SCOMM

#46:17

Introduced: 3/13/85
Referred: House Special Committee
on Oil & Gas, Resources and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 287

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act approving the sale of Prudhoe Bay royalty oil by the State of Alaska to the Golden Valley Electric Association; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The "Agreement for the Sale and Purchase of Prudhoe Bay Royalty Oil" between the State of Alaska and the Golden Valley Electric Association, dated February 8, 1985, is approved and ratified.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

This bill packet for HB 287 contains the following materials:

Letter of Transmittal

In which certain inconsistencies in the royalty statutes are noted, and the view is expressed that the statutory requirement that the legislature approve royalty oil contracts is unconstitutional.

Fiscal Note

Zero fiscal note.

Royalty Board Resolution

The Royalty Board recommends that the legislature approve the GVEA contract.

MAPCO Statement

Provides breakdown of additional refined products to be produced by MAPCO, and notes aspects of agreement between MAPCO and GVEA.

Royalty Oil Production Table

North Slope royalty oil production, royalty oil obligated through current negotiated contracts, and remaining in-value royalty oil are all shown on the cover table. The other tables refer to the competitive royalty oil sale held in December, 1984.

DNR Final Findings & Determination

This document provides a background and chronology of the contract, summary of proposed contract terms, contract revisions since November, 1983, and findings leading to the determination that this contract is in the best interests of the state.

Agreement for the Sale and Purchase of Royalty Oil

Contract between the State of Alaska and GVEA. Brief descriptions of the three agreements related to this contract are made on the following page. Exhibit A is dated 1985. Exhibit B and the Petroleum Products Agreement, both dated 1980, were confirmed this Fall by MAPCO and GVEA as the working agreements for the present contract.

Exhibit A

Agreement between the State of Alaska, MAPCO, and GVEA. This agreement address the assignment of royalty oil from GVEA to MAPCO, MAPCO's ability to designate the volume of royalty oil that GVEA will receive, Amerada Hess adjustments and penalties for breaking the assignment agreement, and the State's agreement to not exercise its return oil option so long as MAPCO receives royalty oil under the GVEA contract.

Exhibit B - Assignment and Product Sales Agreement

Agreement between MAPCO and GVEA. This agreement specifies that MAPCO will sell to GVEA turbine fuel equal to 12.5% of the total crude oil received by MAPCO under this agreement. At 5,000 b/d, this equates to 625 b/d of turbine fuel. This agreement also states that the turbine fuel will be sold at MAPCO's acquisition cost, plus a processing fee.

Petroleum Products Agreement

Agreement between MAPCO and GVEA. This agreement specifies the quantity, quality, and title of the turbine fuel to be sold by MAPCO to GVEA. This agreement also specifies a fixed margin allowed to MAPCO on this turbine fuel, and addresses the duration of the contract and the three year cancellation clause.

Letter of Credit

An irrevocable letter of credit for GVEA in the amount of $5,400,000.

Tesoro's Letter of Concern

Concerns expressed by Tesoro that the present contract does not benefit the consumer sufficiently to justify the arrangement between MAPCO and GVEA.

House Research Agency

A brief analysis of the major provisions of MAPCO's current royalty oil contract with the State of Alaska.

TESTIMONY

BY DIRECTOR, DIVISION OF OIL & GAS

TO HOUSE RESOURCES COMMITTEE & HOUSE SPECIAL COMMITTEE ON OIL & GAS

ON HB 287

ROYALTY OIL CONTRACT WITH GOLDEN VALLY ELECTRIC ASSOCIATION

MARCH 20, 1985

Thank you Mr. Chairman. For the record, I'm Kay Brown, Director of the Division of Oil and Gas for the Alaska Department of Natural Resources. With me is Assistant Attorney General Steve Porter. I appreciate this opportunity to discuss the proposed long-term royalty oil contract with the Golden Valley Electric Association, also known as GVEA.

Contract Terms

The proposed contract would sell about 2.6% of the state's daily royalty oil from Prudhoe Bay Unit -- currently about 5,000 barrels a day -- to GVEA for 10 years.

The contract price is the monthly volume weighted average of the producers' current reported netback prices, plus field costs, plus adjustments for the final outcome of the Amerada Hess litigation, plus a 30¢ premium, with a price reopener in July 1987 and every two years thereafter.

I would refer the committee to the one-page sheet of background information we have provided on SB 232/HB 287, which summarizes the major provisions of the contract.

Background

Golden Valley Electric Association is a cooperative which generates electricity for sale to its members. It uses a variety of fuels to generate the electricity, including turbine fuel. Some of the turbine fuel GVEA purchases is refined directly from royalty oil purchased under the cooperative's present state contract. GVEA purchases additional turbine fuel directly from the Mapco refinery.

Under its present and former state royalty oil contracts, GVEA assigns the royalty oil to Mapco, which processes the oil at its North Pole Refinery and sells Golden Valley turbine fuel at a discount. The discount on those purchases amounts to about $550,000 annually in savings to GVEA. When measured from the consumer's perspective, this discount translates to a savings of about 1.5% on the average consumer bill.

History of GVEA Sales and Negotiations

I would like to briefly give the committee some history on the state's royalty oil sales with Golden Valley Electric Association. The first contract with Golden Valley was signed in April 1977, shortly after establishment of the Royalty Oil and Gas Development Advisory Board and the adoption of new statutory procedures governing royalty oil sales. Golden Valley did not commence taking under the contract until June 1981, when it began purchasing 5,000 barrels per day and assigning it to Mapco.

That contract expired in June 1984.

In November 1982, well in advance of the expiration of Golden Valley's original contract, GVEA requested a 10-year extension of the contract. No action was taken by the outgoing administration in 1982, and the new administration began negotiations with Golden Valley in March 1983. In November 1983, the department published a public notice of its intention to adopt a new contract with Golden Valley. The royalty board reviewed the contract in December 1983, and that review revealed specific concerns by both the public and the board members with respect to the state's option on residual oil and the relationship between Mapco and GVEA. In view of those reservations and the limited time for further negotiation, the long-term GVEA contract was not presented for legislative approval in 1984. Instead, an interim contract not requiring legislative approval was put into effect pending contract revisions responsive to the issues raised at the meeting of December 7, 1983. That interim contract expires June 30, 1985.

Intermittent negotiations were held on the proposed long-term contract during 1984. We had planned to complete negotiations so that approval legislation for the long-term contract could be introduced on the first day of the 1985 session.

Our timeline called for a preliminary contract and findings to be completed and a preliminary notice to be published in early October 1984. The final contract and findings were to be available November 16, 1984, Royalty Board review was scheduled for December 7, 1984, and approval legislation was to be introduced on the first day of the session. Due to denomination deadlines, it was apparent to all the parties that if legislative approval did not occur by March 29, 1985, oil deliveries would have to be interrupted.

During September 1984, I informed Golden Valley and Mapco of the time pressure under this timeline, and had numerous negotiation sessions with representatives of both Golden Valley and Mapco. Draft agreements were exchanged, and we believed that agreement had been reached in early October 1984. However, at the conclusion of a negotiation session on October 9, 1984, Bert Sharp of Golden Valley stated his severe reservations about Golden Valley's liability for retroactive adjustments to the royalty oil price based on the Amerada Hess litigation. His primary objection was that as a regulated public utility, Golden Valley could only pass on to its customers retroactive adjustments for a one-year period. Amerada Hess adjustments for purchases older than one year could not be passed on to Golden Valley's customers, and would cause Golden Valley severe financial difficulty. Mr. Sharp proposed that the state charge an increased price premium but that it waive Amerada Hess adjustments. This price term offer was unacceptable to the state, and we suggested contract terms that would require Mapco to pay the Amerada Hess adjustments.

Negotiations stalled for almost two months at this deadlock. However, on November 23, 1984, I wrote to Bert Sharp and stated that an agreement among the state, Golden Valley and Mapco looked unlikely. I suggested commencing negotiations towards a contract between Golden Valley and the state, without any assignment of the oil to Mapco. Negotiations resumed immediately, and on November 29, 1984, an agreement was reached on the terms now found in the proposed long-term contract. We immediately prepared findings and a final contract, and worked to get the contract before the royalty board and the legislature as soon as possible. However, due to the negotiation stalemate, legislation approving the long-term contract could not even be introduced in the legislature until mid-March 1985.

Unless a new contract with Golden Valley is approved prior to March 29, 1985, - or unless the present contract is extended - we will denominate the oil and return it to in-value. CSSB 152 would give the commissioner the authority to extend the existing Golden Valley contract for up to three months to avoid a lapse in taking by GVEA during the summer of 1985.

I want to briefly discuss two concerns that have been raised with the contract that were originally identified at the royalty board meeting of December 1983.

Consumer Benefits

The sale is premised on providing benefits to Alaska consumers. These consumer benefits depend on GVEA's assignment agreement with Mapco, which provides turbine fuel at a price lower than what GVEA would otherwise pay. Under GVEA's current contract, the state is unable to enforce the degree of advantage afforded to GVEA since that agreement is between GVEA and Mapco only.

Exhibit A to the new contract is a three-party agreement signed by the state, GVEA and Mapco. Exhibit A recognizes existing agreements between GVEA and Mapco. In Exhibit A, the state consents to those agreements so long as they are not modified to reduce the benefits to GVEA's consumers. The state retains the option to terminate the contract should the relationship between GVEA and Mapco change materially.

Thus, the modest consumer benefit that I described earlier will continue over the life of the contract, or the state will have the option to cancel the contract.

Return Oil

A second issue of concern involves the return oil provision of the contract. The Mapco refinery, because of its location near the Trans Alaska Pipeline, is able to reinject the heavy and lightest ends of the barrel which are not converted into products back into the pipeline. This so-called "return oil" then reemerges as whole oil at Valdez, with Mapco paying a $.10 per degree quality bank differential penalty.

We did negotiate an option to purchase the return oil into the new GVEA contract. However, although the option to purchase return oil is embodied in Section 3.4 of the new GVEA contract, the state has agreed in Exhibit A that we will not exercise that option in return for Mapco paying Amerada Hess adjustments on the portion of the royalty oil that is converted into turbine fuel used by GVEA.

As I mentioned a moment ago, the negotiations were deadlocked for several months, and foregoing the return oil option was a concession we made to break the deadlock.

Refinery Profits

Another issue of concern raised by legislators during consideration of the three-month extension bill, CSSB 152, involves the amount of profits made by Mapco off of the Golden Valley contract.

For a number of reasons, it is difficult to calculate the profitability of a refinery based on information in the public record. Although the Department of Natural Resources has access to some confidential information provided by Mapco, we are obligated to hold this information confidential under AS 38.05.035 at Mapco's request. However, considering those constraints, we have attempted to provide some general information about refining profits.

Mapco's refining profits were examined in the February 1983 report entitled Alaska Petroleum Product Pricing prepared for the Senate Resources Committee. That document was authored by Messers. Pernela and Delong, both of whom are former employees of North Pole Refining. As can be seen in the report and the responses of Mapco and Tesoro to that document, the profitibility of a refiner is nearly impossible to infer without access to certain cost data which is normally held confidential. This has proven true even though the authors, as former employees of

Mapco, may have had access to such data. This information gap largely accounts for the difference in the return to investment calculated in the report - 46% - and Mapco's stated return to investment of 15% to 17% (see Mapco's letter to Sen. Fahrenkamp of April 8, 1983).

Like most refiners, Mapco does not make available to the public separate accounts of its various operations such as the North Pole refinery. While Mapco's overall profitability is stated in its annual reports, the profits of a particular refinery cannot be deduced from those reports. The operating costs of a refinery are not normally available to the public since such knowledge would be of considerable advantage to a competitor.

For this reason Messers. Pernela and Delong were forced to rely on a variety of unsatisfactory proxy figures which included the original cost of the North Pole refinery, a supposed cost of capital, and the adjusted operating costs of refiners in the continental United States, among other things. These shortcomings enabled Mapco to handily rebut the report by mentioning such items as investment which occurred after the initial construction, interest during construction, the original investment risk, the irrelevance of operating costs in other parts of the U.S. and the vagaries of the federal crude oil entitlement program, which was in effect over part of the study period.

Although Mapco's apparent markup can be found by comparing their wholesale prices with the aquisition cost of crude oil, a net profit per barrel cannot be arrived at without knowing all the capital and operating costs of the refinery as well as the method of amortization. Mapco has not volunteered this information to date.

Summary

In summary, Mr. Chairman, this contract is intended to provide a modest amount of consumer benefit to the Alaska citizens living in the Interior and served by the Golden Valley Electric Assiciation cooperative, and also to provide the state with a market price for the royalty oil. I believe that the state's interest is served by pursuing this alternative, compared to the alternative of not making a sale and leaving the oil in-value. It could be argued that this contract does not maximize the value of royalty oil relative to what could be obtained by selling the oil competitively. However, the statutes do not require competitive sales and, in fact, the statutes clearly contemplate negotiated sales that provide ancillary benefits from using the royalty oil within the State of Alaska. I think you could view this contract as maintaining the status quo between the in-state refiners, as it does not increase Mapco's benefit relative to the present situation. In fact, Mapco's benefit is slightly decreased under the new GVEA contract.

Mr. Chairman, I believe this contract complies with all requirements of the statute and the regulations, and that it is consistent with the state's policy of obtaining market value for its royalty oil.

For these reasons, the administration supports the contract and we urge your approval of HB 287.

Sam Murray, a petroleum economist on my staff, is standing by in Anchorage to assist us with answering any questions the committee may have. That concludes my formal remarks, Mr. Chairman. Thank you.

1623K

TESTIMONY BY DIRECTOR, DIVISION OF OIL AND GAS
TO HOUSE RESOURCES COMMITTEE AND
HOUSE SPECIAL COMMITTEE ON OIL AND GAS
ON HOUSE BILL 287

ROYALTY OIL CONTRACT WITH
GOLDEN VALLEY ELECTRIC ASSOCIATION

March 21, 1985

Thank you Mr. Chairman. For the record, I'm Kay Brown, Director of the Division of Oil and Gas for the Alaska Department of Natural Resources.

Several issues and questions were raised at the hearing yesterday, and I'd like to provide the committee with some additional information on those points.

Many of the questions at the hearing yesterday centered on the benefits to be derived from the proposed contract -- what those benefits are and who receives them. Three parties would receive benefits -- the State, GVEA, and Mapco.

I'd like to briefly summarize those benefits as we perceive them, Mr. Chairman.

Benefits to the State of Alaska

The benefits to the State are described in our final finding of January 16, 1985. Under the statutes governing royalty oil and gas sales, the commissioner is obligated to maximize benefits to the citizens in a negotiated sale.

The price received is a benefit to the State. The State will receive a 30¢ premium above in-value, which makes this sale roughly equivalent to the Tesoro and Chevron royalty oil contracts approved by the Legislature last session. There is no price subsidy to GVEA, and to the extent that Mapco gets the oil, it pays more for this oil than it does for the oil it buys directly from the State.

Other benefits to the State are explained in detail in the final findings, but they include cheaper electricity rates for Fairbanks consumers, a dependable electricity supply, and protection of existing investments in the North Pole refinery and the utility's turbines.

Benefits to GVEA

GVEA's benefits come not from a reduced sale price, but from the reduced turbine fuel price Mapco gives GVEA on the turbine fuel Mapco produces from GVEA's royalty oil.

GVEA's benefit can be calculated by comparing two prices. Those prices are Mapco's general turbine fuel price to GVEA (which covers roughly half of GVEA's turbine fuel needs) and Mapco's reduced price to GVEA for turbine fuel processed from GVEA's royalty oil (which covers the other half of GVEA's turbine fuel needs). Specifically, the 1980 Petroleum Products Agreement between GVEA and Mapco generally obligates Mapco to sell turbine fuel to GVEA at a price of Mapco's acquisition cost plus a processing fee. Mapco has requested that we keep that exact processing fee confidential. A second 1980 agreement between GVEA and Mapco obligates Mapco to sell GVEA turbine fuel processed from GVEA's royalty oil at a reduced processing fee. Mapco has also requested that we keep that exact fee confidential.

Although the exact processing fees charged by Mapco are confidential, GVEA manager Bert Sharp testified yesterday that the difference is between 5 and 6 cents a gallon. Multiplying that savings by 42 gallons per barrel, by 625 barrels per day, and by 365 days per year, GVEA achieves a yearly savings of between $479,000 and $575,000. In our final sale findings, our petroleum economist projected an annual savings to GVEA of approximately $550,000.

This $550,000 yearly savings translates into a benefit to GVEA's consumers of .1446¢ per kilowatt hour. (This number is obtained by dividing the $550,000 yearly benefit by the 380,412,000 kwh that GVEA produces each year.)

Benefits to Mapco

The committee's third area of concern is the amount of benefits to Mapco under this contract. Mapco does benefit since it gets 87.5%

of each barrel, either as non-turbine fuel products or as return oil.

The profitability figures for Mapco shown on the chart prepared by staff that you received yesterday are basically accurate. However, the six-million dollar gross profit figure does not include the expenses Mapco incurs in refining the oil.

A more relevant comparison could be made by looking at the price that Mapco would otherwise have to pay the producers to obtain oil if it did not receive royalty oil on assignment from GVEA. For example, the January, 1985 Pump Station 1 in-value price is \$16.90. Thus Mapco's Pump 1 price would be \$17.20. By way of comparison, Pump 1 prices in January were reported as \$18.13 for British Petroleum, \$17.16 for Phillips and \$16.95 for Sohio. Thus, it is not clear that Mapco would pay less for State royalty oil than it would for producers oil.

A similar comparison can be made with regard to the return oil. The value of the return oil to Mapco at Valdez would roughly be the Pump 1 price of \$17.20, plus tariffs of about ~~\$6.01~~ \$6.10, plus a \$1.22 quality differential penalty, for a Valdez price of \$24.52. By comparison, Valdez prices for producers oil would be \$24.14 for BP, \$23.17 for Phillips and \$22.96 for Sohio. Again, this does not appear to be a windfall for Mapco.

To the extent that committee members feel that Mapco is getting a "good deal" from the State, I would suggest that the "good deal" does not come from this contract. Rather, Mapco's competitive advantage comes from Mapco's own royalty oil contract, which contains terms significantly more attractive than those found in Alaska's other royalty oil contracts, and from Mapco's geographical location, which insulates it from the competition of other refiners.

Since the information available to DNR concerning Mapco's profitability must by statute be held confidential, I would suggest that your specific questions about the relationship between GVEA and Mapco, and about Mapco's profits from this sale, be addressed to either GVEA or Mapco.

I'd like to correct one number that I gave to the committee yesterday. The amount of return oil barrels from the GVEA contract is roughly 3,300 bpd, rather than 1,500 to 1,600 bpd.

Thank you, Mr. Chairman. That concludes my remarks.

FINANCIAL ANALYSIS HB 287

	Bbls. per Day	Gal. Per Bbl.	Gal. Per Day (5000 Bbl.)	MAPCO Markup	MAPCO daily Gross Profit	MAPCO Annual Gross Profit
Turbine Fuel	5,000	5.25	26,250	$0.09	$2,362.50	$862,312.50
Diesel/heating	5,000	11.18	55,900	$0.26	$14,534.00	$5,304,910.00
Totals			82,150		$16,896.50	$6,167,222.50
						==============
G.P. Turbine/per bbl		0.4725				
G.P. Diesel/heating		2.9068		GVEA Estimated Savings		$550,000.00
Total G.P. per bbl/crude		3.3793				===============
				% of profit to GVEA		8.92%
Crude bbl per day		5,000				==============
G.P. per day (total)		$16,896.50				

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

To: Rep. Mike Davis, Chairman
From: Jonathan Sperber, Committee Aide
Date: March 19, 1985
Re: HB 287

The sale of royalty oil to Golden Valley Electric Association (GVEA) involves the purchase of royalty oil by GVEA, the assignment of that oil from GVEA to MAPCO, and the sale of 625+ b/d of industrial turbine fuel from MAPCO to GVEA at a discounted price. This discounted fuel represents approximately one-third of GVEA's turbine fuel needs, and one-sixth of the utility's total energy requirements.

The 625 b/d of turbine fuel is sold to GVEA at MAPCO's acquisition cost, plus a processing fee and a fixed margin. This represents a $550,000 annual discount to GVEA, which is passed through to GVEA's members as a 1.57% savings on their electric costs. This consumer benefit satisfies the best-interest requirement set forth in AS 38, and this serves as the basis and justification for the state to sell royalty oil to GVEA.

Direct consumer benefit is an extremely important aspect of negotiated royalty oil contracts. In order to maximize benefits to both local consumers and the state as a whole, however, attention should be given to the following terms of the proposed GVEA contract:

1. Contract terms: duration, volume, premium
2. Three-year cancellation clause
3. Agreement for the state to not purchase return oil
4. Amerada Hess adjustment liabilities
5. Consumer savings v. MAPCO profits
6. Value of royalty oil taken in-kind v. in-value

1. Contract Terms

Duration: Ten years. The present GVEA contract is for a 7-year period, the Tesoro and Chevron contracts approved last year are both 10-year contracts, and the MAPCO contract lasts 25 years.

Volume: 2.667% of Prudhoe Bay Unit royalty oil production. Initial volume of 5,000 b/d, decreasing to 2,167 b/d in 1994. Since one-eighth of the crude oil volume must be made available to GVEA as turbine fuel at a discounted price, GVEA will receive 625 b/d of this fuel in 1985, and 270 b/d in 1994.

Premiums: 30¢ per barrel. This is the same as the premium negotiated with Chevron last year. Premiums on competitive bid sales significantly exceed those on negotiated sales, however, as evidenced by average premiums of 51¢, 69¢, and 84¢ on the three Prudhoe Bay and Kuparuk categories offered in the December, 1984 competitive bid sale.

2. Three-Year Cancellation Clause

The extreme length of notice required for GVEA to cancel its agreement with MAPCO, in concert with GVEA's being liable for Amerada Hess adjustments on all turbine fuel purchased under this agreement if the agreement is cancelled, is a very strong disincentive against breaking the agreement with MAPCO. A three-year cancellation clause effectively locks out GVEA's ability to negotiate a better deal on its energy purchases should favorable opportunities arise.

3. Agreement For the State to Not Purchase Royalty Oil

Based on MAPCO's agreement to be responsible for Amerada Hess adjustments, the state has agreed to not exercise its option to purchase return oil as long as MAPCO receives royalty oil under the GVEA contract. It is worth noting that the state does not have an opportunity to purchase return oil under the MAPCO contract, although this option does exist with both the Tesoro and Chevron contracts negotiated last year.

Return (or residual) oil is returned by MAPCO to the Trans-Alaska Pipeline at Fairbanks, and is then reclaimed by MAPCO as whole crude oil at Valdez. MAPCO may then exchange this oil for crude oil from the North Slope, thereby repeating the process of receiving, refining, returning, and exchanging oil. As a penalty for returning lower-quality oil into the pipeline, MAPCO pays a quality bank differential of 10¢ per API degree loss. At a 7 degree quality loss, MAPCO would pay a penalty of 70¢ per barrel.

4. Amerada Hess Adjustment Liabilities

GVEA is liable for Amerada Hess adjustments on the turbine fuel received under the agreement with MAPCO for a 12-month period immediately prior to final resolution of Amerada Hess litigation. At an Amerada Hess adjustment figure of $2 per barrel, and following MAPCO's stated intent to sell GVEA 685 b/d under this agreement, this equates to a loss of $500,000. This loss represents approximately one year's annual savings to GVEA at the high-volume end of the contract. As mentioned above, GVEA will be liable for all Amerada Hess adjustments on turbine fuel received under this agreement if the utility cancels its agreement with MAPCO.

5. Consumer Savings v. MAPCO Profits

Each barrel of crude oil refined by MAPCO produces approximately 5.25 gallons of turbine fuel and 11.18 gallons of jet fuel and diesel/heating oil. The remaining oil is reinjected into the pipeline as resid. MAPCO marks-up turbine fuel at about 9¢/gal. (from assignment agreement with MAPCO) and jet and diesel/heating oil at about 26¢/gal. (from Alaska Petroleum Product Pricing). This implies an annual gross profit of about $1,800,000 based on 1469 b/d at a mark-up of $3.38 per barrel. Operating and depreciation expenses would be deducted from this figure to arrive at MAPCO's annual net profit.

6. Value of Royalty Oil Taken In-Kind v. In-Value

The difference in net value between oil taken in-kind and that taken in-value is based upon the premium and the extent (if any) to which the West Coast value of return oil emerging at Valdez exceeds the in-value price paid of it plus the quality bank penalty.

BILL SHEFFIELD
GOVERNOR

HB 287

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 13, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that provides for legislative approval of a royalty oil contract between the state and Golden Valley Electric Association for the sale of Prudhoe Bay royalty oil. Also transmitted with this bill is a copy of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending approval of this contract, along with a letter from the board chairman. This resolution is being transmitted in accordance with AS 38.06.040(a)(3) and AS 38.06.070(c).

This contract is also described in the findings issued by the Department of Natural Resources on January 16, 1985. Copies of these findings have been made available to the legislature and the public for review.

This contract is being submitted for legislative approval for two reasons. First, although this and the previous administration have consistently taken the position that the statutory requirement of legislative approval of royalty oil contracts (AS 38.06.055) is unconstitutional, as a matter of comity I respect the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, this contract contains provisions requiring approval by the legislature before it becomes effective. Second, this bill would ratify the agreement for sale of oil. This ratification would cure any procedural defect that may have occurred in the process of entering into this contract. Although we believe that all necessary steps have been taken, the statutes and regulations governing the disposal of royalty oil represent often conflicting desires and goals -- both procedural and substantive. For example, even if statutorily requiring legislative approval were constitutional, the present statutes provide, on the one hand, that the legislature is to approve the contract by enacting legislation (AS 38.06.055(a)), but, on the other hand, they also provide that a report of the Royalty Board "shall be submitted for legislative review at the time a resolution for legislative approval of a proposed disposition of royalty oil and gas is introduced in the legislature" (AS 38.06.070(c)). Since legislative approval is required anyway as a matter of contract, I believe that it is only prudent to present this contract for legislative approval and ratification at this time.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

C
4/17

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:

REQUEST
Bill/Resolution No.: HB 287
Title: Approving royalty oil contract with GVEA
Sponsor:
Requestor:
Date of Request:

FISCAL DETAIL
Agency Affected: Natural Resources
Program Category Affected: NRMEC
BRU, Program or Subprogram(s) Affected:
Oil and Gas

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar
Phone: 465-2400
Division: Commissioner's Office
Date: March 5, 1985

Approved by Commissioner: Esther C. Wunnicke
Date: March 5, 1985
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

3/13

2/21/85

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

POUCH 7-034
ANCHORAGE, ALASKA 99510

March 11, 1985

The Honorable Ben F. Grussendorf
Speaker of the House of Representatives
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Reference: "An Act Relating to the Sale and Purchase of Royalty Oil from the Prudhoe Bay Unit between the State of Alaska and Golden Valley Electric Association, Inc."

Dear Mr. Speaker:

In accordance with AS 38.06.040(3), I am forwarding for your consideration the resolution of the Alaska Royalty Oil and Gas Development Advisory Board which recommends that the legislature approve the referenced sale of royalty oil to Golden Valley Electric Association, Inc.

If we can be of further service, please do not hesitate to call.

Sincerely,

James B. Gottstein
Chairman

The Alaska Royalty Oil & Gas Development Advisory Board

Resolution 85-1

Findings

1. On December 5, 1984, the Alaska Royalty Oil and Gas Development Advisory Board ("board") received the preliminary findings and determinations of the commissioner of the Alaska Department of Natural Resources ("commissioner") on the sale of Prudhoe Bay royalty oil to Golden Valley Electric Association, Inc. ("GVEA") and the draft contract with GVEA for the sale and purchase of that royalty oil.

2. On January 16, 1985, the board received the commissioner's final findings and determinations on the sale of Prudhoe Bay royalty oil to GVEA.

3. On February 8, 1985, the State of Alaska, through the commissioner, executed the agreement for the sale of royalty oil with GVEA and provided each board member with a copy of the GVEA contract.

4. On February 20, 1985, the board held a public hearing in Anchorage, with telecommunication hookups in Fairbanks, Juneau, and Valdez, to receive testimony on the proposed sale of Prudhoe Bay royalty oil to GVEA and met to discuss the GVEA contract, the commissioner's findings and determination, and the public testimony.

Conclusions

Based on the board's review of the GVEA contract, the commissioner's findings and determinations, and the public testimony, the board concludes that the proposed disposal of Prudhoe Bay royalty oil to GVEA meets the requirements of AS 38.06.

Resolution

Based on these findings and conclusions, the board recommends to the Fourteenth Alaska Legislature that the "Agreement for the Sale and Purchase of Royalty Oil" between the State of Alaska and Golden Valley Electric Association, Inc., dated February 8, 1985, be APPROVED.

Dated: March 11, 1985

Pat D Hall

Mary Lou Bond

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

POUCH 7-034
ANCHORAGE, ALASKA 99510

April 4, 1985

Marco Pignalberi
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Mr. Pignalberi:

As you requested, this letter responds to your concern that the Department of Natural Resources' ("DNR") January 16, 1985 Final Findings and Determination to Sell Prudhoe Bay Royalty Oil to Golden Valley Electric Association, Inc. contained an inexplicable factual error. This letter will explicate those concerns.

In that Finding DNR stated that approximately one-third (625 barrels) of GVEA's daily turbine fuel requirements would be provided at a discounted price to GVEA through the proposed disposal. GVEA Manager Burt Sharp noted at a recent House Oil & Gas Committee Hearing that at the time the Findings were prepared the DNR only had 1983 numbers. Mr. Sharp also noted that in his recent analysis of 1984 figures the barrels which would be provided at a discounted price to GVEA through the proposed disposal are now closer to one-half (983 barrels) of GVEA's daily turbine fuel requirement.

Although the contract contemplated a maximum quantity of 5000 bpd, as you can see by Attachment 1 (Exhibit B to the original GVEA contract), there are annual ceiling limits to this quantity, such limits expiring December 15, 1983. On December 3, 1980, GVEA gave notice to the State that they wished to commence taking 2,055 barrels per day of state royalty oil (1.096%), with deliveries commencing on June 17, 1981 (Attachment 2). The 2,055 barrels per day was the maximum GVEA could have taken at that time under the annual ceiling. On April 15, 1983 notification was sent to the producers at GVEA's request (See Attachment 3 - April 7, 1983 letter to Mike Kelly) increasing the maximum quantity to the 5,000 bpd authorized under the terms of the contract. Therefore, deliveries for 1983 to GVEA can be calculated as follows:

January 1 - July 31 @ 2,055 bpd X 212 days =	435,660
August 1 - December 31 @ 5,000 bpd X 153 days =	765,000
Total barrels	1,200,660

In 1984 deliveries were not subject to the annual quantity ceiling.

The amount of discounted turbine fuel provided to GVEA through the new contract will represent a larger proportion of GVEA's overall turbine fuel needs than DNR reported in its Findings. Measured as a proportion, the proposed contract will have an even more favorable impact on GVEA. However, this proportion does not affect the $550,000 annual benefit to GVEA or the per-kilowatt hour savings of between one and two-tenths of one percent as specified in DNR's January Findings.

If there is anything else I can help you with please do not hesitate to ask.

Sincerely,

Donna Wood Johnson

Donna Wood Johnson
Royalty Manager, Oil & Gas

DWJ/skt/3443s

EXHIBIT B

Attached to and Made a Part of the Royalty Oil Sales Agreement dated ______________________, 1977, Between GOLDEN VALLEY ELECTRIC ASSOCIATION, INC., an Alaskan Non-profit Corporation, "Buyer", and the Commissioner of Natural Resources of THE STATE OF ALASKA, acting pursuant to AS 38.05.183(d), "Seller", With Respect to Certain Royalty Oil Owned and Taken In-Kind by Seller Under the Leases Described in Exhibit "A", Covering Lands in the State of Alaska and Following the Herein Described Schedule of Delivery of Crude Oil.

SCHEDULE OF
DELIVERY OF CRUDE OIL

DATES			QUANTITY
From	To	(bbls/day)	(But not to exceed on an annual basis*)
December 15, 1977	December 15, 1978	2000	500,000
December 15, 1978	December 15, 1979	3000	750,000
December 15, 1979	December 15, 1980	3000	750,000
December 15, 1980	December 15, 1981	3000 ✓	750,000
December 15, 1981	December 15, 1982	5000	1,200,000
December 15, 1982	December 15, 1983	5000	1,200,000

*in barrels

Attachment 1

Document provided by MAPCO 3/18/85

MAPCO has had a contract with Golden Valley Electric Association (GVEA) since September 1, 1977. The contract is for MAPCO to deliver industrial turbine fuel into GVEA's fuel storage tanks via pipeline, based on a monthly requirement from GVEA. MAPCO assumes financial obligation to deliver product from the refinery to GVEA's storage tanks. For all ANS crude that is delivered through GVEA's feeder line to MAPCO's refinery, which runs approximately 2.3 miles from the TAPS line, MAPCO pays to GVEA a transportation fee.

MAPCO and GVEA signed a contract on May 1, 1980 whereby MAPCO supplied turbine fuel (which includes HF/DF #1 and HF/DF #2) for diesel generator facilities at North Pole and in Fairbanks. The Fairbanks product is delivered by rail tank car or transport truck. The proposed royalty oil contract between State of Alaska and GVEA insures a continued source of turbine fuel.

MAPCO signed an agreement with GVEA on October 22, 1984 whereby MAPCO had constructed, at a cost of $2,250,000, an electric substation to connect MAPCO electrical facilities to the transmission system of GVEA. GVEA provides MAPCO system control and data acquisition capabilities for the 69 KV portion of the substation. As MAPCO and GVEA's operations are in close proximity, either party is available for any required maintenance work on a 24 hour basis.

GVEA is working with the Department of Natural Resources, State of Alaska, for a 5000 BPD royalty oil contract. A breakdown of that product, based on average percentage yields, is listed below:

Refinery fuel		60 BPD
GVEA - turbine fuel		685
Return oil		2786
Refined product		1469
JP-4/Jet B	407	
#1 fuel oil - Jet A	784	
#2 fuel oil -10°	242	
#2 fuel oil +05°	36	
	1469	
		5000 BPD

The turbine fuel is provided at a discount to GVEA. This accounts for approximately one-third of GVEA's daily turbine fuel requirements. The refining charge GVEA pays for the other two-thirds of its daily turbine fuel needs would translate into a savings to GVEA of about $550,000 annually.

MAPCO and GVEA have an agreement for MAPCO to keep and dispose of the royalty return oil on an earlier contract. As the state has requested additional consideration from MAPCO for assignment agreement, MAPCO will be responsible for any GVEA liabilities resulting from retroactive price adjustments regarding the resolution of the Amerada Hess dispute. GVEA would be responsible for one-eighth of the Amerada Hess liability accrued in one year. The remaining seven-eights during that one year period, and any liabilities accrued in all other years during the term of the proposed GVEA contract, would be assumed by MAPCO. This provision guards GVEA from the effects of a favorable outcome for the state and increases benefits to be received by GVEA customers. With MAPCO's agreement to cover the largest share of any future liability, the benefit to GVEA members on the proposed royalty oil contract is great. This protection allows GVEA the freedom from a liability which could accumulate for up to ten years and be financially devastating.

The negotiation of this contract would have great benefits for the residents of Interior Alaska.

1. With population increasing in Interior Alaska, a constant electrical energy source is assured.

2. The benefits of an electrical cooperative will continue.

3. Local labor markets will benefit by employment with GVEA and MAPCO.

4. Alaska's petroleum requirements can be met with additional refined products available.

JAN. 14, 1985

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION FOR PRUDHOE BAY AND KUPARUK RIVER UNITS

	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)			ESTIMATED ROYALTY (BARRELS PER DAY)			ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)							
YEAR	TOTAL PRUDHOE	(1) TOTAL KUPARUK	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	TOTAL ROYALTY	MAPCO	(2) GVEA (OLD)	(3) GVEA (PROPOSED)	(4) TESORO (OLD)	(5) TESORO (NEW)	(6) CHEVRON	(7) COMPETITIVE SALE	ROYALTY IN VALUE
1984	1,500,000	120,000	1,620,000	187,500	15,000	202,500	35,000	5,000		39,765		18,000		104,735
1985	1,500,000	180,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	26,001	18,000	65,000	15,000
1986	1,500,000	180,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	26,001	18,000		80,000
1987	1,475,000	180,000	1,655,000	184,375	22,500	206,875	35,000		4,917	45,233	25,567	17,700		78,458
1988	1,325,000	200,000	1,525,000	165,625	25,000	190,625	35,000		4,417	40,633	22,967	15,900		71,708
1989	1,175,000	200,000	1,375,000	146,875	25,000	171,875	35,000		3,917	36,833	20,367	14,100		62,458
1990	1,050,000	200,000	1,250,000	131,250	25,000	156,250	35,000		3,500	32,200	18,200	12,600		54,750
1991	950,000	200,000	1,150,000	118,750	25,000	143,750	35,000		3,167	29,133	16,467	11,400		48,583
1992	850,000	200,000	1,050,000	106,250	25,000	131,250	35,000		2,833	26,066	14,734	10,200		42,417
1993	750,000	200,000	950,000	93,750	25,000	118,750	35,000		2,500	23,000	13,000	9,000		36,250
1994	650,000	170,000	820,000	81,250	21,250	102,500	35,000		2,167	19,933	11,267	7,800		26,333
1995	575,000	145,000	720,000	71,875	18,125	90,000	35,000							55,000
1996	510,000	120,000	630,000	63,750	15,000	78,750	35,000							43,750
1997	460,000	100,000	560,000	57,500	12,500	70,000	35,000							35,000
1998	420,000	80,000	500,000	52,500	10,000	62,500	35,000							27,500
1999	380,000	75,000	455,000	47,500	9,375	56,875	35,000							21,875
2000	340,000	65,000	405,000	42,500	8,125	50,625	35,000							15,625
2001	300,000	55,000	355,000	37,500	6,875	44,375	35,000							9,375
2002	270,000	50,000	320,000	33,750	6,250	40,000	35,000							5,000
2003	240,000	40,000	280,000	30,000	5,000	35,000	35,000							0
2004	210,000	35,000	245,000	26,250	4,375	30,625								30,625
2005	180,000	25,000	205,000	22,500	3,125	25,625								25,625
2006	160,000	25,000	185,000	20,000	3,125	23,125								23,125
2007	140,000	20,000	160,000	17,500	2,500	20,000								20,000
2008	110,000	20,000	130,000	13,750	2,500	16,250								16,250
2009	80,000	10,000	90,000	10,000	1,250	11,250								11,250
2010	50,000	10,000	60,000	6,250	1,250	7,500								7,500

NOTES:

(1) DNR ESTIMATE OF FIELD PERFORMANCE, OCTOBER 1984.

(2) GVEA'S CURRENT CONTRACT EXPIRES JUNE 30, 1985.

(3) GVEA'S PROPOSED TEN-YEAR CONTRACT WOULD COMMENCE FOUR MONTHS AFTER APPROVAL BY THE LEGISLATURE AND GOVERNOR. QUANTITY IS 2.667% OF DAILY PRUDHOE ROYALTY OIL.

(4) TESORO'S CURRENT CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 24.533% OF DAILY PRUDHOE ROYALTY OIL LESS COOK INLET ROYALTY PRODUCTION. THE QUANTITY IS 21.208% IN 1984, AND WILL BE 21.326% STARTING JAN. 1, 1985. THIS CONTRACT WILL BE INCREASED TO ITS' MAXIMUM QUANTITY ON OCTOBER 1, 1985 DUE TO CANCELLATION OF THE COOK INLET CONTRACT ON THAT DATE. THE CONTRACT EXPIRES JANUARY 1995.

(5) MOST OF THIS VOLUME (ABOUT 25,000 BPD), WHICH IS CURRENTLY BEING TAKEN "IN VALUE," WAS SOLD COMPETITIVELY FOR DELIVERY APRIL 1, 1985 THRU SEPT. 30, 1985. ON OCTOBER 1, 1985 IT IS ANTICIPATED THAT TESORO WILL COMMENCE DELIVERIES UNDER ITS 12/9/83 PRUDHOE CONTRACT, WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(6) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

(7) DELIVERIES WILL COMMENCE APRIL 1, 1985 FOR 50,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE-YEAR, AND SIX-MONTH PERIODS, RESPECTIVELY, AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE. PRIOR TO THAT TIME THIS OIL REMAINS "IN VALUE."

dwj

STATE OF ALASKA
COMPETITIVE ROYALTY OIL SALE

DEC. 11, 1984

PURCHASER		LOT #	ESTIMATED BARRELS PER DAY	CONTRACT LENGTH (IN DAYS)	TOTAL EST. BARRELS PER CONTRACT	BASE PRICE	PREMIUM	TOTAL REALIZED (1)	DIFFERENCE REALIZED (1) (2)
CATEGORY A: KUPARUK									
CHEVRON	*	1	5,000	182.5	912,500	$16.92	$0.82	$16,187,750.00	$804,177.13
UNION	*	2	5,000	182.5	912,500	$16.92	$0.53	$15,923,125.00	$539,552.13
CHEVRON	*	3	5,000	182.5	912,500	$16.92	$0.17	$15,594,625.00	$211,052.13
SUBTOTAL			15,000		2,737,500		-	$47,705,500.00	$1,554,781.38
		HIGHEST PREMIUM BID:		$0.82	AVERAGE PREMIUM BID:		$0.51		
CATEGORY B: PRUDHOE									
U.S. OIL		1	5,000	365	1,825,000	$17.92	$1.04	$34,602,000.00	$1,703,655.75
U.S. OIL		2	5,000	365	1,825,000	$17.92	$1.04	$34,602,000.00	$1,703,655.75
CHEVRON	*	3	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,405.75
CHEVRON	*	4	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,405.75
CHEVRON	*	5	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,405.75
TEXACO	*	6	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
TEXACO	*	7	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
TEXACO	*	8	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
TEXACO	*	9	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
TEXACO	*	10	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
SUBTOTAL			50,000		18,250,000			$342,315,250.00	$13,331,807.50
		HIGHEST PREMIUM BID:		$1.04	AVERAGE PREMIUM BID:		$0.84		
CATEGORY C: PRUDHOE									
CHEVRON	*	1	5,000	182.5	912,500	$17.92	$1.03	$17,291,875.00	$842,702.88
TEXACO	*	2	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$406,827.88
TEXACO	*	3	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$406,827.88
TEXACO	*	4	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$406,827.88
SOHIO		5	5,000	182.5	912,500	$17.92	$0.51	$16,817,375.00	$368,202.88
SUBTOTAL			25,000		4,562,500			$84,917,250.00	$2,671,389.38
		HIGHEST PREMIUM BID:		$1.03	AVERAGE PREMIUM BID:		$0.69		
TOTALS FOR ALL LOTS:		18	90,000		25,550,000			$474,938,000.00	$17,557,978.25

(1) THESE PROJECTIONS ASSUME THAT CURRENT MARKET CONDITIONS AND PRICES CONTINUE.

(2) THIS AMOUNT IS THE DIFFERENCE BETWEEN THE ESTIMATED ROYALTY-IN-VALUE RECEIPTS BASED ON THE VOLUME WEIGHTED AVERAGE OF PRODUCERS' REPORTED NETBACK PRICES (OCTOBER) AND THE ESTIMATED RECEIPTS OF THE COMPETITIVE SALE BASED ON THE BID PREMIUM PLUS THE BASE PRICE.

(*) PRIORITY BIDDERS

STATE OF ALASKA
COMPETITIVE ROYALTY OIL SALE

DEC. 11, 1984

NUMBER OF BIDS SUBMITTED:	49
NUMBER OF BIDDERS PARTICIPATING:	8
HIGHEST PREMIUM BID: SUBMITTED BY: U.S. OIL	1.04
ESTIMATED TOTAL REVENUES FROM SALE:	$474,938,000
COMPANY WITH MOST WINNING BIDS:	TEXACO WITH 8 LOTS
NUMBER OF LOTS WON BY PRIORITY BIDDERS:	15
NUMBER OF LOTS WON BY NON-PRIORITY BIDDERS:	3

State of Alaska

Department of Natural Resources

Final Findings & Determination

to Sell Prudhoe Bay Royalty Oil to

Golden Valley Electric Association, Inc.

January 16, 1985

TABLE OF CONTENTS

I. Introduction.

The State of Alaska proposes to sell 2.667% of its daily royalty oil (approximately 5,000 barrels per day) from the Prudhoe Bay Unit to Golden Valley Electric Association, Inc. (GVEA) under a long-term, noncompetitive contract. In accordance with AS 38, the Department of Natural Resources must determine whether this disposal serves the state's best interest before the sale may take place. This final finding describes the proposed sale and analyzes its potential effects.

II. Background and Chronology.

GVEA is the public cooperative electric utility in Fairbanks. The state's previous long-term royalty oil contract with GVEA, executed in 1976, was the first royalty oil contract negotiated and executed after the 1976 establishment of the Alaska Royalty Oil and Gas Development Advisory Board. GVEA requested royalty oil so that crude oil might be used as turbine fuel for power generation in the event that the cost of turbine fuel from the North Pole Refinery became prohibitive.

GVEA's contract with the state was for the purchase of 5,000 bpd. GVEA did not exercise its option to purchase royalty oil until June 17, 1981. GVEA assigned its contract rights to North Pole Refinery, Inc., which is now owned by MAPCO Petroleum Inc. (MAPCO), in exchange for a price discount on the turbine fuel refined from the royalty oil. MAPCO refines the royalty oil into jet fuels, diesel, heating oil, and other refined products in addition to turbine fuel, and reinjects the remaining return oil into the Trans Alaska Pipeline System (TAPS).

In a November 1982 letter to the Department of Natural Resources, GVEA requested an extension of its contract for an additional ten years. No action was taken on that request pending the change of administrations. In March 1983, the new administration began negotiations with GVEA on a new ten-year contract to assist in satisfying the needs of GVEA's 50,000 in-state consumers. Notice of the proposed long-term sale to GVEA was published on November 8, 1983. A notice of that royalty board meeting, which included a review of the proposed GVEA disposal (among other things), was also published on November 16, 1983.

The Alaska Royalty Oil and Gas Development Advisory Board's December 7, 1983 review of the proposed GVEA disposal and the agreement, as negotiated to that date, revealed specific concerns by both the public and board members with respect to the state's option on return oil and the relationship between MAPCO and GVEA. In view of those reservations and the limited time for further negotiation, the long-term GVEA contract was not presented for legislative approval. Instead, an interim one-year contract not requiring legislative approval was put into effect. Subsequently, GVEA and the Department undertook sporadic negotiations during early 1984 with the goal of making long-term contract revisions responsive to the issues raised at the December 7, 1983 royalty board meeting. During this period, the assignment agreement between MAPCO and GVEA also remained in effect. On September 12, 1984, the Director of the Division of Oil & Gas briefed the royalty board on the Department's continuing negotiations with GVEA and MAPCO.

On November 29, 1984, GVEA, MAPCO and the Department reached tentative agreement on a new long-term contract to be presented to the royalty board and the legislature. The terms of the proposed contract, which were included in the Department's Preliminary Findings and Determination to Sell Prudhoe Bay Royalty Oil to Golden Valley Electric Association, Inc. of December 7, 1984, are again summarized below.

III. Summary of Proposed Contract Terms.

1. Price: The total price per barrel to be received by the state in the proposed contract is the sum of the following components:

   (a) The (monthly) volume weighted average of the Prudhoe Bay lessees' current reported netback prices, as adjusted for transportation and other costs by those lessees.

   (b) Additional amounts, primarily from GVEA's assignee (MAPCO), if the state obtains a favorable resolution of litigation disputing the validity of the Prudhoe Bay lessees' current reported netback prices (State of Alaska, et al vs. Amerada Hess, et al).

   (c) Those cleaning and dehydration field costs which the state must pay when either taking its royalty share in-value (receiving money from the Prudhoe Bay lessees equal to the volume weighted average of their current reported netback prices, as may be retroactively adjusted upon resolution of the Amerada Hess litigation) or taking title to its royalty share of oil for an "in-kind" disposal. In a 1980 partial settlement of the Amerada Hess litigation, the state acknowledged limited responsibility for certain field costs in either case. And,

   (d) A $.30 per barrel premium.

2. Term:

   (a) The date of first delivery will be four months after enactment of legislation by the State of Alaska (including approval by the Governor) approving the agreement unless the state, in its sole discretion, sets an earlier date.

   (b) The termination date of the contract is June 30, 1995.

   (c) The price specified above is subject to renegotiation in July 1987 and every two years thereafter for the duration of the contract.

3. Quantity: 2.667% (approximately 5,000 bpd) of daily royalty oil from the Prudhoe Bay Unit.

4. Point of Delivery: Custody transfer meters into the Trans Alaska Pipeline system at Prudhoe Bay.

5. In-State Use: When the Department executes the agreement, it will also execute an agreement with GVEA and MAPCO approving GVEA's assignment of its royalty oil to MAPCO. The state retains the right to terminate its approval of the MAPCO/GVEA relationship, in which MAPCO provides GVEA a specific discount on a specific quantity of turbine fuel. Should the assignment be terminated, GVEA's continued receipt of royalty oil would be conditioned upon GVEA arranging a new means of using royalty oil to provide GVEA consumers electricity at a cost lower than otherwise possible.

6. Security: GVEA will arrange to provide a letter of credit to the state in the amount of $5,316,000, which is equivalent to approximately sixty days' worth of oil. Upon default, this letter is redeemable upon signature of the Attorney General and the Commissioner.

7. Return Oil: Throughout the term of the contract, the state will have the option to purchase all return oil produced, refined, or exchanged under the contract. In consideration of MAPCO's consent to accept the majority of any liabilities stemming from the resolution of the Amerada Hess dispute, the state has agreed not to exercise its return oil option so long as MAPCO receives royalty oil under the GVEA royalty oil contract.

8. Standard Contract Terms: The contract will contain all appropriate standard state contract terms.

IV. Comments Received

Written comments addressing the Preliminary Finding and Decision were received from two parties prior to the close of the comment period. By a letter dated December 28, 1984, Tesoro Alaska Petroleum Company (Tesoro) expressed concern about the extent to which the proposed disposal may benefit MAPCO. Tesoro suggested that a more favorable contract for GVEA might have been secured during negotiations with MAPCO. The Department agrees that the benefits to GVEA of the proposed disposal are modest. While perhaps not sufficiently emphasized in the Preliminary Findings, the proposed disposal is based upon benefits to the state as well as to GVEA. Consequently, the price terms of the proposed disposal are similar to those of the state's recently executed royalty oil contracts with Tesoro and Chevron.

Since the state would be a major financial beneficiary of the proposed disposal, more advantageous contract terms for GVEA could not necessarily be borne by MAPCO. Although MAPCO must benefit to some degree as an indirect party to the agreement, the Department has sought to confine (to the extent possible in collective bargaining) the benefits of the proposed disposal to the state and GVEA. Upon receiving Tesoro's comments, the Department encouraged direct consultations between Tesoro and GVEA. As these discussions did not lead GVEA to conduct further negotiations with MAPCO, GVEA has presumably secured the best terms possible from MAPCO as well as the state.

By a letter dated January 8, 1985, James B. Gottstein, the Chair of the Royalty Oil and Gas Advisory Board (Royalty Board), also submitted comments related to the proposed disposal. Gottstein was concerned with a possible relationship between this disposal and the decision to shorten the contract terms of three 5,000 b/d lots of Kuparuk River royalty oil from one year to six months for the competitive royalty oil sale of December 11, 1984. However, the Kuparuk oil withdrawn from the sale was not committed to MAPCO or GVEA as Gottstein apparently believed was the case. That oil remains uncommitted.

Gottstein also said the Department did not properly inform the Royalty Board of that decision, as he believed was required. The Royalty Board review mandated by AS 38.06.050 extends only to royalty oil dispositions for which legislative approval is required. The December 11, 1984 competitive royalty oil sale was a short-term market conditions sale, for which legislative approval was not required (AS 38.06.055(b)(1)). At the September 12, 1984 Royalty Board meeting, the division did brief the Royalty Board about the competitive sale. In the Invitation to Bid discussed at the Royalty Board meeting, future revisions to sale terms at the direction of the commissioner were clearly contemplated. The rationale for the Department's revision was also publicly analyzed in-depth in the November 28, 1984 Supplemental Findings for the Competitive Royalty Oil Sale. Royalty Board input was not required for the decision to decrease the terms of the Kuparuk lots, and the division's consultation with regard to the sale in general exceeded statutory and regulatory requirements.

V. Contract Revisions

Since publication of the previous preliminary notice in November, 1983, the proposed GVEA contract has been altered by the Department and GVEA to address the concerns raised about the earlier proposed contract. Two key issues, both of which led to revisions in the contract form, were in-state use and return oil.

Currently, the consumer benefits of the GVEA contract depend on MAPCO's agreement with GVEA to provide turbine fuel at a price lower than what GVEA would otherwise pay. Under GVEA's present contract, the state is unable to enforce the degree of advantage afforded to GVEA since that agreement is between GVEA and MAPCO only. Consequently, Section 2.11 (In-State Use) of the proposed contract has been rewritten, and an agreement between the state, GVEA, and MAPCO has been added to assure that the agreed upon refining arrangement with MAPCO will be maintained, within certain bounds, over the life of the GVEA contract. The state will have the option to terminate its approval of the assignment should the relationship between GVEA and MAPCO change materially.

The state has insisted on the option to terminate the contract on these grounds since the proposed disposal is based in part on the specific benefits provided for GVEA members. Approximately one-third (625 barrels) of GVEA's daily turbine fuel requirements would be provided at a discounted price to GVEA through the proposed disposal. When compared to the refining charge which GVEA must pay for the remaining two-thirds of its turbine fuel needs, this discount translates into an annual savings to GVEA of about $550,000.

GVEA's total turbine fuel consumption now accounts for about 45% of its fuel use. The balance of GVEA's power generation comes from coal. Given the operations costs of GVEA's turbine fuel and coal-fired generation and the volume of discounted turbine fuel the proposed royalty oil contract would provide GVEA, MAPCO's discount to GVEA would reduce the GVEA consumer's average power generation cost by about 1.57%. Due to a mathematical oversight, the Preliminary Findings erroneously implied that an average power generation cost savings to GVEA of about 1% would result from the proposed disposal.

The state's ability to ensure that the GVEA contract would continue to provide these consumer benefits has been reinforced by the addition of Exhibit A, an agreement (attached to the proposed GVEA contract) between the State, GVEA, and MAPCO. Article II of Exhibit A calls for MAPCO and GVEA to keep the state apprised of any changes in their assignment agreement, and reiterates that changes to that agreement which materially affect the consumer benefits are grounds for termination of the assignment approval by the state. In addition, Article III of Exhibit A ensures that MAPCO will give nine (9) months written notice to GVEA before reducing the amount of royalty oil taken, since GVEA must also notify the state nine (9) months in advance of such a reduction.

Residual oil is a by-product of most refineries, including the North Pole Refinery. Residual oil represents that portion of a barrel of crude oil which a refinery is unable to process into product. Because MAPCO is situated to reinject residual oil into TAPS (where it re-emerges as whole oil at Valdez), this oil is also referred to as "return oil".

The assignment agreement between MAPCO and GVEA allows MAPCO to keep and dispose of the royalty return oil for export. Because MAPCO appeared to be a major beneficiary of the prior GVEA royalty oil contract, in part through its control over the return oil, the state has sought additional consideration from MAPCO for state approval of the assignment agreement. Consequently, Article IV of Exhibit A makes MAPCO primarily responsible for any GVEA liabilities resulting from retroactive price adjustments attending the resolution of the Amerada Hess dispute.

GVEA would be responsible only for one-eighth of the Amerada Hess liability accrued in a period not to exceed one year. The remaining seven-eighths of the liability accrued in that period, and all liabilities accrued in all other years during the term of the proposed GVEA contract, would be borne by MAPCO. This provision of Exhibit A insulates GVEA from the effects of a favorable outcome for the state in the Amerada Hess dispute and consequently, increases the benefits received by GVEA's consumers. MAPCO's agreement to bear the largest share of any future liability would increase the effective benefit to GVEA members of the proposed royalty oil contract by several fold. With this protection, GVEA largely avoids a potential liability which could accumulate for a period of up to ten years and consequently harm its financial position.

The return oil provision of the proposed contract gives the state the option to purchase all return oil produced, refined, or exchanged under the contract. However, in consideration of Article IV of Exhibit A, by which MAPCO accepts the potential Amerada Hess liabilities discussed above, the state agrees not to exercise its right to purchase return oil so long as MAPCO receives royalty oil under the GVEA royalty oil contract.

In addition to the revisions of the in-state use and return oil provisions, other changes have been made to the proposed 1983 contract to conform GVEA's proposed contract to the state's most recent contract forms where possible. These changes can be found in Section 7.1 (Default), Section 8.2 (Inability to Receive Oil) Article XIX (Amendment), and a number of minor areas.

For the state's protection, a new clause in Section 8.2 assigns to the state all transportation rights, including nominations, charter agreements, and any other transportation arrangements which GVEA has for state royalty oil, in the event of the purchaser's inability to receive royalty oil. This is now a standard provision for state royalty oil contracts and is found in both the backup and primary form contracts for the December 11, 1984 competitive sale.

An additional sentence in Article XIX (Amendment) states that, "Any material amendment to the contract which appreciably reduces the consideration received by the state requires prior approval of the Legislature of the State of Alaska". This contract language is required by AS 38.05.183(f).

In Section 7.1 (Default), the first of the six conditions of default listed has been added so that the state may, with evidence of impending failure to perform, declare a condition of default. This is an important protection for the state since there is often circumstantial evidence, such as inadequate transportation arrangements, which precede actual failure to perform.

Minor revisions can be found in two sections of Article V (Payments and Accounting). These revisions, which track the state's recent royalty oil contracts, make the terms of payment somewhat more stringent for the purchaser. Section 5.3 now calls for payment by wire transfer, and no longer provides for clerical mistakes as an acceptable basis for failing to pay the amount billed. Section 5.7 also eliminates several circumstances previously specified as acceptable grounds for failure to make full payment.

The remaining changes to the GVEA contract are technical in nature and concern numerical corrections, date corrections, definition clarifications, changes in the format, and minor revisions to Sections 3.2 (Good Standing and Due Authorization) and 16.1 (Preferential Hiring). Also, the word "Royalty" has been deleted throughout the contract wherever it precedes the word "Oil" and certain terms made unnecessary by the introduction of the term "Purchase Price" have been deleted.

The clauses particular to GVEA's situation, and to long-term negotiated contracts in general, have been left intact. Examples include Section 2.1 (Quantity), where GVEA may elect to change, within certain bounds, the quantity of royalty oil received, and Section 7.3 (Seller's Remedies), which allows the state to release GVEA from the in-state use requirement, at the state's sole discretion. Section 8.1 (Disposition of Oil Upon Default or Termination) also falls into this category, but GVEA's obligation to continue payment in event of default has a four-month, rather than the standard seven-month, duration. This is because the Prudhoe Bay Unit producers will, by contractual agreement, accept physical custody of small quantities of royalty oil with only a 90-day notice. The volume of royalty oil proposed for sale to GVEA falls within that quantity range.

VI. Findings and Determinations.

1. Competitive bidding is waived.

I have determined in accordance with AS 38.05.183(a) that the best interest of the state does not require competitive bidding for this disposal. The best interest of the state is served by making this award on factors other than the highest price received from a competitive sale. Those factors are detailed in the following section of this document.

In order to realize the objectives implied by the considerations listed in AS 38.05.182-183 and AS 38.06.070 and to obtain benefits for Alaska consumers, disposal by competitive bid with the award determined entirely upon the cash value offered is not in the best interest of the state in this instance. Rather, it is in the best interest of the state to dispose of this royalty oil to GVEA, which offers maximum benefits to state citizens and which will pay a $.30 premium over what the state would have received had the state taken the oil at the weighted average of the Prudhoe Bay lessees' current reported netback prices, as may be retroactively adjusted by resolution of the Amerada Hess litigation.

2. The sale is in the best interests of the State.

Under AS 38.05.183(e) a noncompetitive sale, exchange, or other disposal of royalty oil or gas taken in-kind by the state may be awarded by the commissioner to the prospective buyer whose proposal offers maximum benefits to the citizens of the state.

In accordance with AS 38.05.035(e), AS 38.05.183(c) and (e), and 11 AAC 03.010(d), I find and determine that the taking of royalty oil in-kind and the disposal of that oil to Golden Valley Electric Association, Inc. (GVEA) for use in-state is in the best interests of the state. The following has been considered in making this determination:

a. The state will receive no less from this sale than if it had continued to take its royalty oil in-value at the weighted average of the Prudhoe Bay lessees' current reported netback prices as retroactively adjusted by litigation. The premium of $.30 over that price will likely offset any adverse effects on that price (and state revenues) which could occur when the state meets the needs of a refinery (in this case MAPCO) that would otherwise be a crude oil customer on the West Coast. The Commissioner's Preliminary Findings and Determination to Negotiate Backup Royalty Oil Contract(s) and Conduct a Competitive Royalty Oil Sale of July 12, 1984 detail those potential effects. It is not possible to forecast the impact of customer displacement on West Coast prices, let alone its influence on the current reported in-value price. However, the amount of the premium is likely to cover a reasonable differential. Further, MAPCO presently receives similar amounts of crude oil daily under the existing GVEA short-term contract. AS 38.05.183(e)(1).

b. A disposal to GVEA will have a favorable effect on the economy of the state because it will ensure that the cooperative's members continue to benefit directly from lower electric rates than would otherwise be possible. Each consumer to whom GVEA provides electric service is a member of the cooperative. Profit margins are allocated back to the consumer owners, all of whom are Alaska residents. The cooperative's goal is to provide dependable electrical service to its member-owners at the most economical price.

GVEA is regulated by the Alaska Public Utilities Commission. Over the past year, GVEA has experienced increased consumer need represented by an addition of 2,700 new households. GVEA currently employs 174 people (25 more workers than last year) to bring electric service to more than 50,000 Alaskans. AS 38.05.183(e)(2).

c. An in-state refiner, MAPCO, will be favorably impacted by the proposed GVEA contract. MAPCO's assigned right to purchase 5,000 bpd of state royalty oil enables MAPCO to refine many products for Alaskans in addition to turbine fuel for GVEA. The 5,000 bpd of royalty oil also assists MAPCO in meeting the feedstock requirements of its soon-to-be-expanded refinery. MAPCO may also sell or exchange the resulting return oil (so long as the price discount on turbine fuel provided to GVEA remains materially unaltered) to acquire more oil from TAPS near its Fairbanks refinery.

Although MAPCO will benefit from the proposed GVEA contract, it will not receive a windfall. Because of the $.30 premium, MAPCO will likely pay more for the assigned oil than it does under its own state royalty oil contract. Further, MAPCO's Exhibit A agreement to pay most of any _Amerada Hess_ liabilities arising under the proposed GVEA contract precludes it from passing on _Amerada Hess_ adjustments to GVEA, as it would otherwise do. AS 38.05.183(e)(3).

d. GVEA is uniquely able to use its royalty oil purchases to allow it to supply electrical energy to more than 50,000 Alaskans who currently enjoy price benefits directly attributable to the cooperative's purchase of state royalty oil. AS 38.05.183(e)(4).

e. The state is now highly dependent on oil revenues and will continue to depend on oil revenues in the future. The price term of the proposed sale protects the state's interest by ensuring that revenues from this sale will exceed the in-value alternative. AS 38.06.070(a)(1).

f. The local and regional needs of the Fairbanks area for electrical supply are met by service provided by GVEA to its member owners. The assignment agreement with MAPCO also helps satisfy local and regional needs for petroleum products. AS 38.06.070(a)(2).

g. The continued operation of GVEA, with the attendant payroll and secondary benefits, will have a positive and desired effect on the citizens of the state. While this disposal will likely not result in new capital investment or development, it will enable the efficient use of existing investment and development and contribute to the requirements of a refinery planned for expansion. AS 38.06.070(a)(3).

h. The projected social impacts of a disposal to GVEA are anticipated to be favorable. The benefits presently received from the operation of the electrical cooperative will continue. AS 38.06.070(a)(4).

i. Any additional costs and responsibilities which could be imposed upon the state and affected political subdivisions are likely to be minimal. AS 38.06.070(a)(5).

j. Local and regional consumption of both fuel oil-fired electricity and refined petroleum products will be directly and favorably affected by the GVEA disposal. Local labor markets will continue to benefit through employment opportunities at both GVEA and MAPCO. AS 38.06.070(a)(6).

k. Environmental effects resulting from the proposal will be negligible, if any, since the facility is already in existence. AS 38.06.070(a)(7).

l. The proposed disposal will help existing commercial private enterprise and patterns of investments by assisting in the continued operation of the GVEA cooperative and providing, through assignment, royalty oil to the North Pole Refinery for processing into refined products. AS 38.06.070(a)(8).

In accordance with 11 AAC 03.060(b), the weight given to the applicable criteria in determining the maximum benefit to Alaska citizens must be addressed. In making this finding the Department first assured itself that the state would not lose money by making a disposal to GVEA. Once so assured, other benefits attendant to the disposal were examined. If the price offered did not assure the state at least what it would have received had it left the oil in-value then the sale would not, in the Department's view, serve the state's best interests. For this reason the greatest weight in this disposal was placed on AS 38.05.183(e)(1), the cash value offered. After the cash value offered, the greatest weight was given to the projected benefits of using the oil in the state to directly benefit Alaskan citizens through lower electric rates.

VII. Conclusion.

By the terms of the proposed contract, the state is guaranteed the litigation-adjusted in-value price for its oil as well as a premium on each barrel. The additional premium assures that the state is not initially receiving less for its oil than if it elected to take its royalty share in money at the weighted average of the Prudhoe Bay lessees' reported prices. Should the *Amerada Hess* litigation be resolved in the state's favor, the state will be entitled to reimbursements resulting from the retroactive price adjustments provided for in the contract, with MAPCO holding the major responsibility for that potential liability. The satisfactory price terms of the proposed contract, coupled with associated direct and secondary benefits for Alaska citizens, supports the decision to waive competitive bidding.

The foregoing facts and analysis support my final finding that this disposal is in the best interests of the state and that it maximizes benefits to Alaska citizens.

Kay Brown

Kay Brown, Director
for Esther C. Wunnicke
Commissioner

January 16, 1985
Date

AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL

THIS AGREEMENT is entered into as of February 8, 1985 by and between THE STATE OF ALASKA ("Seller") and GOLDEN VALLEY ELECTRIC ASSOCIATION INC., an Alaskan Electric Cooperative Corporation, hereinafter referred to as "Purchaser".

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or her designee.

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

1.3 "Effective Date" shall have the meaning set out in Article VI.

1.4 "Leases" means the Oil and Gas leases which are subject to the terms of the Unit Agreement.

1.5 "Lessee" means any person owning a working interest in any of the Leases.

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

1.7 "Oil" or "crude oil" shall have the same meaning as the word "Oil" under the Unit Agreement.

1.8 "Point of Delivery" shall have the meaning set out in Section 2.4.

1.9 "Royalty Oil" means the Oil which the Seller may take in-kind (amount) as its royalty under the Leases whether or not Seller has elected to take or is taking that royalty in-kind.

1.10 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees each day.

1.11 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between Seller and the Lessees, as amended from time to time.

1.12 "TAPS" means the Trans Alaska Pipeline System.

ARTICLE II
SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser and Purchaser agrees to buy from Seller that amount of Oil equal to 2.667% of the Daily Royalty Oil (Maximum Quantity"). Upon at least nine (9) Months written notice to Seller, Purchaser may increase or decrease the amount of Oil to be tendered by Seller at the Point of Delivery, but the amount tendered by Seller under this Agreement shall not exceed the Maximum Quantity. Purchaser recognizes that Seller must normally give six (6) Months notice under the Unit Agreement (or ninety (90) days if the amount increased or decreased is less than ten (10) percent of the current nominations) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. It is understood and agreed that the volume of Daily Royalty Oil available to Seller will vary and may be interrupted from time to time, and depends upon a variety of factors, including the rate of production from the Leases. Seller disclaims and Purchaser waives any representation, covenant or warranty, expressed or implied, as to the specific quantity or the total or daily, Monthly, average, or aggregate volume of Royalty Oil to be sold or tendered under this Agreement. Seller warrants that it has good title to the Oil tendered under this Agreement. Seller shall hold Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Royalty Oil at the time the Royalty Oil is tendered to Purchaser.

If Seller underlifts or stores Royalty Oil at Prudhoe Bay, or if Seller recovers underlifted or stored Royalty Oil, the quantity of Oil tendered under this Agreement shall be calculated as if no Royalty Oil was underlifted or stored or recovered.

2.2 Quality. The Oil sold shall be the same quality as the Royalty Oil delivered by the Lessees to the Seller at the Point of Delivery. It is understood and agreed that the quality of the Oil sold may vary from time to time. Seller disclaims, and Purchaser waives, any guarantee, representation, or warranty, either expressed or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the Oil delivered under this Agreement or as to any specific, average or overall quality or characteristic of Oil to be sold or tendered under this Agreement.

2.3 Price of the Royalty Oil. The price for the oil tendered under this Agreement shall be equal to the amount that Seller would have received from its Lessees for the Royalty Oil tendered if that royalty had been payable in money (taken in value) rather than taken in kind plus a premium of $0.30 per barrel plus the Field Cost Allowance incurred by that oil as determined under the Prudhoe Bay Royalty Settlement Agreement (dated April 1, 1980 for reference purposes only), which was entered as part of a final judgment dated August 13, 1980 in State of Alaska, et al v. Amerada Hess Corp., et al., (Superior Court for the State of Alaska, First Judicial District at Juneau) ("Amerada Hess") ("Settlement Agreement") ("Purchase Price"). The Purchase Price shall be determined by Seller based upon the reports submitted by the Lessees for royalty purposes or, when those reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, as may be adjusted from time to time as provided in this Agreement. Buyer will only be entitled to review or request material or information which is not confidential under state law or regulation.

The method, basis and amount of royalty due Seller when it takes its royalty in value from the Leases is presently the subject of litigation in Amerada Hess. One of the issues involved is the proper method to be used by the Lessees in calculating the state's royalty when the royalty is payable in money (in value). Until there is a resolution of that dispute through judicial resolution or settlement, the Purchase Price will be based upon the calculation of an amount per barrel equal to the per barrel volume weighted average of the in-value prices reported by the Lessees to Seller for royalty purposes or, when the royalty reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, plus $0.30 per barrel plus the Field Cost Allowance as determined under the Settlement Agreement. Upon final non-appealable resolution of each of the various issues that are or will be involved in Amerada Hess, adjustments will be made to previous payments in accordance with each resolution.

If additional amounts are owed by Purchaser to Seller, interest on those amounts will be paid at a variable interest rate which is the higher of: (1) the reference rate as may be announced from time to time by The Bank of America, San Francisco, California, plus three percent (3%); or (2) the rate of return as is realized from time to time in the investment of the State of Alaska's general fund. Amounts owed from Seller to Purchaser shall be repaid at the rate set out in Article 5.6. Buyer will not voluntarily intervene or otherwise participate in Amerada Hess unless Seller expressly consents to that participation in writing. A settlement of Amerada Hess will be binding upon Buyer whether or not Buyer agrees with or consents to the terms of that settlement.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will, in the judgment of Seller, operate to prohibit or prevent Seller from receiving the full amount due under the above provision, Purchaser's obligation to pay the amount of the Purchase Price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for Seller to comply with that law, rule or regulation.

Either party shall have the right to reopen this Agreement, as to price only, during the Month of July, 1987 and every two years thereafter for the purpose of negotiating a new price for the Royalty Oil to be paid under this Section 2.3. The right to reopen may be exercised by either party by giving to the other party thirty (30) days prior written notice. Upon receipt of a notice to reopen, the parties will promptly commence good-faith negotiations in an attempt to establish a new price. In the event that a new price is not agreed to by the parties within ninety (90) days of the effective date of the notice to reopen, either party may terminate this Agreement upon nine (9) Months written notice to the other. The price for any Oil tendered during any such period pending termination shall be calculated as set out hereinabove or as agreed to in a previous reopener. If a new price is agreed to by both parties, such new price shall be effective for Oil tendered in the Month following agreement by the parties on the new price.

2.4 Point and Time of Delivery. Simultaneous with receipt of its Royalty Oil from its Lessees, Seller shall tender the Oil to Purchaser at the point at which Seller receives the Royalty Oil from its Lessees. That point as presently agreed to by Seller and its Lessees in Section 2.3 of the Settlement Agreement is the custody transfer meters into TAPS at Prudhoe Bay.

2.5 Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under this Agreement shall pass from Seller to Purchaser for all purposes when Seller tenders the Oil at the Point of Delivery.

2.6 Purchaser's Responsibility. Purchaser shall be responsible for the Oil after passage of title. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses or causes of action arising from or in connection with any transaction or event which relates to the crude Oil after title has passed to Purchaser.

2.7 Transportation Arrangements. Purchaser shall make all necessary arrangements for transporting the Oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage tank bottom requirements of TAPS, if any. If and as requested by the Seller, and at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangement it has made for transportation of the Oil sold under this Agreement through and away from TAPS and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to TAPS and identification of tankers which will transport the Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject to this Agreement. Failure to provide information, evidence or assurances requested will, at Seller's election by notice to Purchaser, be a material default under this Agreement.

2.8 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Purchaser, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.9 Date of First Delivery. The date of First Delivery will be four (4) Months after the Effective Date unless Seller, in its sole discretion, sets an earlier date.

2.10 Performance Guaranty and Reservation Fee. If Purchaser does not take the Maximum Quantity on the Date of First Delivery, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to 1.25% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Purchaser ("Actual Quantity") for each day Purchaser does not take the Maximum Quantity on and after the Date of First Delivery. The payment of this fee shall end on the day that Purchaser accepts delivery of the Maximum Quantity. When Purchaser accepts the Maximum Quantity, all of the amounts paid under this Article 2.10 will be allowed to be credited against future payments for Oil tendered under this Agreement except for an amount to be retained by Seller equal to .75% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the Actual Quantity for each day Purchaser did not take the Maximum Quantity on and after the Date of First Delivery. If

Purchaser should thereafter decrease the amount of Oil to be tendered under this Agreement, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to .75% of the Purchase Price per barrel per day after the date that the decrease in the amount of Oil to be tendered by Seller takes effect on the difference between the Maximum Quantity and the Actual Quantity.

2.11 <u>In-State Processing</u>. Purchaser agrees that all Oil purchased under the terms of this agreement shall be processed or burned in the State of Alaska. As used in this Agreement "processed or burned in the State of Alaska" means the following described uses or a use substantially similar to those uses, which provides an equivalent benefit to GVEA's consumers. Purchaser has assigned its Oil to MAPCO PETROLEUM Inc. for processing the crude oil into a fuel usable at Purchaser's generating station. Under this arrangement, Purchaser is assured of a dependable supply of fuel, which assists Purchaser in providing uninterrupted electrical service to its consumers. Purchaser also receives from MAPCO a lower refining charge or processing fee which Purchaser passes directly through to its consumers in the form of reduced electric rates. If Purchaser's arrangement with MAPCO ever fails to yield these benefits, Purchaser has a commitment from the Rural Electrification Administration for mortgage funds to be made available to pay for the prompt conversion of Purchaser's generating units so that the Oil could be burned as fuel by Purchaser without first being processed. Upon such conversion, Purchaser could again provide its consumers with a dependable supply of electricity at a cost lower than otherwise possible.

Purchaser's continued receipt of a dependable supply of fuel upon terms that allow Purchaser to provide its consumers with electricity at a cost significantly lower than otherwise possible is a material element of this agreement. Purchaser's failure to process or burn in the State of Alaska as defined in this Agreement the Oil tendered under this agreement will, at Seller's option, constitute a material default under this agreement. However, Seller may, at its option, waive the in-state processing or burning requirement in whole or in part, if Seller is satisfied that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

ARTICLE III

REPRESENTATION AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Purchaser is, and at all times during the operation of this Agreement shall remain, a corporation organized and existing under and by virtue of the laws of the United States or of any state, territory or the District of Columbia, and qualified to do business in, and in good standing with, the State of Alaska. Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Purchaser's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to Seller is complete and correct and fairly presents Purchaser's financial condition at the time the information was submitted to Seller. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business and properties of Purchaser have not been materially adversely affected in any way. Purchaser agrees to inform Seller immediately if during the term of this Agreement there is any material adverse change in the condition, business, or properties of Purchaser which would have an appreciable adverse effect on Purchaser's ability to perform under this Agreement. Purchaser, in addition, will immediately inform Seller of any significant change in ownership of either Purchaser or any of its affiliates or parent company, and of any change in Purchaser's operations or agreements, which would appreciably affect Purchaser's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Purchaser, and in any event within one hundred twenty (120) days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, a report or a complete copy of a report in a form to be prescribed from time to time by Seller which will include Purchaser's balance sheet as of the close of the fiscal year and the income statement for that year, prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this Article, Purchaser may submit, and Seller will accept, the annual report of the Golden Valley Electric Association, Inc.

3.4 Option to Purchase Return Oil. If Purchaser assigns Oil purchased under this agreement for fuel usable in the present configuration of its generating station, there may remain a portion of Oil or Oil products which will not be processed for consumption in-state ("Return Oil"). This Return Oil may be shipped through TAPS. Return Oil shipped through TAPS becomes intermingled with unprocessed crude oil so that when the Return Oil is picked up in Valdez it is identical to the common stream crude oil shipped through TAPS. A shipper of Return Oil presently is, and may continue to be, liable for the payment of a quality bank adjustment differential based upon the resulting degradation of TAPS common-stream crude ("quality penalty").

Purchaser grants Seller an option to purchase all the Return Oil. For the purposes of determining the volume of Return Oil for which Seller may exercise its option to purchase under this Agreement, that volume shall be a proportion of the Oil tendered under this Agreement equivalent to the ninety (90) day rolling weighted average, determined monthly, of the ratio of total refined products produced to total refinery charge. Seller shall exercise this option by giving Purchaser nine (9) months' advance written notice. The notice shall specify the date delivery will commence and the point of delivery to Seller. Thereafter Seller may terminate the purchase of Return Oil by giving nine (9) months' advance written notice.

Seller shall have the option to take title to the Return Oil either at the tanker flange inlet in Valdez, Alaska, or at the MAPCO refinery outlet to the Golden Valley Pipeline at North Pole, Alaska. The per-barrel Return Oil purchase price shall be the full cost to Purchaser or Purchaser's assignee at the point of redelivery minus any "quality penalty" which had or would attach, which will be paid by Purchaser. Purchaser or Purchaser's assignee will assign all necessary shipment rights to guarantee delivery to Seller at

Seller's designated delivery point and to facilitate the reinjection into and transportation of the Return Oil through TAPS.

Purchaser or Purchaser's assignee shall furnish Seller or the Seller's designee, on or before the tenth day of the month following the month of delivery, a provisional invoice covering the Return Oil delivered to Seller or Seller's designee in the preceding month. The price of the Return Oil to Seller or Seller's designee shall be the price paid by Purchaser for Oil tendered under this Agreement for the month preceding delivery. The Seller or the Seller's designee shall make payment to Purchaser or Purchaser's assignee on or before the twentieth day of the month following the month of delivery. The initial billing may be adjusted in a subsequent month's invoice as more accurate or complete information concerning the quantity and Purchase Price of the Return Oil delivered each Month is available. Subsequent adjustments to the Return Oil initial billing shall also be made for Amerada Hess as specified in Section 2.3 and for other adjustments as specified in Section 5.5.

The amount of all sums which are not paid when due under this option or which are subsequently determined to be due under an adjustment, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the reference rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum, provided, however, that any interest due on an adjustment made as a result of the Amerada Hess litigation shall be at the same rate charged by Seller under Section 2.3.

The option to purchase Return Oil will remain in effect for the term of this Agreement. Failure to exercise this option for any period of time will not affect the Seller's right to exercise the option at a later time. This option, in whole or in part, and for any term, shall be freely assignable by Seller and such assignment shall release Seller from all obligations to receive or pay for the Return Oil sold under this option, provided, however, that Purchaser or Purchaser's assignee shall have the right to demand of an assignee of the Seller reasonable security for the Return Oil sold to that assignee. If authorized in an assignment by Seller, that assignee shall have the further right freely to assign that option, however, that assignment shall not release the assignee (or any subsequent assignee) of any responsibilities or liabilities to Purchaser or Purchaser's assignee unless agreed to by Purchaser or Purchaser's designee. Seller shall provide Purchaser or Purchaser's designee with written notice of any such assignment.

ARTICLE IV
MEASUREMENTS AND TESTS

The quantity and quality of the crude Oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the Oil sold under this Agreement shall be in accordance with the practices then in effect at Prudhoe Bay, Alaska.

ARTICLE V
PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or before the 10th (tenth) business day of each Month after delivery of Oil, an invoice statement of account of all Royalty Oil estimated to have been measured at the custody transfer meter into TAPS and tendered to Purchaser under this Agreement during the immediately preceding Month according to the best information available to Seller, the estimated Purchase Prices applicable to those deliveries, and the total amount due ("initial billing"). The estimates will be made by Seller according to the best information reasonably available to Seller. Seller may render its initial billing to Purchaser based in part upon information reported by the Lessees to Seller and information published by the U.S. Government. Seller shall thereafter adjust its initial billing under this Article as soon as more accurate information concerning the quantity and Purchase Price of Oil delivered each Month is available. Seller, however, shall not be required to adjust the initial billing prior to the sending of the next Month's invoice statement of account.

5.2 Initial Adjustment. After the Monthly invoice under Section 5.1, the subsequent Monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding Month, in accordance with any additional or more accurate information which may have become available to Seller. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Section 5.5.

5.3 Payment. Purchaser will make payment of each amount billed under this Article within ten (10) days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding, by wire transfer of immediately available funds to Seller's account at the following address:

First Pennsylvania Bank Philadelphia
ABA No. 031000024
For Credit to State of Alaska
Account No. 07/089250/00
Attn: Catherine Hess

Payment may be made in such other manner or to such other address as Seller may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business day. It is recognized that Seller may bill, and that Purchaser will pay, amounts that are based upon confidential information held or received by Seller. If confidential information is used as the basis for a billing, then upon request Seller will furnish Purchaser with the certified statement of the Commissioner that the amounts billed are correct based upon the best information available to Seller. If a dispute concerning a bill arises, Purchaser agrees to pay the full amount billed by Seller, pending final resolution of the dispute.

5.4 Payment to Lessee. Purchaser, at the request of Seller in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by Seller of that payment required to be made to one or more of the Lessees at an address or addresses and in the manner designated by Seller. The payment will be made within the time limit specified in Section 5.3. Seller may authorize and designate a third party to make the request and designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payment for subsequent Months, shall be made in accordance with Section 5.3.

5.5 Subsequent Adjustments. Purchaser acknowledges that more accurate information concerning the quantity of or Purchase Price for Royalty Oil tendered may subsequently become available to Seller. In the event that any such information should subsequently become available to Seller, Seller shall promptly furnish a corrected invoice statement of account to Purchaser and the parties will adjust the amount billed and pay or refund the amount of those adjustments. In the event that Seller should render a corrected invoice to Purchaser, any amount to be refunded from Seller to Purchaser or paid from Purchaser to Seller will be paid within fifteen (15) days after the date of the corrected invoice. However, when the adjustment concerns an amount last invoiced more than sixty (60) days before the corrected invoice, the amount will be paid by Purchaser or refunded by Seller, as the case may be, in equal Monthly installments over the same period of time as that over which the adjustment accrued or six (6) Months, whichever is the shorter period. No adjustment will be made more than twelve (12) Months after the date of the last original invoice to which the adjustment relates, except for adjustments resulting from: (i) regulatory or court proceedings (including appeals) commenced or pending during that twelve (12) Month period, whether or not Seller or Purchaser is a party to the proceeding, or (ii) bona fide audits by Seller of any Lessee(s) commencing at any time during the period six (6) years after the date of the last invoice to which such adjustment relates, or any resolution of disputes arising out of those audits. Adjustments due to audits or regulatory proceedings or court proceedings may be made at any time. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. Except for adjustments made upon resolution of Amerada Hess under Article 2.3, the amount of all sums which are not paid when due under this Agreement or which are subsequently determined to be due under an adjustment under Section 5.5, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the reference rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum.

5.7 Late Payment Penalty. If Purchaser fails to make full payment within one (1) day of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of payment, Purchaser will pay an amount equal to one percent (1%) of the amount owed.

5.8 Payment to Third Parties. Seller may direct that Purchaser pay any amount due or which may become due directly to a third party in the manner and time as may be directed by Seller in written notice to Purchaser if, in the Seller's sole discretion, the payment to the third party will assist Seller in monitoring or enforcing this Agreement.

ARTICLE VI
TERM

This Agreement shall become effective upon execution by the parties and after enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement. This Agreement shall be null and void if it is not so approved by September 30, 1985. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin as provided above, and shall end June 30, 1995. As used in this Article, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

ARTICLE VII
DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at Seller's option, Seller may terminate or suspend its obligation to tender and sell Royalty Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

(i) At any time, Purchaser (a) repudiates any of its covenants or obligations under this Agreement, or (b) fails, within five (5) Days after written request from Seller, to provide Seller with written affirmation of this Agreement and of Purchaser's intention to perform under this Agreement (together with evidence or assurances of transportation arrangements pursuant to Section 2.7 reasonably satisfactory to Seller); or

(ii) Purchaser does not pay in full any sum owed under this Agreement at the time when payment is due; or

(iii) Purchaser fails to observe or perform any of its other covenants and obligations under Article II; or

(iv) Purchaser does not perform any act required or contemplated under this Agreement and either: (a) the nonperformance continues for more than thirty (30) days after Seller has notified Purchaser of Purchaser's nonperformance; or (b) Purchaser had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve (12) Month period; or

(v) There is a material adverse change in Purchaser's condition, business or property which appreciably affects the ability of Purchaser to perform any of its obligations under this Agreement, and Purchaser is unable to give Seller adequate assurance of continued performance either within five (5) days of a request for such an assurance or within such other shorter time period as Seller may reasonably request under the circumstances; or

(vi) Any representation or warranty made by Purchaser in this Agreement proves to have been false or incorrect in any material respect at the time that the representation or warranty was made.

7.2 Failure to Pay Debts. If at any time Purchaser becomes unable to pay any of its debts when those debts are due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Purchaser will immediately give notice of that fact to Seller. Whether or not that notice is given, if Purchaser becomes unable to pay any of its debts when those debts are due or should otherwise become insolvent, Seller's obligation to tender and sell Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by Seller; however, Purchaser will nevertheless be and remain liable for payment and performance of all of its obligations and covenants under this Agreement with respect to Oil actually tendered by Seller to and after any such termination. Within thirty (30) days after receipt of Purchaser's notice or, if no notice is given, after Seller otherwise becomes aware (as determined in Seller's sole discretion) of Purchaser's insolvency, Seller will have the right, upon written notice to Purchaser, to reinstate all of Seller's and Purchaser's obligations under this Agreement retroactively to the date of termination.

7.3 Seller's Remedies. Upon the occurrence of any Event of Default or if Seller's obligation to tender and sell Oil under this Agreement is terminated or suspended under Sections 7.1 and 7.2, all obligations of Purchaser accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Purchaser will indemnify and hold Seller harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorneys' fees and disbursements) incurred by Seller and arising out of the Event of Default, termination, or suspension. Seller shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including mandatory injunction and specific performance. Seller, upon occurrence of any Event of Default, in its sole discretion, may arrange for any disposition to third parties of Royalty Oil to be tendered and sold under this Agreement. Upon the occurrence of any Event of Default, Purchaser may, in Seller's discretion, be released from the obligations set forth in Article 2.11 (In-State Processing) until the Event of Default no longer exists or the obligation of Purchaser to take Oil under this Agreement expires. If upon occurrence of any Event of Default Seller makes arrangement for disposition to third parties of Oil, or if Purchaser is released from Article 2.11, whether or not this Agreement is terminated, Purchaser will nevertheless be and remain liable to Seller for the full amount of the Purchase Price for that Oil in excess of the Purchase Price over any amount or amounts received by Seller on account of that disposition, net of the expenses of that disposition and for all other costs, expenses (including reasonable attorneys' fees and disbursements), and losses incurred by Seller and arising out of the Event of Default or disposition.

7.4 Purchaser's Exclusive Remedies. Upon any breach of, or default in, the due and timely observance or performance of any of Seller's convenants or obligations under this Agreement, Purchaser acknowledges and agrees that Purchaser's remedies will not include a temporary restraining order or preliminary injunction preventing Seller from taking any action with regard to the Royalty Oil which is the subject of this Agreement.

ARTICLE VIII
DISPOSITION OF OIL

8.1 Disposition of Oil Upon Default or Termination. Purchaser acknowledges and agrees that under the Unit Agreement and Leases, Seller's election to take Royalty Oil in-kind can be revoked or reversed only upon the satisfaction of various conditions, including the giving of six (6) Months notice to return all or more than ten percent (10%) of Seller's then current nominations. Purchaser acknowledges and agrees that Seller's election to invoke its rights to return to taking its Royalty Oil in value on less than six (6) Month's prior notice, or to attempt to secure a waiver of any condition or requirement, is at Seller's sole and complete discretion. Notwithstanding termination of this Agreement for default or for any other reason, including expiration or termination under any provision contained in this Agreement, Purchaser shall continue to take and purchase Seller's Royalty Oil in the amount and for the price set forth in this Agreement for up to four (4) Months following termination of this Agreement if Seller, in its discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Purchaser is unable or refuses to accept or receive any Oil tendered under this Agreement, Purchaser shall nevertheless be and remain responsible for the disposal of that Oil and for paying Seller for the Oil as though it had been received and accepted by Purchaser unless Seller, in its sole discretion, elects to waive this requirement. In order to secure the obligations of Purchaser under this Section 8.1 and under Section 2.8, Purchaser shall, if and as Seller may request from time to time, assign to Seller all right, title and interest of Purchaser under any nominations, leases, agreements, contracts, charter parties and other arrangements for the transportation of the Oil sold under this Agreement through and away from the Trans Alaska Pipeline System; provided, that Seller shall not have any liability or obligations under any such nominations, leases, agreements, contracts, charter parties or other arrangements unless, and to the extent that, Seller shall actually exercise its rights to succeed to Purchaser's interest thereunder and shall obtain the benefits thereof.

8.3 No Right to Storage or Underlift. Purchaser waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which Seller is or may come to be entitled under the Leases or any other agreement.

ARTICLE IX
WAIVER

The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise. A course of performance established by a party shall also not estop the other party from complaining of a later breach similar in nature.

ARTICLE X

VALIDITY

If any provision or clause of this Agreement or application of this Agreement to any person or circumstance is held invalid, that invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI

FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligations to accept and dispose of Royalty Oil, neither party shall be liable for any failure to perform the terms of this Agreement when the failure is due in who'e or in substantial part to force majeure. The term "force majeure" as applie to this Agreement shall mean Acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances, arrests and restraints from rulers or people, interruptions by government or court orders or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If, however, any material obligation of Purchaser is excused or suspended because of a claim of force majeure for a period of three hundred sixty-five (365) successive days or more, Seller will have the right to terminate this Agreement. Prior to Seller exercising its right to terminate this Agreement Seller and Purchaser shall enter into good faith negotiations to restore, to the fullest extent possible, Seller and Purchaser to the benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. Upon the occurrence and discovery of an event providing the basis for a claim of force majeure, the party making a claim shall notify the other party to this Agreement of its claim of force majeure. Upon the occurrence of an event constituting force majeure, that event shall, so far as possible, be remedied with all reasonable diligence and dispatch. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligation to dispose of Oil, the obligations of the disabled party to perform under this Agreement, insofar as they are affected by that force majeure, shall be suspended from the time that force majeure occurs and for so long as the disability caused should have continued had the party claiming the existence of the force majeure remedied the event providing the basis of the claim of force majeure with reasonable diligence and dispatch, and for no longer. The settlement of strikes or lockouts or industrial disputes or disturbances will be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with diligence and dispatch shall not require the settlement of strikes, lockouts, or industrial disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole discretion of the disabled party.

ARTICLE XII
NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally to the party to be notified or may be sent by registered or certified United States mail, postage prepaid, with a return receipt requested to such party. Notice deposited in the mail in this manner shall be effective upon the expiration of seven (7) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For the purposes of notice, the addresses of the parties to this Agreement shall be as follows:

If to Seller: State of Alaska
Commissioner of Natural Resources
Pouch "M"
Juneau, Alaska 99811

and

Commissioner of Revenue
Pouch "S"
Juneau, Alaska 99811

and

Director, Division of Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510

If to Purchaser:

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.
P.O. Box 1249
Fairbanks, Alaska 99707

and (as long as the right to Oil is assigned thereto)

Vice President-Supply
MAPCO PETROLEUM Inc.
P.O. Box 645
Tulsa, Oklahoma 74101-0645

12.2 Change of Address. Each party may change its address for notice by giving notice of the change.

ARTICLE XIII
RULES AND REGULATIONS

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

ARTICLE XIV

SOVEREIGN POWER OF THE STATE

This Agreement and its covenants shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether conferred on the State by constitution, statute or regulation, including but not limited to, its regulatory power over the Leases. The exercise by the State of Alaska of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of Purchaser or to limit or impair any obligations or liability of Purchaser under this Agreement, except for state statutes enacted after the effective date of this Agreement which have a direct and significant adverse effect on the ability of Purchaser to perform an obligation under this Agreement other than the obligations to accept, dispose, and pay for Royalty Oil tendered under this Agreement.

ARTICLE XV

SECURITY

Thirty (30) days prior to the Date of First Delivery, Purchaser shall cause to be furnished to Seller evidence that an irrevocable stand-by letter of credit for the benefit of Seller effective by Date of Delivery, will be issued by a state or national banking institution of the United States which is a member of the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars ($100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of the letter of credit shall initially be Five Million, Three Hundred Sixteen Thousand Dollars ($5,316,000). The letter of credit shall be substantially in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or her designee and the Attorney General of the State of Alaska or his designee that Purchaser is liable to Seller for a sum equal to the amount of such draft, and that that sum is due and payable in full and has not been timely paid. In the event that Seller should have reasonable grounds for asserting any claims against Purchaser under this Agreement and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Purchaser shall upon Seller's request (whether or not Purchaser may deny, reject or otherwise resist such claims) cause the principal face amount of the letter of credit to be increased by an amount equal to the excess. The principal face amount of the letter of credit shall also be automatically increased by Purchaser without request from Seller whenever the face amount is less than the expected Purchase Price of sixty (60) days of Oil tendered under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Oil tendered. The principal face amount of the letter of credit may be decreased by Purchaser upon approval of Seller (which approval will not be unreasonably withheld) if the face amount is more than the expected Purchase Price of sixty (60) days of Royalty Oil tendered under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Royalty Oil tendered. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller.

ARTICLE XVI
PREFERENTIAL HIRING AND NON-DISCRIMINATION

Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska that is performed under or in connection with this agreement. As used in this agreement "Alaska resident" means an individual who has resided in the State for one year at the time of hiring or employment and "Alaska companies" means those companies who are incorporated in the State of Alaska or whose principal place of business is in Alaska.

If this provision is determined to be unconstitutional by a court of competent jurisdiction, then Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

ARTICLE XVII

APPLICABLE LAW

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

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a State court of general jurisdiction sitting in the State of Alaska, and Purchaser hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XVIII

WARRANTIES

The purchase and sale of Royalty Oil under this Agreement is subject only to the warranties of Seller expressly set forth in this Agreement and Seller disclaims and Purchaser waives all other warranties, expressed or implied in law, whatsoever.

ARTICLE XIX

AMENDMENT

This Agreement may be supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement. Any material amendment to the contract which appreciably reduces the consideration received by the State requires prior approval of the Legislature of the State of Alaska.

ARTICLE XX

SUCCESSORS AND ASSIGNS

No assignment, pledge or encumbrance of this Agreement shall be made by either party without first obtaining the written consent of the other party. The Commissioner may grant such consent on behalf of the Seller. The Commissioner shall have sole and complete discretion in granting or denying a proposed assignment, pledge or encumbrance. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assignees. In addition, if Purchaser gains or acquires a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil ("Other Agreement"), then Seller, at its option and on one year's notice, may require Purchaser to terminate either this Agreement or the Other Agreement. The choice of which Agreement to terminate will be Purchaser's. Purchaser may request that Seller waive this option in advance of Purchaser gaining a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil. The Commissioner has sole and complete discretion in granting or denying the requested waiver.

ARTICLE XXI

HEADINGS

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

ARTICLE XXII

RECORDS

22.1 Preservation of Records. Purchaser will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement, including but not limited to the purchase or sale of Royalty Oil and its refined products, for a period of six (6) years. Purchaser will also maintain and preserve all similar books, accounts, and records of which it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Purchaser nor Seller shall be required to retain any records for more than six (6) years unless retention of such records is specifically required by applicable law or regulation. Purchaser shall either maintain its records within the State of Alaska or make such records available to Seller at Purchaser's principal office in the State of Alaska within thirty (30) days after written request by Seller.

22.2 Inspection of Records of Parties. Purchaser and Seller will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to Purchaser's or Seller's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make copies of that property, records, books, documents and indexes. In no event, however, shall Seller be required to disclose any information, data, or records which are required to be held confidential by state law or regulation. If the information obtained by Seller may be held confidential under state or federal law or regulation, Purchaser may request that that information be held confidential by Seller.

ARTICLE XXIII
INTERPRETATION OF TERMS AND CONDITIONS

In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement, Purchaser will present the arguments supporting its view in writing to the Commissioner for her consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for her conclusions. Purchaser agrees to accept findings by the Commissioner under this Article as long as there is substantial evidence supporting the Commissioner's findings. None of the above shall empower the Commissioner to set the price of the Oil should such price become subject to renegotiation pursuant to Section 2.3.

DATED this 8th day of February 1985.

SELLER: THE STATE OF ALASKA

____

Commissioner,
Department of Natural Resources

PURCHASER: GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.

By______________________________

Michael P. Kelly
General Manager

EXHIBIT A

THIS AGREEMENT is entered into this 8th day of February, 1985 by and between the State of Alaska (State), and MAPCO PETROLEUM Inc. (MAPCO), and Golden Valley Electric Association, Inc. (GVEA).

ARTICLE I

DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

1.1 "MAPCO" includes MAPCO PETROLEUM Inc. and its predecessors in interest, MAPCO Alaska Inc. and Earth Resources Company of Alaska, including the North Pole Refining Division of Earth Resources Company of Alaska.

1.2 "GVEA Royalty Oil Contract" means the Agreement for the Sale and Purchase of Royalty Oil dated February 8, 1985 between the State and Golden Valley Electric Association Inc. (GVEA).

1.3 "Assignment" means the Assignment and Product Sales Agreement between MAPCO and GVEA executed May 27, 1980. That Assignment provides for the assignment to MAPCO of GVEA's rights under the GVEA Royalty Oil Contract in exchange for GVEA paying MAPCO a reduced processing fee for turbine fuel.

1.4 "Petroleum Products Agreement" means the ~~Petroleum Products Agreement between GVEA and MAPCO executed May 27, 1980.~~ That Petroleum Products Agreement provides for MAPCO's sale of processed turbine fuel to GVEA at a price based on MAPCO's net acquisition cost for ANS crude plus a fixed margin.

ARTICLE II
APPROVAL OF ASSIGNMENT

The State consents to the Assignment and to the Petroleum Products Agreement in their present forms as modified by the terms of this Agreement, to include amending the term of said agreements to run as long as MAPCO receives Royalty Oil in the quantities specified under the GVEA Royalty Oil Contract. MAPCO and GVEA agree to notify the State of any modifications to those agreements; provided, that changes in price do not constitute a modification so long as the actual pricing mechanism (as compared to the price itself) contained in the Assignment is not changed and the price charged GVEA for fuel under the Assignment remains equal to or less than the price that would then be in effect calculated under the pricing mechanism contained in the Assignment. MAPCO agrees that modifications to the Assignment (or to the quality, price, or escalation provisions of the Petroleum Products Agreement) which materially reduce GVEA's benefits will give the State the right, in its discretion, to terminate the GVEA Royalty Oil Contract and/or the State's approval of the Assignment.

ARTICLE III
DESIGNATION OF ROYALTY OIL VOLUMES

The Assignment states that ~~MAPCO is entitled to designate the volume~~ of ~~Royalty Oil that GVEA will take under the GVEA Royalty Oil Contract~~. However, GVEA can only reduce the quantity of Royalty Oil it takes under the GVEA Royalty Oil Contract by giving the State nine (9) Months written notice. In consideration of these facts MAPCO agrees that it will give GVEA nine (9) Months' written notice before exercising any rights it may have to decrease the amount of Royalty Oil it requires GVEA to designate under the GVEA Royalty Oil Contract, which nine (9) Month notice will be concurrent with the nine (9) Months' written notice GVEA gives the State (which notice GVEA agrees to give the State immediately upon receipt of any such notice from MAPCO).

ARTICLE IV

SUBSEQUENT AMERADA HESS ADJUSTMENTS

Except as provided herein, MAPCO agrees that the retroactive price adjustment provisions contained in Paragraph IV of the Petroleum Products Agreement, as it applies to the Assignment, shall not extend to adjustments made upon final non-appealable resolution of each of the issues in the Amerada Hess litigation pursuant to Section 2.3 of the GVEA Royalty Oil Contract. GVEA agrees to pay that portion of the Amerada Hess adjustment based on the ratio of the barrels of product purchased by GVEA under the assignment to the total barrels of Royalty Oil purchased under the GVEA Royalty Oil Contract during the twelve-month period immediately preceding the final non-appealable resolution of each of the issues of the Amerada Hess litigation. With the exception of the twelve-month period immediately preceding the final non-appealable resolution of each of the issues in the Amerada Hess litigation, MAPCO agrees to pay to the State any such adjustments owed by GVEA or MAPCO as a result of purchases made by MAPCO under the GVEA Royalty Oil Contract; provided, however, that ~~if GVEA exercises its right to terminate~~ the Assignment and/or Petroleum Products Agreement under Paragraph X of the Petroleum Products Agreement, ~~or if the State terminates the GVEA Royalty Oil~~ ~~Contract~~ and/or this Agreement approving the Assignment as a result of a breach of either agreement by GVEA, ~~GVEA will pay to the State a percentage of~~ ~~the Amerada Hess adjustment~~, with the percentage based on the ratio of the barrels of product purchased by GVEA under the assignment to the total barrels of royalty oil purchased under the GVEA Royalty Oil Contract during the period in which the Amerada Hess adjustment applies. Within ten days of being notified by the State that there has been a final non-appealable resolution of each of the issues in the Amerada Hess litigation, GVEA and MAPCO shall discuss with each other and advise the State of the percentage of the adjustment by month and year each is to pay the State.

ARTICLE V

OPTION ON RETURN OIL

MAPCO acknowledges that the State has reserved an option to purchase all Return Oil resulting from the sale of Royalty Oil under the GVEA Royalty Oil Contract. In consideration of MAPCO's agreements in Article IV of this Agreement concerning subsequent Amerada Hess adjustments, the State agrees to not exercise its return oil option so long as MAPCO receives Royalty Oil under the GVEA Royalty Oil Contract.

By____________________________
Commissioner,
Department of Natural Resources

GOLDEN VALLEY ELECTRIC ASSOCIATION

By____________________________
Michael P. Kelly
General Manager

MAPCO PETROLEUM INC.

____
Robert M. Howe
President

EXHIBIT B

North Pole Refining P.O. Box 5028, North Pole, Alaska 99705

DIVISION OF EARTH RESOURCES COMPANY OF ALASKA

907/488-2741
907/488-2742

ASSIGNMENT AND PRODUCT SALES AGREEMENT

This Agreement, dated the 1st day of May 1980, by and between:

NORTH POLE REFINING, Division of Earth Resources Company of Alaska, an Alaskan Corporation, (NPR) and GOLDEN VALLEY ELECTRIC ASSOCIATION, INC., (GVEA)

shall be as follows:

1. GVEA, holder of certain rights to crude oil under a State Royalty Oil Contract, does hereby assign, transfer and convey its rights under said contract (as well as any future similar contracts) to NPR, effective on May 1, 1980, subject to the following terms and conditions:

   a. GVEA shall make request for State crude oil under its contract immediately upon receipt of written notice by NPR for the volumes so designated by NPR.

   b. NPR shall assume and be responsible for all obligations and duties of GVEA under its State Royalty Oil Contract for the volumes so designated.

   c. Certain provisions of the current GVEA Royalty Oil Contract and any future contracts may be excepted and modified as dictated by any State declared GVEA/State Royalty contract relationships if mutually agreed to by NPR and GVEA.

d. NPR agrees that so long as GVEA State Royalty Oil is being delivered to NPR per the terms of this agreement, NPR will not issue notice of cancellation to the Petroleum Products Agreement referenced herein.

2. NPR, in consideration of this Agreement, agrees to sell GVEA and GVEA agrees to purchase quantities of turbine fuel to 12.5 volume percent of those barrels of crude oil acquired by NPR under this assignment at a cost equal to NPR's net acquisition cost as defined in the attached Petroleum Products Agreement between the parties plus a processing fee of $[redacted]/barrel. This fee shall escalate only as set forth in the Petroleum Products Agreement effective between the parties except for base period. Base period for the escalation of the $[redacted] processing fee shall be concurrent with the reporting period of the Bureau of Labor and Statistics Wholesale Price Index for Major Commodities and Special Groupings on May 1, 1980. Due to cyclic seasonal requirements and the limitations of GVEA storage facilities, the difference in quantities of turbine fuel available to GVEA and the amount purchased by GVEA under the 12.5% provision of this paragraph, shall accumulate month by month for annual periods and be available for puchase by GVEA until the end of each annual period. At the end of the annual period, that turbine fuel not purchased by GVEA shall not be carried forward into the next annual period. The annual period shall commence sixty (60) days after the anniversary date of the date of delivery of Royalty crude oil to NPR provided for in this agreement, and annually thereafter. The purpose of this accumulation statement is to guarnatee GVEA the option of purchasing turbine fuel equal to 12.5 volume percent of the total crude oil acquired by NPR under this agreement during the annual period. It is understood by both

parties that NPR has limited storage for turbine fuel at the refinery (a usable amount of approximately 20,000 barrels) and that transfer of quantities in any short period of time and in great excess of this amount, would be impractical.

3. It is further agreed by NPR and GVEA that no part of this agreement constitutes an obligation by NPR to nominate any or all of the State Royalty Oil rights assigned herein.

4. GVEA and NPR specifically agree that in the event any court shall decree or determine that NPR's acquisition of crude oil under this agreement shall be in any way unlawful, then the terms and conditions of this Assignment and Product Sales Agreement shall be null and void and no longer binding on either party.

ACCEPTED AND AGREED TO:

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.

By: R L Huffman

Title: Gen Mgr.

Date: 5-27-80

NORTH POLE REFINING

By: Brenda L Meser

Title: Asst Marketing Manager

Date: May 27 1980

Fide. use when used in 15 Feb.

North Pole Refining P.O. Box 5028, North Pole, Alaska 99705

DIVISION OF EARTH RESOURCES COMPANY OF ALASKA

907/488-2741
907/488-2742

PETROLEUM PRODUCTS AGREEMENT

This Agreement, dated the 1st day of May 1980, by and between:

NORTH POLE REFINING (NPR), Division of Earth Resources Company of Alaska, an Alaskan Corporation, and GOLDEN VALLEY ELECTRIC ASSOCIATION, INC. (GVEA).

Witnesseth

The Agreement, when duly executed, shall constitute an agreement under which NPR, shall sell and deliver to GVEA, and GVEA shall purchase and receive from NPR, processed turbine fuel, as per Section I below, at GVEA's North Pole and Zhender generating plants effective the date of first delivery at GVEA's meter station of Royalty crude oil as provided for in BUYER's Assignment and Product Sales Agreement, by NPR under terms and conditions as follows:

I QUANTITY AND QUALITY

NPR shall sell and deliver to GVEA hereunder Industrial Turbine Fuel (including HF/DF #1 and HF/DF #2) meeting G. E. specification GE141047H for Heavy True Distillate and all petroleum products identified herein as "Turbine Fuel" for use at the GVEA's gas turbine and/or diesel generator facilities located at North Pole and Fairbanks (Zhender), Exhibit I, II(A), and II(B). Said Industrial Turbine Fuel (heavy true distillate) shall be delivered by pipeline from NPR, at his expense, into the GVEA's Turbine Fuel storage tanks located at the North Pole Facility. Deliveries to Fairbanks (Zhender) locations will be by rail tank car or transport

I QUANTITY AND QUALITY (CONTINUED)

truck in full capacity of the conveyance as determined by GVEA. GVEA and NPR recognize highway weight restrictions in the fall and spring of each year may require scheduling of liftings to avoid this period with deliveries by transport truck. Deliveries shall be made during each month of the term hereof on GVEA's orders. GVEA will furnish NPR with estimated annual projections of all monthly petroleum fuel requirements to be updated at three (3) months intervals. GVEA hereby recognizes that product requirements in excess of one-hundred-ten percent (110%) of original monthly nominations (Exhibit III) may not, at NPR's option, be available. GVEA will confirm estimates of the quantities to be delivered during each month at least forty-five (45) days prior to the first day of the month in which said quantities are to be delivered. Exhibit IV formats the required data (modifications may be made that are mutually acceptable). Scheduling for deliveries of volumes specified will be coordinated on a weekly basis between NPR and GVEA's designated agent(s).

II MEASUREMENT AND TEST

Quantity and quality of Turbine Fuel sold and purchased hereunder shall be determined from NPR's recording flow meters and from samples taken at NPR's facility. Observed volume shall be corrected to sixty (60) degrees Fahrenheit by use of API Table 6. All sampling and testing shall be done as mutually agreed. Claims for errors, deficiencies or imperfections will not be entertained by NPR unless notice in writing is given by GVEA to NPR within ten (10) days of discover.

III TITLE

Title to the Turbine Fuel sold and delivered hereunder shall pass to GVEA when the Turbine Fuel enters GVEA's storage tanks or truck transport,

III TITLE (CONTINUED)

and risk of loss shall follow title. All Turbine Fuel sold hereunder shall be deemed to be in the entire custody and control of GVEA, immediately upon delivery into GVEA's terminal (GVEA's intake headers or storage tanks at North Pole or Zhender) or into GVEA's truck transport; GVEA shall indemnify and hold NPR harmless from any and all liability (including reasonable attorney's fees) for loss, damage, injury or other casualty to persons or property caused or occasioned by any leakage, fire, explosion and/or any other damage caused directly or indirectly by the Turbine Fuel sold hereunder when the said Turbine Fuel is in the custody of GVEA as aforesaid.

IV PRICE

For each net barrel of forty-two (42) U.S. gallons sold and purchased hereunder of Industrial Turbine Fuel only (heavy true distillate), GVEA agrees to pay and NPR agrees to accept a price equal to NPR's net acquisition cost for each barrel of forty-two (42) U.S. gallons of North Slope Alaskan crude oil plus a fixed margin of [redacted] per barrel. NPR's net acquisition cost shall include all tariffs for transportation of said crude oil, the effects of any programs of any governmental agencies and 67.67 percent of the cost associated with any specific gravity adjustments; Sulphur and B S & W relative to oil returned to the TAPS, excluding any impurities introduced into the return crude stream which was not an element of the acquired crude or generic to that portion of said return penalty shall be excluded when calculating GVEA's price of turbine fuel as it relates to NPR's total acquisition cost). NPR will certify to GVEA, within sixty (60) days following the end of the month in question, the actual acquisition cost of crude received during said month and will at that time issue any resulting retro-active adjustments to the selling prices for all deliveries made during the month in question. It is understood by both parties that certain components of

IV PRICE (CONTINUED)

the final cost of crude oil purchased by NPR may not be finalized until an indeterminate time in the future. It is therefore, agreed between both parties that any adjustments to the final crude cost for any months in question irrespective of the timing of these adjustments, will be handled retro-actively to the month in question in accordance with the pricing terms herein notwithstanding any limitations to the contrary contained elsewhere in this agreement.

For billing purposes, sales will be expressed in gallons. The price which GVEA shall pay NPR for delivery of the following Turbine Fuel products hereunder shall be as follows:

North Pole Refining Plant Posted Prices, F. O. B. NPR, at the time of each delivery for the particular product involved, less a discount equal to the maximum discount per gallon given to any other buyer of the particular product.

Diesel Fuel #1
Diesel Fuel #2

Notice of a change in discount for the above products will be given to GVEA by NPR ten (10) calendar days prior to change.

NPR will notify GVEA, in writing, within five (5) working days of the effective date of the posting change for the above products.

Transportation fee to be agreed upon by separate agreement.

V ESCALATION

Price of Industrial Turbine Fuel (heavy true distillate) will escalate/ de-escalate relative to the August 1977 U.S. Bureau of Labor Statistics Wholesale Price Index for Major Commodity and Special Groupings (Table 1 Manufacture Goods) times eighty-seven percent (87%) of the fixed margin ($2.62 per barrel). Examples are shown in Exhibit II. Price escalations are to be computed at the end of each calendar quarter commencing on December 31, 1977 and quarterly thereafter, and be effective on purchases made during following quarters.

Escalator to be reviewed annually upon written request by either party no later than sixty (60) days prior to the anniversary date of this agreement.

VI PAYMENT

All payments for Turbine Fuel sold and delivered to GVEA hereunder during each calendar week shall be billed on the following Monday, payment terms net four (4) days from date of invoice.

VII TAXES

All taxes, fees, assessments and charges now or in the future assessed, levied and charged by any State, Federal and local government against or upon the Turbine Fuel covered hereby and against or upon the selling and transportation thereof shall be paid by GVEA; and if NPR has paid or shall hereafter pay any such tax, fee, assessment and charge, GVEA agrees to promptly reimburse NPR the full amount therefore, together with all penalties, interest and costs there on. Any such payments shall be in addtiion to the price otherwise provided for.

VIII FORCE MAJEURE

Except as to payments due hereunder, each of the parties hereto shall be excused from performance under this agreement as long as to the extent that performance may be prevented in whole or in part by reason of strike, fires, washouts, breakage of pipeline or tankage, acts of God, war, sabotage, the elements, earthquakes, differences of disputes with workmen (however arising or from whatever cause) inability to obtain labor or personnel service, shortages of supplies of crude oil, scheduled or unscheduled shutdown of plants, or any other cause, except financial, beyond its control, whether of a similar or dissimilar class, including specifically acts, orders or recommendations of Government officers, bodies or committees acting under claim of authority.

IX MUTUAL AGREEMENT

Any details of this agreement not specified herein shall be resolved by mutual agreement of the parties hereto.

X CONDITIONS/TERMS

This Agreement shall become effective on May 1, 1980. This Agreement shall remain in full force and effect for seven (7) years and thereafter until terminated. Either party may, at any time, terminate this Agreement upon three (3) year's written notice to the other.

XI NON-ASSIGNMENT: MODIFICATION

This Agreement may not be assigned to any third party except the administrator of the Rural Electrification Administration without the written

XI NON-ASSIGNMENT: MODIFICATION (CONTINUED)

consent of NPR. This agreement may not be modified or terminated except by instrument in writing, signed by the parties hereto.

XII GOVERNING LAW

This Agreement shall be governed and construed in accordance with the laws of the State of Alaska. All terms and provisions hereof are subject to the applicable orders, rules, and regulations of all governmental authorities.

XIII SUPERSEDING AGREEMENTS

This Agreement supersedes any previous Petroleum Product Agreement effective the date NPR receives first delivery of GVEA's State Royalty crude oil as provided for in GVEA's Assignment and Product Sales Agreement dated May 1, 1980.

ACCEPTED AND AGREED TO:

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.	NORTH POLE REFINING
By: R L Hufman	By: Brenda L Moser
Title: Gen Mgr.	Title: Asst Marketing Manag
Date: 5-27-80	Date: May 27, 1980

North Pole Refining

Bankers Trust Company
LETTER OF CREDIT DIVISION
1 BANKERS TRUST PLAZA • NEW YORK

MAILING ADDRESS
P.O. BOX 318—CHURCH ST STA
NEW YORK, N.Y. 10015

JUNE 9, 1983

IRREVOCABLE LETTER OF CREDIT
NO. W-78702-S

COMMISSIONER OF NATURAL RESOURCES
STATE OF ALASKA
POUCH M
JUNEAU, ALASKA 99811

GENTLEMEN:

WE HEREBY ISSUE IN YOUR FAVOR OUR IRREVOCABLE LETTER OF CREDIT FOR ACCOUNT OF GOLDEN VALLEY ELECTRIC ASSN. (GVEA) , P.O. BOX 1249, FAIRBANKS, ALASKA 99701 FOR A SUM NOT TO EXCEED U.S. DOLLARS FIVE MILLION FOUR HUNDRED THOUSAND AND 00/100 **$5,400,000.00** WHICH IS AVAILABLE AGAINST PRESENTATION OF YOUR SIGHT DRAFT(S) DRAWN ON US WHEN ACCOMPANIED BY:

1) COPY OF UNPAID INVOICE REFERRED TO IN DOCUMENTARY REQUIREMENT NO. 2 IN THE AMOUNT PAYABLE TO THE STATE OF ALASKA BY GVEA FOR THEIR PURCHASE OF THE STATE OF ALASKA ROYALTY CRUDE OIL.

2) A STATEMENT PURPORTEDLY SIGNED BY THE COMMISSIONER OF NATURAL RESOURCES FOR THE STATE OF ALASKA OR HIS DESIGNEE, INDICATING NAME AND TITLE OF SIGNATOR READING AS FOLLOWS:

"THE UNDERSIGNED HEREBY CERTIFIES THAT:

A) THE ROYALTY OIL COVERED BY THE ACCOMPANYING INVOICE HAS BEEN DELIVERED TO GVEA AND THE AMOUNT COVERED BY THE INVOICE IS PAST DUE AND REMAINS UNPAID TO THE STATE OF ALASKA AT THE TIME OF DRAWING.

B) AN AUTHORIZED REPRESENTATIVE OF THE STATE OF ALASKA HAS DISCUSSED THE NON-PAYMENT OF SUCH INVOICE WITH AN OFFICER OF GVEA AND AN OFFICER OF MAPCO PETROLEUM, INC. (OF ALASKA).

C) THE TERMS OF PAYMENT DEFINED IN ARTICLE VIII, CLAUSES 8.1, 8.2, 8.4, 8.5 IN THE "AGREEMENT FOR THE SALE AND PURCHASE OF STATE ROYALTY OIL" BETWEEN GVEA AND THE STATE OF ALASKA DATED 4/12/77, HAVE NOT BEEN COMPLIED WITH; AND

D) A WRITTEN NOTICE OF DEFAULT PER CLAUSE 6.1 OF ARTICLE XVI HAS BEEN GIVEN BY THE STATE OF ALASKA TO CVEA.

BY ______________________________

(*COMMISSIONER OF NATURAL RESOURCES FOR STATE OF ALASKA) OR (*DESIGNEE FOR COMMISSIONER OF NATURAL RESOURCES FOR STATE OF ALASKA)"

*APPROPRIATE DESIGNATION TO BE USED TO IDENTIFY PARTY SIGNING THE CERTIFICATI

- C O N T I N U E D -

7

NOTWITHSTANDING ANY REFERENCE IN THIS LETTER OF CREDIT TO OTHER DOCUMENTS, INSTRUMENTS OR AGREEMENTS OR REFERENCES IN SUCH OTHER DOCUMENTS, INSTRUMENTS OR AGREEMENTS TO THIS LETTER OF CREDIT, THIS LETTER OF CREDIT CONTAINS THE ENTIRE AGREEMENT AMONG THE ACCOUNT PARTY, BENEFICIARY AND THE ISSUER HEREUNDER RELATING TO THE OBLIGATIONS OF THE ISSUER HEREUNDER.

ALL DRAFTS MUST BE MARKED "DRAWN UNDER BANKERS TRUST CO. CREDIT NO. W-78702-S".

DRAFTS AND ACCOMPANYING DOCUMENTS MUST BE PRESENTED TO THE DRAWEE NOT LATER THAN JUNE 30, 1984.

WE HEREBY AGREE WITH YOU THAT DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT SHALL BE DULY HONORED ON DUE PRESENTATION TO THE DRAWEE.

VERY TRULY YOURS,

M. A. Orlando

AUTHORIZED SIGNATURE

7

Bankers Trust Company

LETTER OF CREDIT DIVISION
1 BANKERS TRUST PLAZA • NEW YORK

MAILING ADDRESS:
P.O. BOX 318 - CHURCH ST. STA.
NEW YORK, N.Y. 10015

ADVICE OF AMENDMENT
OUR CREDIT NO. #787029

NEW YORK, APRIL 17, 1984

************** NOTE **************
THIS CONFIRMS OUR CABLE OF TODAY
****

RAN TO

BENEFICIARY:

COMMISSIONER OF NATURAL RESOURCES
STATE OF ALASKA
POUCH M
JUNEAU, ALASKA 99811

APPLICANT:

GOLDEN VALLEY ELECTRIC
ASSN. (GVEA)
P. O. BOX 1249
FAIRBANKS, ALASKA 99701

ADVISING BANK:

RECEIVED

APR 26 1984

DIVISION OF OIL & GAS
ANCHORAGE, ALASKA

GENTLEMEN:

THIS CREDIT HAS BEEN AMENDED AS FOLLOWS.

IN REFERENCE TO ITEM 2B THAT PART READING: "....AN OFFICER OF MAPCO PETROLEUM INC. (OF ALASKA)..." NOW TO READ "....AN OFFICER OF MAPCO PETROLEUM INC. (ALASKA)..."

IN REFERENCE TO ITEM 2D AFTER "... BY THE STATE OF GVEA" ADD "AND MAPCO PETROLEUM INC. (ALASKA)"

DRAFTS MUST BE PRESENTED TO THE DRAWEE NOT LATER THAN JUNE 30, 1985.

ALL OTHER TERMS AND CONDITIONS AS PREVIOUSLY ADVISED REMAIN UNCHANGED.

IMMEDIATE NOTIFICATION MUST BE GIVEN TO US IF THIS AMENDMENT IS NOT ACCEPTED.

VERY TRULY YOURS,

Lorraine Gordon

AUTHORIZED SIGNATURE

80702 (ABC 10/81) 350/CTN

Kathryn West
561-5521

Kay
orig to
cc: Kay, Jim, Sam,
Steve, Ned & Susan
1/4
Clifford Gerh

RECEIVED

JAN 4 1985

DIVISION OF OIL & GAS
ANCHORAGE ALASKA

TESORO

Ewell A. Clarke
Vice President
Domestic Crude Oil

December 28, 1984

Alaska Department of Natural Resources
Attn: Ms. Kay Brown, Director
Division of Oil & Gas
Pouch 7-034
Anchorage, Alaska 99510

Dear Ms. Brown:

In response to your December 7 notice, we offer herewith our comment on the proposed royalty oil sale to Golden Valley Electric Association (GVEA). The purpose of our remarks is not to discourage the awarding of a contract which will benefit consumers of electric power in Fairbanks; but rather to suggest improvements in the clarity and definition of the agreements which would better assure that indeed it will be the consumers who benefit from the royalty oil sale.

It is clear that GVEA cannot employ the crude oil directly in its power generation facilities and therefore must rely on Mapco's adjacent refinery to process the crude, extracting a gas oil fraction which GVEA can use. Therefore, it is incumbent upon the State to assure that such processing and extraction results in the maximum benefit to GVEA rather than a windfall to Mapco. This is particularly important since the Commissioner's Preliminary Findings state (on page 7) that:

> "No profits accrue to persons who are not both residing in Alaska and utilizing the GVEA services in-state."

Before addressing the question "Who benefits?", we should like to turn briefly to the situation referred to in Paragraph 2.11 of the Agreement where GVEA would utilize directly the crude oil sold thereunder. We believe that the words "prompt conversion of Purchaser's generating units" may be misleading. There are a number of substantial problems which do not lend themselves to promptness, the least of which is the REA financing. Design of the facilities, ordering and delivery of materials, and construction are time-consuming. Far more difficult to resolve promptly, however, are the approval and permitting required by regulatory agencies to construct and operate facilities which would burn unprocessed crude oil with low flash point and high sulfur content. We believe that the facility conversion referred to in the Agreement represents a project which can be completed at best in many months to several years, and at worst, never. Furthermore, the cost of such conversion, together with interest cost of the financing, could eliminate any cost advantage of burning crude oil vs burning coal.

Turning now to the question of who benefits from this sale of royalty oil to GVEA, we note on page 4 of the Preliminary Findings that the "benefit" to the consumers will be about \$0.00095/kwh and that the benefit results entirely from a "discount" which Mapco gives GVEA on the price of the gas oil extracted from the royalty crude.

It is unclear just what this discount is -- a discount below what? Paragraph 2.11 of the Agreement refers to it as a "lower refining charge" but does not indicate lower than what? The Preliminary Findings shed some light on the question, Paragraph IV, page 3, where it states that the Mapco/GVEA agreement provides fuel "at a price lower than what GVEA would pay otherwise." We conclude that GVEA gets a lower-priced gas oil from Mapco when Mapco buys GVEA's royalty oil than when Mapco buys its royalty oil from other sources.

If that is the correct conclusion, the obvious question is: Why does Mapco give GVEA the discount? One explanation might be that Mapco pays less for GVEA's crude than for crude acquired from others. However, we believe that such is not the case. The price which Mapco pays the State for its long-term royalty oil is within pennies of the price which GVEA pays the State (and assigns to Mapco). Therefore, if Mapco's costs are essentially the same when running its own royalty crude and when running GVEA's royalty crude, how is the "discount" justified? Or one could ask: how is Mapco's undiscounted price to GVEA justified? Or how is the amount of the discount determined?

Nothing in the Preliminary Findings or the Agreement speaks to the amount of the discount, although this amount is the heart of the justification for the royalty oil sale. Reference is made in the Preliminary Findings that:

> "Mapco's discount to GVEA would reduce GVEA's average power generation cost by about \$0.00095/kwh."

This hardly seems to be a bonanza for the electric power consumer. A typical residential user on GVEA's system pays about \$0.09/kwh; so the cost saving resulting from the Mapco discount amounts to about 1% of the price which the consumer pays for his electricity.

We suggest that there may be several alternatives available to GVEA which are more beneficial to consumers than a "discount" on 12% of the crude barrel. There are options which could result in GVEA's utilization of substantially more than 12% of the crude, at lower cost to GVEA than that of conventional refinery fractionation. We will be happy to discuss such options with you at your convenience.

In summary, since GVEA cannot use the crude oil to generate power, the State's proposed sale of royalty oil is really a sale to Mapco, contingent upon Mapco's agreement to sell to GVEA the gas oil which is extracted from the crude; and contingent upon Mapco's selling the gas oil at some unspecified "discount" below some unspecified price level. Viewed in this context, and recognizing that GVEA may have other available options which will yield greater benefits from the State royalty oil, we suggest that the awarding of a long-term crude contract to GVEA be deferred until the State is satisfied that the royalty oil being committed to GVEA is indeed being employed in the best interests of the GVEA consumer; and that GVEA's current needs be satisfied by short-term commitments not exceeding two years.

Very truly yours,

Ernest A. Clark

EAC/ml

8

LAW OFFICES OF
GROH, EGGERS & PRICE
550 WEST SEVENTH AVENUE, SUITE 1250
ANCHORAGE, ALASKA 99501

CLIFFORD J. GROH
KENNETH P. EGGERS, P.C.
MICHAEL W. PRICE
LANCE E. GIDCUMB
SALLY KUCKO
MICHAEL P. CONDON
SEMA E. LEDERMAN
ROBERT T. PRICE
ROBERT P. OWENS

TELEPHONES
(907) 272-6474
(907) 274-9547

March 27, 1985

Representative Mike Davis
Chairman
House Special Committee on Oil and Gas
Pouch V
Juneau, Alaska 99811

MAR 28 RECD

Dear Representative Davis:

Your committee has inquired about the options to which our client, Tesoro Alaska Petroleum Company, referred in its December 28, 1984 letter to the Department of Natural Resources, regarding the GVEA royalty oil contract being considered by your committee.

Since that time, at DNR's suggestion, we have met with representatives of GVEA and have discussed the alternatives we had in mind. We suggested that in order to utilize more effectively the State royalty oil, GVEA might construct adjacent to its North Pole generating station a crude oil extraction unit from which turbine fuel could be produced, perhaps in quantities greater than that provided from Mapco's processing agreement.

Energy-efficient design might utilize waste heat from GVEA's turbines, and operating costs might be minimized through the use of common maintenance and management personnel. The unused portion of the crude could be returned to the pipeline in return for which GVEA - or the State - would receive crude oil at Valdez.

After consideration of our suggestions, GVEA told us that investment of capital resources in such facilities was not in accordance with its management policy.

Very truly yours,

GROH, EGGERS & PRICE

Clifford J. Groh/ff

:hf

Clifford J. Groh

cc: Rep. John Sund
Rep. Sam Cotten
Rep. Mike Szymanski
Rep. Pat Pourchot
Rep. Marco Pignalberi
Rep. Andre Marrou

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

May 19, 1983

MEMORANDUM

TO: Representative John Cowdery

FROM: David Teal
Research Staff

RE: MAPCO Contract for Alaska Royalty Oil
Research Request 83-158

You asked this agency to review the contract for the sale of State royalty oil to the North Pole Refinery (MAPCO) and to describe significant details of the contract, particularly as they differ from provisions of the proposed Tesoro and Chevron contracts. This memorandum responds to your request.

The contract in question was originally with the Earth Resources Company of Alaska, who operated the North Pole refinery until it was sold to MAPCO in 1981. The contract was approved by the Legislature in May of 1978. It provides royalty oil from the Prudhoe Bay Unit to the North Pole refinery through the year 2003. Some specific provisions of the contract are discussed below.

Quantity of Oil

The contract specifies that no more than 15 percent of the State's share of oil from the Prudhoe Bay leases is to be sold to MAPCO. Note, however, that 15 percent of current production levels is about 28,000 barrels per day while MAPCO is actually receiving about 35,000 barrels of royalty oil per day. This apparent discrepancy can be explained by a careful reading of sections 2.1.1 through 2.1.3. Section 2.1.1 allows MAPCO to nominate additional oil from the Prudhoe Bay leases as long as "such oil is unobligated and available." Section 2.1.3 limits the total amount of oil supplied by the State under this contract to 35,000 barrels per day. In addition, section 2.1.2 of the contract gives MAPCO an option on royalty oil from other leases (including future discoveries) so that the refinery can nominate up to 35,000 barrels of oil per day through 2003.

NOTE * INTERESTING CONSIDERA'. MAPCO HAS STATED IN WRITTEN TESTMONY THAT THE PRIC THEY PAY FOR ROYALTY IS HIGHER THAN WHAT THEY COULD BUY IT FROM PRODUCERS

The North Pole refinery is not only purchasing the full 15 percent share of Prudhoe Bay oil to which it is entitled, but is also exercizing its option to purchase an additional 7,000 barrels per day to bring its total purchase to the contractual ceiling of 35,000 barrels per day. According to the contract, North Pole could nominate as little as 5,000 barrels per day without paying a penalty or endangering the contract. The continued high level of nomination is probably due to a combination of uncertainty in oil markets and the 7-month lag from date of notification of a change in volume to implementation of that change. * NOTE

The fixed volume provision (35,000 barrels per day) in the MAPCO contract could allow the North Pole refinery to claim nearly half of all State royalty oil by 2003, when the contract terminates. (Unless additional discoveries are made, the State's share of crude oil is expected to decline to about 75,000 barrels per day in the year 2000.) The proposed Tesoro and Chevron contracts specify a proportion of Prudhoe Bay royalty oil (13.867 percent and 9.6 percent, respectively) so that the amount of oil delivered to them would decline as production from Prudhoe Bay declines.

Price of Oil

As you know, the proposed Tesoro and Chevron contracts call for a 30¢ per barrel premium over the in-value price of oil. North Pole does not pay a premium for royalty oil, but it does pay the "Exhibit B" price, which is about 50¢ per barrel above the average in-value price.[1] The price differential is due to different ways of making the price of royalty oil subject to resolution of the Almerada Hess litigation. The MAPCO contract specifies that the Exhibit B price will be paid, with the differential refunded if the State loses the case. The Tesoro and Chevron contracts specify that the average in-value price will be paid, with additional payments to be made if the State's arguments prevail.

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[1]The Exhibit B price for a hypothetical Company X is defined as the higher of 1) the average price received by all producers including Company X and 2) the average price received by all producers except Company X.

Residual Oil

One of the more controversial aspects of the MAPCO contract is the disposition of residual oil. The North Pole refinery currently reinjects its residual oil into the pipeline. North Pole pays a fee for degradation of the virgin crude in the line and reclaims the oil at Valdez, where it is indistinguishable from any other oil that comes through the pipeline. Section 2.4 of the contract gave the State an option on the residual oil, but the option expired (unused) on September 1, 1978. The Tesoro and Chevron contracts would give the State an option on the residual oil for the life of the contracts.

Other Provisions

The 25-year term of the MAPCO contract, the lack of a premium over the in-value price, the option on future reserves, and the lack of a claim on residual oil have been discussed above. Other points of interest are briefly discussed below.

- The contract fails to impose in-state processing requirements. The proposed Tesoro and Chevron contracts specify that all royalty oil must be processed in-state and that 32 percent and 34.44 percent, respectively, of royalty oil must be refined into usable products.

- The contract fails to restrict exports of the petroleum products. The proposed Tesoro and Chevron contracts specify that the refiners must use their best efforts to market all royalty oil products in Alaska and require the purchasers to submit reports on performance. The MAPCO contract merely states that the refinery will notify the Commissioner of the Department of Natural Resources if products are exported.

- The contract does not impose a reservation fee if North Pole elects to claim less than the maximum quantity allowed by the contract. The proposed Tesoro and Chevron contracts specify that the purchaser shall pay a fee of .75 percent of the purchase price (about 15¢ per barrel at current prices) for each barrel difference between the maximum quantity and the quantity actually nominated.

- The contract has a much weaker security agreement than the proposed Tesoro and Chevron contracts. MAPCO is required to grant a security interest in all oil delivered or to provide security in the form of a bond. Under the proposed contracts, Tesoro and Chevron must furnish an irrevocable letter-of-credit that can be drawn upon by unilateral action of the State.

- The contract does not include a provision on disagreements. Section 23 of the proposed Tesoro and Chevron contracts says that, in the event of disagreement over the meaning or application of terms or conditions of the contract, the purchaser shall agree to accept the findings of the Commissioner of Natural Resources unless there is clear evidence for a contrary interpretation.

The conclusion of our review of the MAPCO contract is that it has significant disadvantages (to the State) relative to the proposed Tesoro and Chevron contracts. In addition to the differences listed in this section, the term of the MAPCO contract is longer, the price the State obtains for its royalty oil is lower, it gives options on future oil discoveries, and it gives the State no option on the residual product of the refinery. There is some possibility that these provisions could be renogotiated if the North Pole refinery wished to expand and if additional supplies of royalty oil were required to support that expansion.

* * *

I hope this review of the MAPCO contract is useful in your deliberation of the proposed contracts for royalty oil. If you have additional information requests, please contact the agency.

DT

GOLDEN VALLEY ELECTRIC ASSOCIATION INC. Box 1249. Fairbanks, Alaska 99707 Phone 907-452-1151

May 7, 1985

TO: Fairbanks Delegation

The Board of Directors and the management of Golden Valley Electric Association unanimously reaffirm their strong commitment toward obtaining a long-term royalty oil contract from the State of Alaska.

The 10-year agreement is essential to the negotiation of an assignment and processing agreement which will continue to maximize the fuel savings benefits to all GVEA consumers.

If potential refiner(s) materialize, which possess the capacity to meet GVEA fuel needs, GVEA will encourage them to offer competitive processing proposals. However, no viable alternative to MAPCO presently exists. One potential refiner that we are aware of will not have the capability to meet our turbine fuel needs. An existing refiner, Tesoro, was unable to match rack price for our turbine fuel let alone match the lower-priced turbine fuel derived from royalty oil processed by MAPCO.

The 10-year term of the proposed agreement is the key element which is attractive to all prospective processors and which will allow Golden Valley to obtain maximum benefits for its consumers. The 10-year term is also essential for cooperative fuel supply planning and financial forecasting.

At GVEA's annual meeting, May 6, the members passed an advisory resolution encouraging GVEA to try to re-negotiate its contract with MAPCO to obtain greater savings, or cancel with MAPCO and try to negotiate a better deal with potential MAPCO competitors. There was absolutely no direction from the GVEA members at the meeting suggesting that GVEA should modify its request for a 10-year contract.

Best regards,

Mike Kelly

Mike Kelly
General Manager

ALASKA STATE ROYALTY OIL SALE:
GOLDEN VALLEY ELECTRIC ASSOCIATION
1985

PREPARED
FOR

THE HOUSE SPECIAL COMMITTEE
ON
OIL AND GAS:

Representative Mike Davis, Chairman
Representative John Sund
Representative Sam Cotten
Representative Mike Szymanski
Representative Pat Pourchot
Representative Marco Pignalberi
Representative Andre Marron

BY

L. Frank DeLong

PACIFIC-ALASKA COMPANY
317 Senate Loop Road
Fairbanks, Alaska

April 30, 1985

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TABLES:

EXECUTIVE SUMMARY

The following conculusions are drawn from the research:

[A] The sale of Royalty crude oil to Golden Valley Electric Association (GVEA) and the assignment to MAPCO's North Pole Refining Company (NPR) compromises the mandate for a State owned natural resource's utilization to provide for the maximum benefit of all Alaskans [State Constitution Article VIII, Section 2].

The maximum benefits to all Alaskans of utilizing the royalty crude are not realized by this sale's benefits to GVEA customers. GVEA's customers benefit to a small degree either thru a small reduced rate or increased equity in their cooperative. Other utilities operating in Alaska would also benefit from lower cost fuels and may seek similar Royalty oil or gas arrangements.

The proposed sale has proceeded to this point because the benefits, although quite small and directed towards a unique group, do exist and though arguable appear to satisfy the best interest findings as structured by the State Administration.

The judgement call is whether the small benefits to GVEA are sufficient for the State to not exercize its other options with respect to the royalty crude. For example, the State could sell the crude oil on the market and realize enough premiums to give GVEA a benefit check and still realize a net gain.

Further the proposed sale's primary benefits are with MAPCO who will probably realize gross margins from product sales and return oil sales totaling just under $10,000,000 per annum. The GVEA benefits of $500,000 are small in comparison.

[B] Assigning a long term crude oil supply to a refinery, with the only economic benefit a long term supply of turbine fuel at times priced below landed crude price, ignores the value of owning Royalty oil, its multiple value-added products and the economic benefits from the exchange and/or barter of its petroleum products.

[C] The main argument for the transaction appears to focus upon assisting the GVEA customers, and not the primary economic benefit of owning crude oil which should have been used to secure additional benefits to GVEA. GVEA, while assigning 5,000 bpd of Royalty oil to NPR, receives a price discount on 625 bpd of turbine fuel, but does not receive a price break on the other 400 bpd of turbine fuel or on the #2 oil it utilizes at the in-town unit and it purchases from NPR.

[D] The benefits to GVEA are an estimated savings of $516,000 per year in fuel costs. This equates to approximately $.001466 per kilo-watt hour for the utility based on 380,412,000 kwh per annum. GVEA and the Department of Natural Resources (DNR) focused their attention upon an exchange of crude oil for a small volume of relatively low-value turbine fuel and ignored the higher priced products to be made from the crude oil. A processing contract with the refinery would have been more supportive of GVEA's economic interests.

[E] The estimated gross margin that NPR will receive from the 5,000 bpd of crude oil may exceed $8,200,000, using MAPCO's stated product slate and January 1985 data. Most U.S. refineries today are operating with very small or at negative margins. OVER THE LAST YEAR U.S. REFINERY MARGINS HAVE BEEN DROPPING WHILE NPR'S MARGINS HAVE BEEN RISING. The ex-refinery product margins of NPR are perhaps the highest in the nation. The U.S. Gulf Coast Refining Margins are currently -$1.22 pb; NPR is +$10.55 pb. NPR'S MARGINS MAY EXCEED LOWER-48 MARGINS BY OVER A 1,000 %.

NPR's margins reflect its strong market position; some have called it a monopoly position.

[F] The proposed sale strengthens MAPCO's long term crude supply position and most important gives them title to the return oil. The sale of ANS crude on a long term basis can be very attractive. The return oil's quality bank costs are covered by NPR product prices. The return oil from the 5,000 bpd which becomes comingled ANS crude may net MAPCO a further gross margin of $1,860,000.

According to DNR, during the negotiations, when MAPCO received ownership of the return oil, they agreed to proceed with the three-party agreement. The contract stipulates that GVEA must give a three year notice to take ownership of the crude oil, however, GVEA will become liable for Amerada Hess if it exercises that right.

[G] Given the example of the recent State Royalty competitive bid sale, the state could sell the crude oil on the competitive market, give GVEA the $500,000 savings and still pocket a tidy sum above the 30 cent premium in the general fund. Further, there are experienced Alaskan crude oil traders who could realize even higher gains in the market place.

[H] NPR at times has posted ex-refinery turbine fuel prices less than their gross costs per barrel of product! Also, GVEA under its existing long term NPR products agreement already receives a significant price advantage for turbine fuel. The turbine fuel product is slightly heavier than ANS crude oil and consequently contributes to the quality bank penalty when returned to TAPS; it is in NPR's economic interest to sell, even at cost, as much of the heavier material as possible that it otherwise would return to TAPS.

[I] If the State loses the Amerada Hess litigation, NPR will receive a refund for paying the Exhibit-B price; under the proposed agreement between GVEA and MAPCO, GVEA would not receive an estimated $82,000 per year refund although its price of turbine fuel thru the net acquisition formula is 78 per cent based on Exhibit-B. If the settlement of the litigation results in a price greater than an Exhibit-B price, than GVEA will benefit for that period prior to the last twelve months.

[J] In summary, GVEA's benefits are limited to receiving a portion of its turbine fuel requirements at a reduced price, no other Interior utilities benefit, nor does GVEA receive a price break for all its fuel needs. The primary beneficiary is MAPCO whose North Pole Refinery secures a long term crude supply, will receive significant revenues yielding the highest refinery margins in the Nation, and MAPCO secures title to the return oil which it may trade, sell or exchange as ANS crude oil at Valdez.

A. INTRODUCTION

This limited review of the proposed State Royalty Oil sale to Golden Valley Electric Association (GVEA) identifies the potential benefits and costs to the various parties of the sale of State Royalty Oil to GVEA.

Under the terms of the sale, GVEA will receive approximately 5,000 barrels per day (bpd) of State Royalty Oil [equal to 2.667% of Prudhoe Royalty Oil] at the average weighted delivery point value plus a premium of 30 cents per barrel (pb) with price reopeners every two years. The contract would run thru 1995.

The sale's agreement by the State to GVEA involves a third party, MAPCO which operates North Pole Refinery (NPR) in North Pole, Alaska, next to GVEA's power plant.

NPR has exclusively sold, since 1980, turbine fuel to GVEA thru two contracts: first, under a PETROLEUM PRODUCTS AGREEMENT and, second, under an ASSIGNMENT AND PRODUCT SALES AGREEMENT. The former prices turbine fuel at net crude acquisition costs (landed crude costs plus two-thirds gravity adjustment on nominal two barrels returned to TAPS for every barrel of product) plus a fixed fee of $2.62 escallated with U.S. Bureau of Labor Wholesale index for manufactured (industrial) commodities with a base of August 1977.

The latter contract assigns GVEA's current 5,000 bpd of State Royalty oil to NPR which inturn provides GVEA with up to 650 bpd of turbine fuel priced with a net crude acquisition cost as in the former but uses a processing fee of $1.25 escallated similarly to the former but with a base of May 1980. In January 1985, the two contracts had a $3.90, fixed fee, and $1.50, processing fee, respectively.

The GVEA's current Royalty Oil Contract will terminate this fall. GVEA, desiring to continue the contract, began negotiations with the State and MAPCO. Finally, the State, GVEA and MAPCO entered into an agreement with the crude oil to be priced at a $.30 per barrel premium, and the NPR would assume long term responsibility of the Amerada Hess settlement, and MAPCO would receive secure title to the return oil.

B. NPR LANDED CRUDE COSTS, TAPS QUALITY BANK, EX-REFINERY POSTINGS

NPR, to date, has operated as a simple distillation unit removing middle distillates and some light ends to produce

JP-4/Jet B (naptha based jet fuel),
#1 heating oil/diesel,
winter and summer grades of #2 heating oil/diesel,
Jet A-1 (kerosene based jet fuel),
and turbine/marine fuel (a #3 or #4 heating oil).

The refinery sells its products via a truck rack, rail tankcar rack, pipeline connecting to the old Haines Military pipeline, and turbine fuel usually by pipeline to GVEA's facilities next door.

NPR receives its crude oil exclusively from the Trans Alaska Pipeline System (TAPS) and uses GVEA's pipelines to bring the crude oil into the refinery from TAPS and return oil to TAPS. NPR runs approximately 45,000 bpd thru its refinery and returns a nominal two-thirds of the barrel back to TAPS.

NPR under its long term 35,000 bpd royalty contract with the State of Alaska pays a price determined by Exhibit-B of the contract. The Exhibit-B price as shown in Table Two yields the State a higher price for its royalty oil than it receives under average in-value receipts. The Exhibit-B price was used by the State to more closely represent the correct delivery point value. The ANS delivery point values used are taken from the latest DNR corrected price reports.

NPR, through a long and extensive TAPS tariff battle before the Alaska Public Utilities Commission (APUC) and Federal Energy Regulatory Commission (FERC), secured a settlement of the TAPS intra-state rate from the Alaska North Slope to GVEA's metering station and a settlement of how to determine the quality bank penalty. The TAPS intra-state rates are given in Table One and average \$3.67 per barrel (pb).

The GVEA pipeline tariff is 6.28 cents pb transported to the NPR. Since a nominal two out of three barrels brought into the refinery are returned, the GVEA pipeline cost per product barrel (ppb) must include moving the two returned barrels.

By returning the unmarketed mix of products into TAPS, NPR is required to pay a TAPS quality bank penalty based on the change in specific gravity of the crude oil. The returned oil is heavier than the ANS crude oil the refinery receives [the lighter naptha and kerosenes having been removed].

The TAPS quality bank economically corrects for the entry of different specific gravity crudes into the TAPS system and compensates those whose oil has been degraded. Each crude oil stream has a unique specific gravity measured by the industry in terms of degree API. The current streams entering TAPS are Kuparuk, Prudhoe and North Pole's return oil. The current TAPS crude oil is 26.5-27.0 degree API; the North Pole Refinery return oil stream is about 19.5 degree API. The quality bank cost is based on a decline in degree API of about 7.5 degree API.

Under the terms of the settlement, the following quality bank rates apply.

TAPS QUALITY BANK PENALTY RATE

cents per barrel per degree API	from	thru
8.53	6/1/1979	2/28/1982
12.80	3/1/1982	12/31/1982
18.77	1/1/1983	12/31/1983
17.91	1/1/1984	12/31/1984
17.50	1/1/1985	present

The quality bank (QB) costs are given in Table Two and currently run at about $2.63 ppb. Each product barrel has two nominal returned oil barrel quality bank penalties. These qualty bank costs associated with return oil entering TAPS are incorporated into NPR's product prices. [see the NPR GVEA "Petroleum Products Agreement" price section, dated May 1, 1980].

The refinery uses a nominal 1.5% of each barrel as refinery fuel to heat the crude such that the various fractions can be vaporized and condensed and to provide fuel for the process (e.g. steam, hot water, glycol tracing, etc). In that two nominal barrels are returned for each product barrel, the refinery's fuel is estimated at 4.5% ppb.

The landed cost of crude into NPR, fuel costs and QB penalties on the return oil determine the NPR gross costs per product barrel given in Table two. The costs per product barrel and margin determine NPR's prices.

The return oil is comingled with ANS crude in TAPS and is sold at Valdez bearing only the cost of acquisition and TAPS inter state tariff. The anttendant costs of the quality bank, heating the crude at NPR and the GVEA pipeline tariffs are borne by the purchasers of the NPR products. THE CONSUMERS OF NORTH POLE'S PRODUCTS ARE PAYING THE COSTS OF RETURN OIL BECOMING ANS CRUDE OIL. THIS HAS NOT BEEN FULLY APPRECIATED BY THE CONSUMER.

The estimated gross costs at NPR reached a peak in early 1981 at about $32.60 ppb and have subsequently fallen to $24.42 ppb in January 1985. The use of Exhibit-B is a good surrogate of NPR's crude costs because it receives 35,000 bpd under its royalty contract at this price. NPR also receives 5,000 bpd under GVEA's current royalty oil contract and the remaining 5,000 bpd from an ANS supplier, such as Exxon.

Table Three lists the ex-refinery postings of NPR from January 1980 thru January 1985 for the refinery's major products. These prices are taken from NPR's posted ex-refinery price notices to their customers. While gross costs ppb peaked in the Spring of 1981, ex-refinery product postings peaked thru the winter of 1981 and Spring of 1982. Generally the prices over 1984 have remained relatively constant and all are significantly below the Spring 1982 levels. The turbine fuel postings are close to gross costs.

Section D will discuss the refinery's gross margins implied by these postings with respect to other refineries and Section E with respect to retail prices.

C. GVEA BENEFITS

GVEA utilizes turbine fuel at its North Pole facility. At GVEA's intown peaking facilities, GVEA utilizes #2 heating oil and turbine fuel in the summer months.

NPR provides GVEA's turbine fuel on an exclusive basis using two contracts. Both contracts are dated May 1, 1980. The "Petroleum Products Agreement" provides GVEA with turbine fuel at a price equal to NET CRUDE ACQUISITION COST, plus a FIXED FEE. The NET CRUDE ACQUISITION COST is defined as the average ANS prices paid by NPR, plus TAPS tariff to GVEA, plus GVEA pipeline tariff, plus two thirds of the quality bank penalty on the portions of the barrel returned to TAPS (nominally, two returned barrels to one product barrel).

The "Petroleum Products Agreement" FIXED FEE utilizes a $2.62, August 1977 base escalating with the U.S. Bureau of Labor Statistics Wholesale Price Index for manufactured (industrial) goods at 184.8 for August 1977. Only 87 per cent of the fixed fee is escalated. The fixed fee has varied from $3.31 pb in June 1980 to $3.90 pb in the winter of 1984. See Table Four.

The "Petroleum Products Agreement" also provides for sale of #1 heating oil and #2 heating oil at a price equal to the posted rack price less the maximum discount given any other buyer of the same products.

The other agreement for sale of turbine fuel "Assignment and Products Sales Agreement" dated May 1, 1980, recognizes the GVEA royalty crude oil supply at 5,000 bpd. Under the agreement, GVEA assigns the 5,000 bpd of crude oil to NPR who inturn supplies to GVEA up to 12.5 % of the volume (maximum of 625 bpd) as turbine fuel. The price is the above NET CRUDE ACQUISITION COST plus a PROCESSING FEE.

The PROCESSING FEE escalates similarly to the "Petroleum Products Agreement" but the base is $1.25 for May 1980 and the reference wholesale index is 240. The fee has increased from the $1.25 for May 1980 to $1.50 pb during the winter of 1984. See Table Four.

The GVEA benefits of their royalty oil assignment to NPR are clearly seen in Table Four. The difference between the FIXED FEE and the PROCESSING FEE has increased from $2.06 ppb in May 1980 to $2.40 ppb in winter of 1984. In the winter of 1984, this equated to 5.7 cents per gallon reduction. The GVEA utilizes the assignment agreement to provide roughly two thirds of its turbine fuel requirements. GVEA purchases its remaining turbine fuel requirements under the "Petroleum Products Agreement". GVEA's annual savings with the royalty oil assignment to NPR from Table Four are estimated at:

GVEA's ESTIMATED ANNUAL BENEFITS
[Fixed Fee versus Processing Fee]

year	$ savings
1980	321,400
1981	507,200
1982	521,900
1983	532,500
1984	545,800

The net crude acquisition cost of NPR under the proposed sale of the 5,000 bpd of Royalty crude priced at the average ANS plus $.30 pb premium, will determine the price GVEA pays for its turbine fuel. Table Five presents the average ANS [delivery point value], the Exhibit-B price and the price under the new GVEA contract with the 30 cents premium. From Table Five which utilizes the history of past ANS prices, the price of GVEA's royalty oil may at times may be less than the Exhibit-B and at other times greater. NPR's crude costs may be estimated at 8 parts [40,000 bpd] at Exhibit-B and 1 part [5,000 bpd] at GVEA's new price. The net crude acquisition price component of GVEA's turbine fuel will not vary significantly from the Exhibit-B price.

Under the proposed agreement, NPR will assume responsibility for the Amerada Hess in-value crude oil price settlement for periods prior to the last twelve months. GVEA will assume the responsibility for the last twelve months. In all instances GVEA will be responsible for only its purchased turbine fuel volumes. GVEA's turbine price under the net crude acquisition cost calculation includes at least 7 parts Exhibit-B price due to the 35,000 bpd NPR Royalty oil contract.

The DNR's findings on this proposed contract speak only of the Amerada Hess "liability". It may be that the State will not succeed and payments made above the average delivery point value, such as Exhibit-B, will require refunds. Under the new agreement GVEA would be precluded from receiving any refund if the State was to lose the settlement. From Table Five, the amount of Amerada-Hess "adjustments" GVEA will have paid to NPR for under the net crude acquisition cost varies hypothetically from $95,000 in 1981 to $82,300 in 1984, assuming the GVEA proposed contract was in place during those years. Under the proposed agreement GVEA would not receive these "adjustments." This thought should be at least entertained in evaluating royalty oil contract pricing and long term liability.

If the State succeeds and additional payments are due the State, NPR would pay the amount due for the period prior to last twelve months.

In summary, the assignment agreement from GVEA's perspective results in lower turbine fuel costs for 650 bpd than from GVEA's "Petroleum Products Agreement" with NPR. GVEA receives no price benefits on about 400 bpd addition turbine fuel used annually, and no price benefits on #2 heating which it also utilizes. #2 heating oil is a product of refining the barrel that provides the turbine fuel. Clearly, other petroleum products of the barrel [e.g. Jet A-1, #1 HO, JP-5] may have been exchanged to complete GVEA's total fuel requirements.

THE BENEFITS TO GVEA APPEAR LIMITED, it receives a price reduction on a product, turbine fuel, that is already priced at or near value of crude oil. See Table Three. In fact, most turbine fuel is returned to the TAPS because of no market. GVEA receives none of the gross margins from the other products made from the same barrel that generates the 12.5 % turbine fuel.

D. NORTH POLE REFINERY AND MAPCO BENEFITS

The gross costs associated with landed crude at NPR, fuel and quality bank penalties on the return oil were presented in Table Two. NPR's posted ex-refinery prices were presented in Table Three. The posted ex-refinery prices were taken from NPR official notices mailed to their customers informing them of changes in the posted ex-refinery prices. These prices determine the gross revenue that the refinery receives. The difference between the gross revenue and gross costs defines the gross margin of the refinery or individual product margin. The calculation of the gross margin is simple and affords comparison with published margins on other refineries.

Table Six presents the gross margin and product margins for NPR from January 1980 thru January 1985. January 1985 was the last available DNR monthly statement on Royalty Oil Value.

The 1980's are characterized by a portion of each ANS crude barrel's price being determined by the marketplace and the other portion by the Department of Energy's controlled price. The "bottomline" of the DOE program was that in 1980 the control of crude oil was being phased out. For each portion of ANS crude barrel that was controled the refiner received significant cash entitlements that exceeded $6 pb at one point. Consequently, the real NPR gross margins in 1980 are larger than presented in Table Six because the refinery was receiving additional direct cash payments from the DOE crude oil price control program for merely running ANS crude oil. Apparantly, MAPCO sought to continue the gross margin levels it received from DOE crude price controls by increasing over 1980 its product margins as the crude oil was being proportionately decontroled each month. This would explain the increasing gross margins per barrel of product over 1980.

In February 1981 the crude oil market was totally decontrolled. Table Six clearly shows the economic uniqueness of the NPR operation. SOME HAVE CHARACTERIZED NPR AS A MONOPOLY. The estimated margins indicate NPR may do what it wants with respect to price policy. The estimated gross margin per product barrel was calculated using the MAPCO product mix provided to DNR for the 5,000 bpd. The gross margin per barrel reached a peak of $19.00 ppb for all products in Winter 1982. The lowest gross margin was $7.29 ppb in winter 1981. In January 1985, the most current month with available data, THE NPR GROSS MARGIN WAS $10.55 PPB. Table Seven graphs the range in overall product margin per product barrel. Since 1983 to January 1985, the implied gross margin per product barrel increased $2.80 ppb.

The indicated NPR product margins based on the January 1985 data are given in Table Eight. The estimated product margins are:

$13.60 ppb	#1 Heating Oil
$12.06 ppb	#2 Heating Oil
$15.69 ppb	Jet A-1
$16.32 ppb	Jet-B
$ 1.83 ppb	turbine Fuel

THE ESTIMATED NPR GROSS MARGIN ON GVEA'S 5,000 BPD WOULD BE $22,700 PER DAY OR OVER $8,294,000 PER YEAR. Extrapolating these numbers, the NPR estimated gross margin for 35,000 bpd of royalty oil would be over $55,000,000. For the refinery at 45,000 bpd the estimated gross margin would exceed $70,000,000.

THE NPR GROSS MARGIN ESTIMATED TO BE $10.55 IN JANUARY 1985 IS EXTREMELY HIGH COMPARED TO THE REFINERY INDUSTRY AS A WHOLE. Paine Webber's monthly "Oil Investment Outlook" dated April 3, 1985 indicates that most U.S. refineries are currently operating at margins less than a dollar. For U.S. Gulf Coast refining margins (spot product value less spot crude price), the current refining margin for refiners utilizing Alaskan North Slope crude oil is -$1.22 pb in March 1985 and was -$.40 pb in January 1985.

Other crudes in March 1985 yield refinery margins of +$.08 pb for West Texas Intermediate, -$.11 for West Texas Sour and +$.91 for Mexican Mayan crude. These negative margins are create pressure from the refiners upon producers to reduce crude oil price. U.S. Gulf Coast refineries compete with MAPCO's only other refinery, Delta at Nashville, Tenn. The conclusion would be that MAPCO's Delta refinery margins are no better than those of U.S. Gulf refiners and that NPR is the primary contributor to the MAPCO Petroleum division.

ANS Crude Oil Refiner Margins

	U.S. Gulf Refiners' Margins, $ pb	NPR Margins, $ pb
Jan84	0.42	8.70
Feb	0.26	8.62
Mar	(1.14)	8.59
Apr	(0.26)	8.50
May	(0.09)	8.44
Jun	(1.03)	9.03
Jul	(1.02)	8.98
Aug	(0.87)	9.31
Sep	(0.45)	9.24
Oct	(0.37)	9.36
Nov	(1.13)	9.38
Dec	(0.71)	10.03
Jan85	(0.40)	10.55
Feb	(1.05)	na
Mar	(1.22)	na

[source for U.S. Gulf refiners margins: Paine Webber "Oil Investment Outlook", April 3, 1985]

The above table's U.S. Gulf refinery margins are indicative of the refinery industry as a whole over the last year and the first quarter of 1985. A truer comparison would remove NPR's fuel costs and quality bank costs which are included in the NPP gross costs; NPR's margins should be larger than indicated for this comparison. NPR is unaffected, obviously, by the market forces that are in effect in the lower-48. WHILE U.S. REFINERY'S GROSS MARGINS WERE DROPPING DURING THE ABOVE PERIOD, NPR'S MARGINS WERE INCREASING.

For #1 heating oil, the indicated margin in February 1981 was $10.57 pb. By January 1982 the indicated margin had increased to $20.08 pb. In January 1983 legislative hearings were conducted on petroleum pricing and a report by DeLong and Pernela entitled "Petroleum Product Pricing in Alaska" clearly indicated that with crude oil dropping in price, the crude reductions were not being passed onto the Alaska consumer compared to other parts of the country. The indicated margin on #1 Heating Oil subsequently, dropped by the summer to $11.91 and has remained relatively stable with a slight increase thru 1984. Table Nine indicates the wide variance that #1 margins have had in NPR's history. THAT THE RECENT NPR MARGINS ARE RELATIVELY UNCHANGING OVER A PERIOD OF TIME WITH CRUDE OIL PRICE DROPPING, INDICATES A WELL CONTROLLED MARKET.

The margin on turbine fuel indicates the nature of this product. It is somewhat heavier than ANS crude oil, having a gravity between 24-26 degree API. It is better to sell the turbine fuel, at or near cost and avoid increasing the quality bank penalty. NPR's turbine fuel pricing policy would appear to be close to their gross costs ppb. The turbine price to GVEA has no fuel component and only assesses two-thirds of the return oil penalty; it does have a fixed fee or processing fee.

NPR's gross margins per barrel (posted ex-refinery price less crude cost, pipeline tariffs, quality bank payments on return oil, and fuel) are a good indicator of how the State's royalty oil is being utilized, and the potential gain that can occur in the NPR market area from refining the oil.

A number of products are refined from a barrel of oil and sold at much higher margins than that of turbine fuel. A SIMPLE PROCESSING AGREEMENT WITH NPR AND AN EXCHANGE OR SALE OF THE MORE VALUABLE PRODUCTS FROM THE GVEA BARREL (i.e. JP-4, Jet A, #1 HO, and #2 HO), PLUS THE TITLE OF RETURN OIL COULD HAVE PROVIDED MORE BENEFITS TO GVEA THAN APPEAR IN EITHER THE PRESENT OR PROPOSED CONTRACTS.

A CONCLUSION IS THAT THE FULL OWNERSHIP BENEFITS OF THE 5,000 CRUDE OIL bpd OF ROYALTY OIL ARE NOT AFFORDED TO GVEA, BUT ARE BEING GATHERED IN NPR'S GROSS MARGIN AND IN MAPCO'S CRUDE OIL SALES.

THE MAPCO REFINERY WOULD RECEIVE SIGNIFICANT BENEFITS FROM THE 5,000 BPD GVEA STATE ROYALTY OIL CONTRACT. IN ADDITION, TO RECEIVING THE ESTIMATED NPR GROSS MARGINS OF $8.2 MILLION FROM PRODUCT PRICING, MAPCO RECEIVES TITLE TO THE RETURN OIL. FURTHER, THE SALE OF RETURN OIL AS CRUDE OIL AT VALDEZ MAY NET MAPCO OVER $1.5 MILLION (see section F).

E. REGIONAL BENEFITS

THE PRIMARY BENEFITS FROM THE CONTRACT ARE LIMITED TO GVEA resulting either in a small reduction in power rates or increasing the utilities equity position. THE CONTRACT IGNORES OTHER UTILITIES WHO COULD ALSO BENEFIT BY A REDUCTION IN FUEL PRICES PAID TO NPR. Consequently, the proposed contract compromises the intent of selling State Royalty Oil for in-state use, namely that it benefit all the people. This contract benefits a unique group, GVEA's customers.

Approval of the contract would provide incentive to other utilities to approach the State for royalty oil or even natural gas to receive similar benefits for their members. It is not necessary to be located next door to the NPR refinery to seek a similar arrangement. THE POLICY ISSUE HERE IS HOW MAY THE STATE PROVIDE BENEFITS TO ELECTRIC CONSUMERS WITH POWER GENERATED BY DIESEL OR TURBINE FUELS.

Table Ten and Table Eleven indicate the retail prices for #1 and #2 heating oil as collected by the Fairbanks North Star Borough Community Research Center. Unfortunately, this sole source of retail prices in the Alaska Interior has abandoned its data collection effort and may only perform the retail fuel price survey for September of each year. With the passing of this data set, the ability of the Fairbanks residents to determine the elements of their retail prices is diminished. For the months of available data, the NPR product margin was responsible for up to 37 per cent of the retail price. The NPR gross margin is 26 % of retail price in September 1984.

The other argument for the ratification of the agreements is that by providing NPR with crude oil thru the sale of royalty oil, that the citizens of the NPR region shall receive maximum benefits from this utilization of this natural resource belonging to the State. The above margins for NPR by product indicate an ability to control product pricing over time and control the refineries gross margin over time.

NPR'S INDICATED GROSS MARGIN EXCEEDS LOWER-48 AVERAGES BY UNREASONABLE LEVELS --- MAYBE BY FACTORS GREATER THAN 1,000 PER CENT.

As discussed most U.S. refineries margins today are either negative or very small. NPR DUE TO IT LOWER CRUDE COSTS, CONSTANCY OF SUPPLY AND GEOGRAPHIC ADVANTAGE, APPEARS TO OPERATE WITHOUT COMPETITION. NPR'S PRICING POLICIES ARE UNAFFECTED BY MARKET FORCES AND TRENDS THAT RESULT IN THE LOW EX-REFINERY PRICES SEEN IN THE LOWER-48, BUT NOT IN ALASKA.

F. THE STATE OF ALASKA GENERAL FUND

According to DNR, WHEN THE STATE GAVE UP THE RIGHT TO RETAIN OWNERSHIP OF THE RETURN OIL, MAPCO BECAME INTERESTED IN THE CONTRACT. The return oil is valuable because it is available on a long term basis, at a known price, constant supply and even at a thirty cents premium, profits are to be made.

The best example of these profits was the State's own recent competitive bid royalty oil sale in December 1984 which resulted in premiums above the average weighted delivery point prices:

December 1984 Competitive Royalty Oil Sale

	days	volume	ave premium......	high	benefit
Kuparuk	182.5	15,000	$.51	$ .82	$ 1,554,781
Prudhoe	182.5	25,000	$.69	$1.84	$ 2,671,389
Prudhoe	365.0	50,000	$.84	$1.83	$13,331,807

The GVEA contract requires a $.30 premium to be paid on the royalty oil above the average delivery point price. Clearly, if MAPCO was to sell this return oil at the time of the above competitive sale it could receive a price greater than its costs for the GVEA crude oil.

With 5,000 bpd purchased by GVEA/NPR, 2,786 bpd is returned to TAPS and quality penalties are taken care of in NPR margins which yields from the above:

$1.83 pb maximum premium
less $ .30 pb GVEA premium
----
up to $1.53 pb gross margin!

The annual gross margin can be up to $1,550,000 on the return oil! The value of the return oil title can be significant to a crude oil broker.

The State could:

sell the 5,000 bpd at the $.84 pb premium (average) for Prudhoe, [$1,533,000]

place a $.30 pb premium (equal to GVEA) into the general fund [$547,500]

place the $.54 pb remaining premium into the general fund [$985,400] and from which,

WRITE GVEA AN ANNUAL CHECK FOR $500,000 (equal to GVEA's benefits)

and, STILL REALIZE A $485,000 GAIN OVER THE GVEA PROPOSAL.

This latter point implies that the State could realize additional revenues to the General Fund and still give the GVEA its benefits under the proposed contract. THE QUESTION IS WHETHER THIS CONTRACT IS THE BEST OPTION FOR THE STATE AS A WHOLE. MARKETING THE CRUDE ON THE OPEN MARKET MAY YIELD SIGNIFICANTLY LARGER REVENUES THAN THE GVEA PROPOSAL. ALASKANS FAMILIAR WITH MARKETING ANS CRUDE OIL COULD REALIZE EVEN HIGHER GAINS.

The State needs to develop a policy that determines the "weight" of the benefits of an individual proposal that benefits a special group against the maximum benefits that it could receive thru other options.

TRANS-ALASKA PIPELINE CARRIER TARRIFS, $/B

temporary rates from pump station #1 to

destination effective date	owner %	GVEA 6/14/78	VALDEZ......... 8/20/77	 1/1/82	 7/1/82	 10/19/83	 11/1/83	 8/1/84
EXXON	.203378	3.76	6.27	5.30	5.30	6.27	6.27	6.27
BP	.166745	3.54	6.35	6.35	5.40	5.40	6.20	6.20
SOHIO	.333363	3.70	6.16	6.16	6.16	6.16	6.16	5.66
ARCO	.213547	3.63	6.04	6.04	6.04	6.04	6.04	6.04
UNION	.01356	3.66	6.09	6.09	6.09	6.09	6.09	6.09
MOBIL	.040845	3.67	6.31	6.31	6.31	6.31	6.31	6.31
AMERADA HESS	.015	3.78	6.44	6.44	6.44	6.44	6.44	6.44
PHILLIPS	.013561	3.86	6.22	6.22	6.22	6.22	6.22	6.22
sum/average	1.000000	3.67	6.20	6.00	5.84	6.04	6.17	6.01

[rates are subject to refund or true-up per AS 42.06.410(b)]

Table One

NORTH POLE REFINERY LANDED CRUDE COSTS, FUEL, QB COSTS

[$ per product barrel]

	crude exhib-B	crude ANS-ave	P/L tariffs	fuel costs	QB c/deg	QB cost	gross costs
JAN80	14.17	14.14	3.85	0.81	8.53	1.28	20.12
FEB	14.79	14.76	3.85	0.84	8.53	1.28	20.76
MAR	15.44	15.40	3.85	0.87	8.53	1.28	21.44
APR	16.06	15.86	3.85	0.90	8.53	1.28	22.09
MAY	16.65	16.11	3.85	0.92	8.53	1.28	22.70
JUN	17.21	16.59	3.85	0.95	8.53	1.28	23.29
JUL	17.03	16.64	3.85	0.94	8.53	1.28	23.10
AUG	17.39	17.02	3.85	0.96	8.53	1.28	23.48
SEPT	17.85	17.41	3.85	0.98	8.53	1.28	23.96
OCT	17.68	17.48	3.85	0.97	8.53	1.28	23.78
NOV	18.88	18.55	3.85	1.02	8.53	1.28	25.04
DEC80	20.21	19.98	3.83	1.08	8.53	1.28	26.40
JAN81	25.42	24.95	3.83	1.32	8.53	1.28	31.85
FEB	26.33	25.59	3.83	1.36	8.53	1.28	32.80
MAR	26.16	25.54	3.83	1.35	8.53	1.28	32.62
APR	25.18	24.73	3.83	1.31	8.53	1.28	31.60
MAY	24.29	23.88	3.83	1.27	8.53	1.28	30.67
JUN	23.93	23.37	3.83	1.25	8.53	1.28	30.29
JUL	23.38	22.70	3.83	1.22	8.53	1.28	29.71
AUG	23.05	22.65	3.83	1.21	8.53	1.28	29.37
SEPT	22.26	22.04	3.83	1.17	8.53	1.28	28.55
OCT	22.22	22.06	3.83	1.17	8.53	1.28	28.51
NOV	22.24	22.05	3.83	1.17	8.53	1.28	28.52
DEC81	21.93	21.80	3.83	1.16	8.53	1.28	28.20
JAN82	21.45	21.18	3.83	1.14	8.53	1.28	27.70
FEB	20.10	19.52	3.83	1.08	8.53	1.28	26.29
MAR	18.83	18.40	3.83	1.02	12.80	1.92	25.60
APR	19.00	18.72	3.83	1.03	12.80	1.92	25.78
MAY	19.03	18.93	3.83	1.03	12.80	1.92	25.81
JUN	20.94	20.36	3.83	1.11	12.80	1.92	27.80
JUL	21.03	20.38	3.83	1.12	12.80	1.92	27.91
AUG	21.01	20.42	3.83	1.12	12.80	1.92	27.88
SEPT	20.82	20.34	3.83	1.11	12.80	1.92	27.68
OCT	20.73	20.25	3.83	1.11	12.80	1.92	27.59
NOV	20.08	19.82	3.83	1.08	12.80	1.92	26.91
DEC82	19.43	19.23	3.83	1.05	12.80	1.92	26.23
JAN83	18.69	18.32	3.83	1.01	18.77	2.82	26.36
FEB	17.70	17.44	3.83	0.97	18.77	2.82	25.32
MAR	17.55	17.33	3.83	0.96	18.77	2.82	25.16
APR	17.49	17.27	3.83	0.96	18.77	2.82	25.10
MAY	17.56	17.33	3.83	0.96	18.77	2.82	25.17
JUN	17.60	17.36	3.83	0.96	18.77	2.82	25.22
JUL	17.77	17.52	3.83	0.97	18.77	2.82	25.39
AUG	18.25	17.80	3.83	0.99	18.77	2.82	25.89
SEPT	18.26	17.78	3.83	0.99	18.77	2.82	25.91
OCT	18.19	17.74	3.83	0.99	18.77	2.82	25.83
NOV	17.97	17.59	3.83	0.98	18.77	2.82	25.60
DEC83	18.03	17.67	3.83	0.98	18.77	2.82	25.67
JAN84	17.85	17.54	3.83	0.98	17.91	2.69	25.34
FEB	17.97	17.58	3.83	0.98	17.91	2.69	25.47
MAR	18.00	17.61	3.83	0.98	17.91	2.69	25.50
APR	18.08	17.70	3.83	0.99	17.91	2.69	25.59
MAY	18.15	17.69	3.83	0.99	17.91	2.69	25.66
JUN	18.12	17.68	3.83	0.99	17.91	2.69	25.62
JUL	18.22	17.84	3.83	0.99	17.50	2.63	25.67
AUG	18.21	17.78	3.83	0.99	17.50	2.63	25.66
SEPT	18.38	18.02	3.83	1.00	17.50	2.63	25.84
OCT	18.27	17.94	3.83	0.99	17.50	2.63	25.72
NOV	18.25	17.96	3.83	0.99	17.50	2.63	25.70
DEC84	17.62	17.45	3.83	0.97	17.50	2.63	25.04
JAN85	17.03	16.90	3.83	0.94	17.50	2.63	24.42

Table Two

NPR EX-REFINERY POSTINGS

cents/gal

	gross costs	HO#1	HO#2	JET A1	JET B	TURBINE
JAN80	47.90	67.98	64.23	85.40	NA	NA
FEB	49.43	70.28	66.53	90.68	NA	NA
MAR	51.06	72.15	68.40	91.06	NA	NA
APR	52.60	72.15	68.40	91.06	NA	NA
MAY	54.05	74.86	71.11	91.06	NA	NA
JUN	56.46	79.15	75.40	93.06	NA	NA
JUL	55.01	82.60	78.70	97.32	NA	NA
AUG	55.90	87.50	82.40	100.33	NA	NA
SEPT	57.05	90.50	84.60	99.43	NA	NA
OCT	56.62	90.50	84.60	101.07	NA	NA
NOV	59.62	93.50	86.70	101.36	NA	NA
DEC80	62.86	95.50	88.40	NA	NA	NA
JAN81	75.84	96.48	90.64	94.91	92.41	85.60
FEB	78.09	103.25	98.25	100.38	97.88	85.60
MAR	77.66	106.63	101.63	103.55	101.05	85.60
APR	75.23	107.40	102.40	108.00	105.50	85.60
MAY	73.03	104.40	102.40	108.00	105.50	85.60
JUN	72.11	104.40	102.40	108.00	105.50	85.60
JUL	70.75	104.40	102.40	108.00	105.50	85.60
AUG	69.93	104.40	102.40	108.00	105.50	85.60
SEPT	67.97	104.40	102.40	108.00	105.50	85.60
OCT	67.87	110.11	105.11	109.81	107.31	107.90
NOV	67.91	110.40	105.40	110.00	107.50	107.90
DEC81	67.14	110.40	105.40	110.00	107.50	107.90
JAN82	65.96	110.40	105.40	108.95	106.45	107.90
FEB	62.59	110.40	105.40	108.95	106.45	107.90
MAR	60.96	106.75	101.75	108.95	106.45	107.90
APR	61.39	105.40	100.40	106.92	104.42	107.90
MAY	61.46	103.00	98.00	102.75	100.25	100.65
JUN	66.20	103.00	98.00	102.75	100.25	92.93
JUL	66.44	97.50	92.50	102.75	100.25	86.50
AUG	66.39	97.50	92.50	102.75	100.25	86.50
SEPT	65.91	97.50	92.50	102.75	100.25	86.50
OCT	65.68	97.50	92.50	102.75	100.25	86.50
NOV	64.07	97.50	92.50	102.75	100.25	86.50
DEC82	62.45	97.50	92.50	102.75	100.25	86.50
JAN83	62.75	97.11	92.11	102.30	99.80	86.11
FEB	60.29	94.71	89.71	99.86	97.36	67.64
MAR	59.91	90.77	85.77	96.79	94.29	56.39
APR	59.75	90.00	85.00	95.50	93.00	56.00
MAY	59.93	90.00	85.00	95.50	93.00	56.00
JUN	60.04	90.00	85.00	95.50	93.00	56.00
JUL	60.46	90.00	85.00	95.50	93.00	56.00
AUG	61.65	90.00	85.00	95.50	93.00	56.00
SEPT	61.68	90.00	85.00	95.50	93.00	56.00
OCT	61.50	90.00	85.00	95.50	93.00	56.00
NOV	60.95	90.00	85.00	95.50	93.00	56.00
DEC83	61.11	90.00	85.00	95.50	93.00	56.26
JAN84	60.34	90.74	86.48	95.50	93.00	58.00
FEB	60.65	91.00	87.00	95.50	93.00	58.00
MAR	60.71	91.00	87.00	95.50	93.00	58.00
APR	60.93	91.00	87.00	95.50	93.00	58.00
MAY	61.09	91.00	87.00	95.50	93.00	58.00
JUN	61.01	91.00	87.00	95.50	97.00	59.80
JUL	61.13	91.00	87.00	95.50	97.00	59.80
AUG	61.10	91.37	87.37	95.50	97.00	61.80
SEPT	61.53	91.50	87.50	95.50	97.00	62.50
OCT	61.23	91.50	87.50	95.50	97.00	62.50
NOV	61.19	91.50	87.50	95.50	97.00	62.50
DEC84	59.63	91.50	87.50	95.50	97.00	62.50
JAN85	58.15	90.53	86.85	95.50	97.00	62.50

Table Three

GVEA TURBINE FUEL COSTS COMPARISION

	product fee	assign. fee	barrel reduct.	savings month	
JAN80	NA	NA	NA	NA	
FEB	NA	NA	NA	NA	
MAR	NA	NA	NA	NA	
APR	NA	NA	NA	NA	
MAY	3.31	1.25	2.06	39879	
JUN	3.33	1.26	2.07	38780	
JUL	3.35	1.27	2.08	40335	
AUG	3.37	1.28	2.09	40570	
SEP	3.37	1.28	2.10	39315	
OCT	3.42	1.30	2.12	41124	
NOV	3.43	1.30	2.13	39891	
DEC80	3.45	1.31	2.14	41497	
				sum =	321391
JAN81	3.50	1.33	2.17	41981	
FEB	3.51	1.34	2.18	38093	
MAR	3.53	1.34	2.19	42369	
APR	3.57	1.36	2.21	41430	
MAY	3.58	1.37	2.22	42963	
JUN	3.59	1.37	2.22	41658	
JUL	3.61	1.38	2.23	43254	
AUG	3.62	1.38	2.24	43406	
SEP	3.63	1.38	2.24	42046	
OCT	3.65	1.40	2.26	43766	
NOV	3.66	1.40	2.26	42394	
DEC81	3.66	1.40	2.26	43862	
				annual =	507222
JAN82	3.68	1.41	2.28	44098	
FEB	3.69	1.41	2.28	39880	
MAR	3.69	1.41	2.28	44181	
APR	3.70	1.41	2.28	42836	
MAY	3.71	1.42	2.29	44333	
JUN	3.70	1.42	2.29	42849	
JUL	3.70	1.42	2.29	44291	
AUG	3.70	1.42	2.29	44305	
SEP	3.70	1.42	2.29	42862	
OCT	3.73	1.43	2.30	44554	
NOV	3.73	1.43	2.30	43117	
DEC82	3.73	1.43	2.30	44623	
				annual =	521928
JAN83	3.74	1.43	2.31	44692	
FEB	3.76	1.44	2.32	40567	
MAR	3.76	1.44	2.32	44900	
APR	3.76	1.44	2.32	43545	
MAY	3.77	1.45	2.33	45080	
JUN	3.78	1.45	2.33	43692	
JUL	3.79	1.45	2.34	45301	
AUG	3.80	1.46	2.34	45384	
SEP	3.79	1.45	2.34	43866	
OCT	3.82	1.46	2.35	45578	
NOV	3.82	1.47	2.36	44161	
DEC83	3.83	1.47	2.36	45730	
				annual =	532496
JAN84	3.84	1.48	2.37	45886	
FEB	3.86	1.48	2.38	41629	
MAR	3.88	1.49	2.39	46255	
APR	3.89	1.50	2.40	44910	
MAY	3.89	1.50	2.40	46407	
JUN	3.89	1.50	2.40	44924	
JUL	3.90	1.50	2.40	46463	
AUG	3.89	1.50	2.40	46435	
SEP	3.89	1.49	2.39	44870	
OCT	3.90	1.50	2.40	46504	
NOV	3.90	1.50	2.40	45004	
DEC84	3.90	1.50	2.40	46560	
				annual =	545849

Table Four

GVEA TURBINE COST COMPARISON DATA

crude costs and Amerada Hess

	ave ANS crude	GVEA crude	exh-b crude	exh-B + GVEA	amerada hess	A-H sum month
JAN80	14.14	14.44	14.17	14.20	0.03	553
FEB	14.76	15.06	14.79	14.82	0.03	531
MAR	15.40	15.70	15.44	15.47	0.04	882
APR	15.86	16.16	16.06	16.07	0.18	3899
MAY	16.11	16.41	16.65	16.62	0.47	10294
JUN	16.59	16.89	17.21	17.17	0.55	11592
JUL	16.64	16.94	17.03	17.02	0.35	7674
AUG	17.02	17.32	17.39	17.38	0.33	7201
SEP	17.41	17.71	17.86	17.84	0.39	8306
OCT	17.48	17.78	17.68	17.69	0.18	3832
NOV	18.55	18.85	18.88	18.88	0.29	6167
DEC80	19.98	20.28	20.21	20.22	0.20	4385
					annual	65316
JAN81	24.95	25.25	25.42	25.40	0.42	9069
FEB	25.59	25.89	26.33	26.28	0.65	12830
MAR	25.54	25.84	26.16	26.12	0.54	11852
APR	24.73	25.03	25.18	25.16	0.40	8356
MAY	23.88	24.18	24.29	24.28	0.37	7995
JUN	23.37	23.67	23.93	23.90	0.50	10467
JUL	22.70	23.00	23.38	23.33	0.60	13167
AUG	22.65	22.95	23.05	23.04	0.35	7734
SEP	22.04	22.34	22.26	22.27	0.20	4185
OCT	22.05	22.35	22.22	22.23	0.16	3394
NOV	22.05	22.35	22.24	22.25	0.16	3411
DEC81	21.80	22.10	21.93	21.95	0.12	2554
					annual	95015
JAN82	21.18	21.48	21.45	21.45	0.24	5223
FEB	19.52	19.82	20.10	20.07	0.52	10154
MAR	18.40	18.70	18.83	18.82	0.38	8292
APR	18.72	19.02	19.00	19.01	0.25	5268
MAY	18.93	19.23	19.03	19.05	0.09	1933
JUN	20.36	20.66	20.94	20.91	0.51	10727
JUL	20.38	20.68	21.03	20.99	0.58	12636
AUG	20.42	20.72	21.01	20.98	0.52	11387
SEP	20.34	20.64	20.82	20.80	0.43	9008
OCT	20.25	20.55	20.73	20.71	0.43	9328
NOV	19.82	20.12	20.08	20.08	0.23	4844
DEC82	19.23	19.53	19.43	19.44	0.18	3848
					annual	92646
JAN83	18.32	18.62	18.69	18.68	0.33	7233
FEB	17.44	17.74	17.70	17.71	0.23	4554
MAR	17.33	17.63	17.55	17.56	0.19	4233
APR	17.27	17.57	17.49	17.50	0.20	4122
MAY	17.33	17.63	17.56	17.57	0.20	4372
JUN	17.36	17.66	17.60	17.61	0.22	4629
JUL	17.52	17.82	17.77	17.78	0.23	4994
AUG	17.80	18.10	18.25	18.23	0.40	8676
SEP	17.78	18.08	18.26	18.24	0.43	8992
OCT	17.74	18.04	18.19	18.17	0.40	88[illegible]7
NOV	17.59	17.89	17.97	17.96	0.34	7126
DEC83	17.67	17.97	18.03	18.03	0.32	7033
					annual	74780
JAN84	17.54	17.84	17.85	17.85	0.28	6067
FEB	17.58	17.88	17.97	17.96	0.35	6878
MAR	17.61	17.91	18.00	17.99	0.34	7421
APR	17.70	18.00	18.08	18.07	0.34	7239
MAY	17.69	17.99	18.15	18.13	0.41	8919
JUN	17.68	17.98	18.12	18.10	0.39	8161
JUL	17.84	18.14	18.22	18.22	0.34	7461
AUG	17.78	18.08	18.21	18.20	0.39	8417
SEP	18.02	18.32	18.38	18.38	0.32	6825
OCT	17.94	18.24	18.27	18.26	0.29	6233
NOV	17.96	18.26	18.25	18.25	0.26	5391
DEC84	17.45	17.75	17.62	17.64	0.15	3322
					annual	82333
JAN85	16.90	17.20	17.03	17.05	0.11	2355

Table Five

NPR GROSS MARGINS PER BARREL PRODUCT

[ex-refinery postings less landed crude, fuel, and QS costs]

	HO#1	HO#2	JET A1	JET B	Turbine	gross margin
JAN80	8.44	6.86	15.75	NA	NA	NA
FEB	8.76	7.18	17.32	NA	NA	NA
MAR	8.86	7.28	16.80	NA	NA	NA
APR	8.21	6.64	16.15	NA	NA	NA
MAY	8.74	7.17	15.55	NA	NA	NA
JUN	9.95	8.38	15.80	NA	NA	NA
JUL	11.59	9.95	17.77	NA	NA	NA
AUG	13.27	11.13	18.66	NA	NA	NA
SEPT	14.05	11.57	17.80	NA	NA	NA
OCT	14.23	11.75	18.67	NA	NA	NA
NOV	14.23	11.37	17.53	NA	NA	NA
DEC80	13.71	10.73	NA	NA	NA	NA
JAN81	8.25	6.22	8.01	6.96	4.10	6.38
FEB	10.57	8.47	9.36	8.31	3.15	7.29
MAR	12.17	10.07	10.87	9.82	3.34	8.41
APR	13.51	11.41	13.76	12.71	4.36	10.23
MAY	13.18	12.34	14.69	13.64	5.28	10.92
JUN	13.56	12.72	15.07	14.02	5.67	11.30
JUL	14.13	13.29	15.65	14.60	6.24	11.88
AUG	14.48	13.64	15.99	14.94	6.58	12.22
SEPT	15.30	14.46	16.81	15.76	7.41	13.04
OCT	17.74	15.64	17.61	16.56	16.81	16.93
NOV	17.85	15.75	17.68	16.63	16.80	16.98
DEC81	18.17	16.07	18.00	16.95	17.12	17.30
JAN82	18.67	16.57	18.06	17.01	17.62	17.64
FEB	20.08	17.98	19.47	18.42	19.03	19.05
MAR	19.23	17.13	20.15	19.10	19.71	19.26
APR	18.48	16.38	19.12	18.07	19.53	18.59
MAY	17.45	15.35	17.34	16.29	16.46	16.63
JUN	15.46	13.36	15.35	14.30	11.23	13.60
JUL	13.04	10.94	15.25	14.20	8.42	11.92
AUG	13.07	10.97	15.27	14.22	8.45	11.95
SEPT	13.27	11.17	15.47	14.42	8.65	12.15
OCT	13.36	11.26	15.57	14.52	8.74	12.24
NOV	14.04	11.94	16.25	15.20	9.42	12.92
DEC82	14.72	12.62	16.93	15.88	10.10	13.60
JAN83	14.43	12.33	16.61	15.56	9.81	13.30
FEB	14.46	12.36	16.62	15.57	3.09	11.18
MAR	12.96	10.86	15.49	14.44	-1.48	8.84
APR	12.70	10.60	15.01	13.96	-1.58	8.55
MAY	12.63	10.53	14.94	13.89	-1.65	8.48
JUN	12.58	10.48	14.89	13.84	-1.70	8.43
JUL	12.41	10.31	14.72	13.67	-1.87	8.25
AUG	11.91	9.81	14.22	13.17	-2.37	7.75
SEPT	11.89	9.79	14.20	13.15	-2.39	7.74
OCT	11.97	9.87	14.28	13.23	-2.31	7.82
NOV	12.20	10.10	14.51	13.46	-2.08	8.05
DEC83	12.13	10.03	14.44	13.39	-2.04	8.01
JAN84	12.77	10.98	14.77	13.72	-0.98	8.71
FEB	12.75	11.07	14.64	13.59	-1.11	8.63
MAR	12.72	11.04	14.61	13.56	-1.14	8.60
APR	12.63	10.95	14.52	13.47	-1.23	8.51
MAY	12.56	10.88	14.45	13.40	-1.30	8.44
JUN	12.60	10.92	14.49	15.12	-0.51	9.03
JUL	12.55	10.87	14.44	15.07	-0.56	8.98
AUG	12.72	11.04	14.45	15.08	0.30	9.31
SEPT	12.59	10.91	14.27	14.90	0.41	9.24
OCT	12.71	11.03	14.39	15.02	0.53	9.36
NOV	12.73	11.05	14.41	15.04	0.55	9.38
DEC84	13.39	11.71	15.07	15.70	1.21	10.04
JAN85	13.60	12.06	15.69	16.32	1.83	10.55

Table Six

NPR TYPICAL GROSS MARGIN PER PRODUCT BARREL

[ex-refinery postings less landed crude, fuel, $ QB

month	* = $1	gross margin
JAN81	******	6.38
FEB	*******	7.29
MAR	********	8.4
APR	**********	10.22
MAY	**********	10.91
JUN	***********	11.3
JUL	***********	11.87
AUG	************	12.21
SEP	*************	13.04
OCT	****************	16.92
NOV	****************	16.98
DEC81	*****************	17.3
JAN82	*****************	17.63
FEB	*******************	19.05
MAR	*******************	19.25
APR	******************	18.58
MAY	****************	16.62
JUN	*************	13.6
JUL	***********	11.92
AUG	***********	11.94
SEP	************	12.14
OCT	************	12.24
NOV	************	12.92
DEC82	*************	13.59
JAN83	*************	13.3
FEB	***********	11.17
MAR	********	8.83
APR	********	8.55
MAY	********	8.47
JUN	********	8.42
JUL	********	8.25
AUG	*******	7.75
SEP	*******	7.73
OCT	*******	7.81
NOV	********	8.04
DEC83	********	8.01
JAN84	********	8.7
FEB	********	8.62
MAR	********	8.59
APR	********	8.5
MAY	********	8.44
JUN	*********	9.03
JUL	********	8.98
AUG	*********	9.31
SEP	*********	9.24
OCT	*********	9.36
NOV	*********	9.38
DEC84	**********	10.03
JAN85	**********	10.55

Table Seven

NORTH POLE REFINERY PRODUCT MARGINS
[using January 1986 markups]

	HO#1	HO#2	JET A1	JET B	HAGO	TOTAL
BPD	392	278	392	407	685	2154
MU, $/B	13.60	12.06	15.69	16.32	1.83	10.55
GMU,day	5331	3352	6149	6641	1251	22725
GMU,mon	162164	101944	187041	201998	38066	691212
GMU,yr	1945965	1223325	2244494	2423970	456793	8294548

Royalty Oil Production, annual

gross margin	5000 bpd = $	8294548
gross margin	35000 bpd = $	58061833
gross margin	40000 bpd = $	66356380

Refinery Total Production, annual

gross margin	45000 bpd = $	74650928

Table Eight

NPR #1 HEATING OIL MARKUP PER BARREL

[ex-refinery posting less landed crude, fuel, $ QB]

month	* = $ 1	$/B, mark-up
JAN80	********	8.44
FEB	********	8.76
MAR	********	8.86
APR	********	8.21
MAY	********	8.74
JUN	*********	9.95
JUL	***********	11.59
AUG	*************	13.27
SEP	**************	14.05
OCT	**************	14.23
NOV	**************	14.23
DEC80	*************	13.71
JAN81	********	8.25
FEB	**********	10.57
MAR	************	12.17
APR	*************	13.51
MAY	*************	13.18
JUN	*************	13.56
JUL	**************	14.13
AUG	**************	14.48
SEP	***************	15.30
OCT	*****************	17.74
NOV	*****************	17.85
DEC81	******************	18.17
JAN82	******************	18.67
FEB	********************	20.08
MAR	*******************	19.23
APR	******************	18.48
MAY	*****************	17.45
JUN	***************	15.46
JUL	*************	13.04
AUG	*************	13.07
SEP	*************	13.27
OCT	*************	13.36
NOV	**************	14.04
DEC82	**************	14.72
JAN83	**************	14.43
FEB	**************	14.46
MAR	************	12.96
APR	************	12.70
MAY	************	12.63
JUN	************	12.58
JUL	************	12.41
AUG	***********	11.91
SEP	***********	11.89
OCT	***********	11.97
NOV	************	12.20
DEC83	************	12.13
JAN84	************	12.77
FEB	************	12.75
MAR	************	12.72
APR	************	12.63
MAY	************	12.56
JUN	************	12.60
JUL	************	12.55
AUG	************	12.72
SEP	************	12.59
OCT	************	12.71
NOV	************	12.73
DEC84	*************	13.39
JAN85	*************	13.60

Table Nine

FAIRBANKS #1 HEATING OIL

	........c/gal..........			gross	npr
	gross costs	npr markup	retail price	costs % retail	markup % retail
JAN80	47.90	20.08	84.20	57	24
FEB	49.43	20.86	87.00	57	24
MAR	51.06	21.09	90.70	56	23
APR	52.60	19.55	90.90	58	22
MAY	54.05	20.81	98.20	55	21
JUN	55.46	23.70	98.30	56	24
JUL	55.01	27.59	101.90	54	27
AUG	55.90	31.60	106.80	52	30
SEPT	57.06	33.46	109.60	52	31
OCT	56.62	33.88	109.80	52	31
NOV	59.62	33.88	112.80	53	30
DEC80	62.86	32.64	114.30	55	29
JAN81	75.84	19.65	117.80	64	17
FEB	78.09	25.16	124.20	63	20
MAR	77.66	28.97	127.20	61	23
APR	75.23	32.17	127.10	59	25
MAY	73.03	31.37	127.10	57	25
JUN	72.11	32.29	127.10	57	25
JUL	70.75	33.65	127.10	56	26
AUG	69.93	34.47	127.20	55	27
SEPT	67.97	36.43	127.10	53	29
OCT	67.87	42.24	130.60	52	32
NOV	67.91	42.49	130.50	52	33
DEC81	67.14	43.26	130.50	51	33
JAN82	65.95	44.45	130.60	51	34
FEB	62.59	47.81	130.70	48	37
MAR	60.96	45.79	126.70	48	36
APR	61.39	44.01	125.70	49	35
MAY	61.46	41.54	123.80	50	34
JUN	66.20	36.80	123.30	54	30
JUL	66.44	31.06	121.90	55	25
AUG	66.39	31.11	121.90	54	26
SEPT	65.91	31.59	121.70	54	26
OCT	65.68	31.82	121.30	54	26
NOV	64.07	33.43	121.20	53	28
DEC82	62.45	35.05	121.20	52	29
JAN83	62.75	34.36	121.10	52	28
FEB	60.29	34.43	120.20	50	29
MAR	59.91	30.86	118.80	50	26
APR	59.75	30.25	115.00	52	26
MAY	59.93	30.07	115.00	52	26
JUN	60.04	29.96	114.90	52	26
JUL	60.46	29.54	NA	NA	NA
AUG	61.65	28.35	NA	NA	NA
SEPT	61.68	28.32	114.80	54	25
OCT	61.50	28.50	NA	NA	NA
NOV	60.95	29.05	NA	NA	NA
DEC83	61.11	28.89	114.50	53	25
JAN84	60.34	30.40	NA	NA	NA
FEB	60.65	30.35	NA	NA	NA
MAR	60.71	30.29	NA	NA	NA
APR	60.93	30.07	NA	NA	NA
MAY	61.09	29.91	NA	NA	NA
JUN	61.01	29.99	NA	NA	NA
JUL	61.13	29.87	NA	NA	NA
AUG	61.10	30.27	NA	NA	NA
SEPT	61.53	29.97	115.30	53	26
OCT	61.23	30.27	NA	NA	NA
NOV	61.19	30.31	NA	NA	NA
DEC84	59.63	31.87	NA	NA	NA
JAN85	58.15	32.38	NA	NA	NA

Table Ten

FAIRBANKS #2 HEATING OIL

	........c/gal.	....		gross	npr
	gross costs	npr markup	retail price	costs % retail	markup % retail
JAN80	47.90	16.33	79.10	60.55	21
FEB	49.43	17.11	81.70	60.50	21
MAR	51.06	17.34	85.10	60.00	20
APR	52.60	15.80	85.10	61.81	19
MAY	54.05	17.06	92.70	58.30	18
JUN	55.45	19.95	93.00	59.63	21
JUL	55.01	23.69	96.30	57.13	25
AUG	55.90	26.50	101.00	55.35	26
SEPT	57.05	27.55	103.10	55.34	27
OCT	56.62	27.98	103.50	54.70	27
NOV	59.62	27.08	105.60	56.46	26
DEC80	62.86	25.54	107.30	58.59	24
JAN81	75.84	14.81	111.00	68.32	13
FEB	78.09	20.16	117.40	66.52	17
MAR	77.66	23.97	120.60	64.39	20
APR	75.23	27.17	120.70	62.33	23
MAY	73.03	29.37	120.60	60.56	24
JUN	72.11	30.29	120.60	59.79	25
JUL	70.75	31.65	120.70	58.61	26
AUG	69.93	32.47	120.80	57.89	27
SEPT	67.97	34.43	120.40	56.45	29
OCT	67.87	37.24	124.20	54.65	30
NOV	67.91	37.49	123.20	55.12	30
DEC81	67.14	38.26	123.60	54.32	31
JAN82	65.95	39.45	123.60	53.36	32
FEB	62.59	42.81	123.80	50.55	35
MAR	60.96	40.79	120.10	50.76	34
APR	61.39	39.01	118.70	51.72	33
MAY	61.46	36.54	117.00	52.53	31
JUN	66.20	31.80	117.10	56.53	27
JUL	66.44	26.06	114.30	58.13	23
AUG	66.39	26.11	114.80	57.83	23
SEPT	65.91	26.59	114.60	57.51	23
OCT	65.68	26.82	114.40	57.41	23
NOV	64.07	28.43	113.90	56.25	25
DEC82	62.45	30.05	113.90	54.83	26
JAN83	62.75	29.36	114.00	55.04	26
FEB	60.29	29.43	113.40	53.16	26
MAR	59.91	25.86	111.70	53.63	23
APR	59.75	25.25	107.80	55.43	23
MAY	59.93	25.07	107.80	55.59	23
JUN	60.04	24.96	107.80	55.70	23
JUL	60.46	24.54	NA	NA	NA
AUG	61.65	23.35	NA	NA	NA
SEPT	61.68	23.32	107.80	57.22	22
OCT	61.50	23.50	NA	NA	NA
NOV	60.95	24.05	NA	NA	NA
DEC83	61.11	23.89	107.80	56.69	22
JAN84	60.34	26.14	NA	NA	NA
FEB	60.65	26.35	NA	NA	NA
MAR	60.71	26.29	NA	NA	NA
APR	60.93	26.07	NA	NA	NA
MAY	61.09	25.91	NA	NA	NA
JUN	61.01	25.99	NA	NA	NA
JUL	61.13	25.87	NA	NA	NA
AUG	61.10	26.27	NA	NA	NA
SEPT	61.53	25.97	109.20	56.34	24
OCT	61.23	26.27	NA	NA	NA
NOV	61.19	26.31	NA	NA	NA
DEC84	59.63	27.87	NA	NA	NA
JAN85	58.15	28.70	NA	NA	NA

Table Eleven