operating plans, operating budgets (including a forecast of cash requirements for each of the next twelve months) and capital programs for approval and/or modification by the Policy Committee;
- (iv) On behalf of the Venture to enter into such contracts, leases, agreements and undertakings as may be appropriately approved by the Policy Committee;
- (v) Within budgetary authorizations, to engage employees for the Venture as may be required, from time to time, to conduct the Venture's business;
- (vi) Report to the Policy Committee on the performance and affairs of the Venture as requested by the Policy Committee and

when any situation develops which requires modification of a previously authorized plan, budget or program.

(b) In addition, the Policy Committee may appoint one or more other Venture officials, including Assistant General Managers, any of which officials may be removed at any time by majority vote of the Policy Committee. In addition to responsibilities and authorities above provided for the General Manager, all Venture officials shall have such titles, responsibilities and authorities as the Policy Committee may delegate to them.

2.04. Loaned Employees. The General Manager may select employees of the Venturers, or their Affiliates, to perform services for the Venture, subject to the approval of the employer Venturer or Affiliate. As used in this Agreement, the term "Affiliate" with respect to a Venturer shall mean any entity (i) more than 30% of the equity capital of which is owned, directly or indirectly, by any Venturer or by an Affiliate of any Venturer, or (ii) that owns, directly or indirectly, more than 30% of the equity capital of any Venturer or any Affiliate, but the Venture shall not be considered an Affiliate. Any employee of a Venturer, or its Affiliate, who performs services at the Venture's request shall be paid by the Venturer, or its Affiliate, by whom he is employed. The Venture shall reimburse such Venturer, or its Affiliate,

as the case may be, for direct salary plus 30% of such direct salary as reimbursement for other payroll costs for any employee of a Venturer or Affiliate who performs services for the Venture at its request on a full-time basis for 20 or more consecutive business days.

2.05. Contractor Parties. The General Manager may request from any Venturer, or its Affiliate, accounting, data processing or similar services as may be reasonably required, from time to time, for the Venture's business. In the event any Venturer, or its Affiliate, provides such services to the Venture, the Venture shall reimburse the Venturer, or its Affiliate, as the case may be, for its actual costs, to the extent reasonable, of providing such services, including direct and indirect costs and properly allocable overheads. All air travel shall be reimbursed at first class commercial rates.

2.06. Corporate Officers. Notwithstanding the foregoing, the reimbursements provided for in Sections 2.04 and 2.05 hereof shall not be applicable to any Chairman, Vice-Chairman or President or other officers having similar responsibilities, of any Venturer or Affiliate thereof, but shall be applicable to any other employees, including persons who are a Vice President, Secretary, Treasurer, Assistant Vice President, Assistant Secretary or Assistant Treasurer.

ARTICLE III

OWNERSHIP AND ADJUSTMENTS THEREIN

3.01. Ownership Interests.

(a) The Ownership Interest of each Venturer from time to time shall be a fraction, the numerator of which is the total Capital Account of that Venturer and the denominator of which is the total Capital Accounts of all Venturers, both as of the date on which the Ownership Interest is determined. The term "Capital Account" shall mean, as to each Venturer, an account or accounts that reflect the net effect of (i) all capital contributions made by such Venturer to the Venture, (ii) all items of Venture income, gain, credit, cost, expense, loss and deduction allocated to such Venturer, and (iii) all distributions made to such Venturers, all determined in accordance with Article VI hereof. The term "Ownership Interest" or "Ownership Interests" as used herein shall mean all the rights and interests of all the Venturers in the Venture unless qualified to mean that of a particular Venturer or Venturers, and shall be as of the time that is relevant in the context.

(b) Upon completion of Charter's capital contributions under Section 3.02(b), the Ownership Interest in the Venture of each present Venturer will be: APC, twenty-three and four-tenths percent (23.4%); Charter, seventy percent (70%); and EFH, six and six-tenths percent (6.6%).

3.02. Capital Contributions. The Venturers have made and shall make the following contributions of property and capital to the Venture:

(a) APC, on behalf of APC and EFH, hereby contributes to the Venture the product of all work done by or on behalf of APC in connection with the Project (including the securing of the Royalty Oil Contract), from the inception of such work to and including September 30, 1979. This contribution shall be (i) valued at the amount of all Project expenditures from the inception of Project work in July, 1977 through September 30, 1979, which value is \$6,795,795, and shall be deemed to have been made on October 1, 1979, and shall be credited 78% to the capital account of APC and 22% to the capital account of EFH. The assignment by APC to the Venture of the Royalty Oil Contract, in accordance with and subject to the terms and provisions of Article IV below, shall constitute a part of the capital contribution made by APC under this Paragraph (a).

(b) All additional capital required for the Project, commencing October 1, 1979, shall be provided by cash contributions to be made by Charter,

in the amount of \$2.0 million for October, 1979, \$1.0 million the first day of each of the next five succeeding months and in such additional amounts as are required each month by the Venture to carry out the Project until the total contributions of Charter equal \$15,856,855. Charter shall have the right to prepay any of such capital contributions following (i) receipt by the Venture of letters from the Commissioner of Natural Resources of the State of Alaska indicating compliance by the Venture with Section 10.2(3) of the Royalty Oil Contract, and (ii) his notice to the "Lessees" under the Royalty Oil Contract of the State's election to take its royalty oil in kind.

(c) After Charter's capital contributions under Paragraph (b) are completed, each Venturer shall, in the proportion to its respective Ownership Interest, and as calls for the contribution of capital ("Capital Calls") are made under Section 3.04 hereof, contribute all further cash required to be contributed to the Venture from time to time to carry out the Project and perform the obligations of the Venture.

(d) A failure of any Venturer to make any capital contribution shall not give the Venture or

any Venturer a cause of action for recovery of such contribution or for damages, but shall have the consequences specified in Section 3.03 hereof.

3.03. Failure to Make Capital Contributions.

(a) If Charter fails to pay timely the first \$7.0 million of the capital contribution required of it under Section 3.02(b) above, Charter shall automatically be expelled from the Venture, shall have no further interest in the Venture or any of its assets, and shall not be entitled to a return of any capital it may have contributed to the Venture.

(b) If any Venturer fails to timely make the full amount of any required capital contribution other than Charter's \$7.0 million referred to in above Paragraph (a), and the Venturer failing to make such capital contribution (herein, the "Defaulting Venturer") does not do so within three days of notice by the General Manager or any non-Defaulting Venturer to the Defaulting Venturer of such failure, then the General Manager shall within twenty-four hours give notice of such failure (such failure being called a "Missed Capital Call") to all Venturers, and any one or more of the other Venturers may pay all or a portion of the capital contribution not paid by the Defaulting Venturer at any time within ten (10) days after the date of such notice. If more than one

Venturer desires to pay all or a portion of the capital contribution in lieu of such Defaulting Venturer, the Venturers desiring to pay such capital contribution shall be entitled to pay it up to the amount that the ratio of the Ownership Interest of each contributing Venturer bears to the aggregate Ownership Interest of all contributing Venturers who so pay; if any contributing Venturer does not elect to pay the entirety of such amount, the deficiency may be paid by the other contributing Venturer. Immediately upon such Venturers paying such capital contribution in lieu of the Defaulting Venturer, or upon an election by the non-Defaulting Venturers not to pay all or a portion of such capital contribution, the Ownership Interests in the Venture of the Venturers shall be adjusted by application of the fraction set forth in Section 3.01(a) hereof.

(c) At any time within ninety (90) days following a second Missed Capital Call by any Venturer (herein, a "Repeating Defaulting Venturer") the non-Repeating Defaulting Venturers may elect by majority vote of their Ownership Interest (irrespective of any contrary provision of Section 2.01 above), to have the Venture acquire the entire Ownership Interest of the Repeating Defaulting Venturer at a purchase price equal to the Ownership Interest of the Repeating Defaulting Venturer times the Net Book Value of the Venture, with such Ownership

Interest and Net Book Value both to be determined as of the opening of business on the first day of the calendar month next following three days' notice of such election by the non-Repeating Defaulting Venturers, or any one or more of them, to the Repeating Defaulting Venturer. Such Net Book Value of the Venture shall be the sum of the Capital Accounts of the Venturers, which shall be determined by the independent accounting firm that last conducted an audit of the Venture's records, unless some other firm is selected by the majority in Ownership Interest of non-Repeating Defaulting Venturers. The purchase price due to the Repeating Defaulting Venturer shall be represented by a promissory note made by the Venture, in the amount of the purchase price, dated as of the effective date of the acquisition, bearing interest at the rate of 7% per annum, with accrued interest only to be payable on such note on the first through the ninth anniversary of the date thereof, and with accrued interest and the entire amount of principal to be paid on or before the tenth anniversary of the date thereof, and to be payable at the office of the payee designated under Section 12.04 below. The acquisition by the Venture of the Ownership Interest of the Repeating Defaulting Venturer shall be effective as of the date of determination of Ownership Interest and Net Book Value, and shall occur automatically upon tender to the Repeating Defaulting Venturer of the aforementioned promissory note.

(d) If there are two missed Capital Calls by any Venturer under this Section 3.03, such Venturer shall thereafter have no right to meet any subsequent Capital Call and that notwithstanding the provisions of Section 2.02(b) such Venturer shall forfeit its right to representation and voting on the Policy Committee.

3.04. Procedure for Capital Calls. Capital Calls shall be made, from time to time, only as required to fund items set forth in the schedule of cash requirements contained in budgets previously approved by the Policy Committee. The General Manager, or any person designated by him, shall give each Venturer written notice of each Capital Call at least thirty (30) days before it is due, specifying the amount of such Capital Call and each Venturer's share thereof under Sections 3.02(b) and (c) above.

3.05. Allocations. All items of income, gain, loss, deduction or credit of the Venture shall be allocated among the Venturers in the ratio of their Ownership Interests.

3.06. Distributions. The cash flow generated by the Venture shall be allocated and distributed regularly but at least quarterly to the Venturers in accordance with their Ownership Interests after the Venture has made due allowance for cash necessary for the operation of the Venture's business as budgeted, the making of scheduled and routine capital improvements, the requirements of any loan agreements to which the Venture is a party, and any payments to become due

within ninety days on any of the Venture's notes or other obligations.

ARTICLE IV

FURTHER OBLIGATIONS

4.01. Venture's Assumption of APC's Obligations. The Venture hereby assumes and agrees to perform APC's obligations to third parties in connection with the Project that are not paid or performed on October 1, 1979, or that arise or become payable or performable on or after October 1, 1979, as specified in Section 4.02 hereof and as set forth in Exhibit A hereto.

4.02. Royalty Oil Contract. APC hereby contributes and assigns the Royalty Oil Contract to the Venture, subject to obtaining the consent of the State of Alaska as required under Article 23.1 of the Royalty Oil Contract in form and substance satisfactory to at least 85% of the Ownership Interest. In connection therewith, the Venture hereby assumes all of APC's obligations under the Royalty Oil Contract and agrees to reimburse APC for the cost of performing any of such obligations performed by APC with the consent of the Venture that can only be performed by APC.

4.03. Product Purchase Contracts to Support Financing. The Venturers have executed product sales agreements providing for purchase by the Venturers of products on a take-or-pay basis to support the long-term financing of the Complex. The Venturers, notwithstanding anything else to the contrary herein contained, agree to cause the Venture to purchase

refined products for resale as necessary to continue deliveries under such product sales agreements, if such purchase commitment by the Venture is required as part of the definitive documents relative to the long-term loan of funds for the Complex.

4.04 Processing of Crude Oil Prior to Start-Up. By separate agreement the Venture, the Venturers and The Charter Company or one or more of its subsidiaries or affiliates have agreed to designate The Charter Company and one or more of its subsidiaries or affiliates as agent for handling the processing and sale of refined products produced from crude oil purchased by the Venture under the Royalty Oil Contract prior to start-up of the Complex (the "Interim Crude Oil Agreement") subject to the terms and conditions thereof. Notwithstanding the provisions of Article 2.01(viii) hereof, upon the termination of the Interim Crude Oil Agreement, prior to start-up of the Complex, the Venture hereby agrees to resell crude oil it purchases under the Royalty Oil Contract at cost, F.O.B. Valdez, to each of the Venturers in proportion to their Ownership Interest in Venture at the time of each delivery of crude oil.

ARTICLE V

TAX STATUS

5.01. Election With Respect to Taxation as Partnership.

No election shall be made by the Venture or any Venturer to be excluded from the application of any provisions of Subchapter K, Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, as amended (the "Code"), or from any similar provisions of any present or future federal or state tax laws.

5.02. Other Partnership Elections.

(a) The Venture shall elect to deduct expenses incurred in organizing the Venture ratably over a sixty-month period as provided in Section 709 of the Code.

(b) The Venture shall elect to deduct taxes and carrying charges that would otherwise not be deductible under Section 266 of the Code if charged to capital accounts.

(c) The Venture shall elect to use the Class Life Asset Depreciation Range, using the shortest period of years for each class of assets and the depreciation allowance shall be computed using a double declining balance method.

5.03. Tax Ruling. At the direction of the Policy Committee, the General Manager shall cause a request to be filed with the United States Internal Revenue Service requesting a

ruling to the effect that the entity created hereby constitutes a partnership for federal income tax purposes and does not constitute an association taxable as a corporation.

ARTICLE VI

FISCAL YEAR, ACCOUNTING AND BANK ACCOUNTS

6.01. Fiscal Year. The fiscal year of the Venture shall be the calendar year.

6.02. Records. The General Manager shall cause the Venture to maintain complete and accurate records and accounts of all Venture income and expenditures and of the acquisition, ownership and disposition of all Venture properties. Such records shall be available for inspection and audit by any Venturer or its duly authorized representative, at the expense of such Venturer, during business hours at the principal office of the Venture. The Venture shall not be required to maintain any such records for a period in excess of six years from the date of the making or receipt thereof unless a Venturer requests that they be maintained for a longer period, except for those records required to be kept for a longer period under the Royalty Oil Contract or applicable laws.

6.03. Audit. The books of the Venture shall be audited annually at Venture expense by a nationally recognized independent accounting firm selected by the Policy Committee, and a copy of each such annual audit shall be furnished promptly to each Venturer.

6.04. Reports. The General Manager shall report in writing and in reasonable detail to each Venturer on the affairs of the Venture, as often as is reasonably required to keep each Venturer informed as to the affairs of the Venture but not less frequently than once each month, and shall also cause the Venture to furnish to each Venturer (i) a copy of the audited annual financial statements within 45 days after the close of each fiscal year, (ii) a copy of unaudited monthly financial reports within 15 days after the close of each month, and (iii) within 60 days after the close of each fiscal year, any additional information relating to the Venture that is required for preparation of the Venturer's income tax returns, and such other information as is required by the Venturers or Affiliates thereof for reporting under the Securities Act of 1933 and the Securities Exchange Act of 1934 or other applicable law.

6.05. Bank Accounts. The Venture funds may be deposited in bank accounts maintained in the Venture's name as authorized from time to time by the Policy Committee. Any funds of the Venture that are temporarily not required to be disbursed may be invested in United States Treasury Bills or other money market instruments approved by the Policy Committee but not any security issued by a Venturer or any Affiliate thereof. No Venture funds shall be commingled with the funds of any Venturer or Affiliate thereof.

6.06 Method of Accounting. The Venture shall keep its books of account and records on an accrual basis, using federal income tax accounting, which will clearly reflect each respective Venturer's Capital Accounts on an income tax accounting basis. All books of account, records, reports and financial statements prepared for the Venturers, for credit purposes or for any other purpose shall be prepared in a manner which accounts for advance payments, as defined by Treas. Reg. §1.451-5(a), so that such advance payments are included in gross receipts in the taxable year in which they are properly accruable under the Venture's method of accounting for tax purposes.

ARTICLE VII

TECHNOLOGY AND PATENTS

7.01. Ownership of Technology and Patents.

(a) All technology, whether it be in the form of ideas, concepts, know-how, trade secrets, improvements, design information, design drawings, plans, formulations, technical data or engineering information, whether or not such technology arises to the level of a patentable invention, developed, conceived or acquired by the Venture during the existence of the Venture shall be the personal property of the Venture. All technology developed or conceived in connection with the Venture by individuals loaned or provided to the Venture by the individual Venturers or their Affiliates, or employed by or representing the individual Venturers or their Affiliates, but working for the benefit of the Venture to carry out the purposes of the Venture, shall also be the personal property of the Venture if the compensation for such individuals was reimbursed to their employer by the Venture during the time that such technology was developed or conceived. The technology described in the two preceding sentences of this Section 7.01 is hereinafter referred to as the "Venture Technology."

(b) Each of the individual Venturers shall execute or cause to be executed all necessary documents to transfer