

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILE 8672

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105

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034
ANCHORAGE, ALASKA 99510-7034
PHONE: (907) 762-2553

January 23, 1992

Dear Interested Citizen:

The State of Alaska proposes to sell royalty oil to the Petro Star Valdez Refinery Joint Venture. The State is seeking public comment on the proposed sale. A royalty oil contract is not effective until approved by the legislature. The Governor will submit this royalty oil agreement for passage during this year's legislative session.

Under the proposed agreement, Petro Star Valdez Refinery Joint Venture would agree to buy approximately 30,000 barrels of royalty oil per day from the Kuparuk River Unit over a ten year period. If the agreement is approved by the legislature, construction of a refinery could start as early as this spring; operation, as early as next winter.

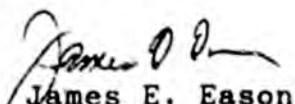
I have enclosed an overview of the proposed non-competitive sale of Kuparuk River Unit royalty oil to Petro Star Refinery Joint Venture for your comment and review.

If you would like more information or copies of the preliminary findings and proposed contract, please contact Bob Loeffler of my staff at the address on the letterhead. He can be reached at (907) 762-2578.

The Alaska Royalty Oil and Gas Development Advisory Board will hold a public meeting beginning at 10:00 a.m., Thursday, February 6, 1992 at 3601 "C" Street (Frontier Building), Suite 1100, Anchorage, Alaska. The meeting is being held to discuss the proposed sale and also to discuss preliminary thoughts on long-term sales of North Slope gas.

I would like to invite you to comment on the preliminary findings and the proposed terms of sale. Comments must be received by February 24, 1992 and should be mailed to the Director, Division of Oil and Gas, P.O. Box 107034, Anchorage, Alaska 99510.

Sincerely,


James E. Eason
Director

Division of Oil and Gas

**Summary of Proposed Royalty In-kind Sale
Petro Star Valdez Refinery Joint Venture
January 23, 1992**

THE REFINERY

- 30,000 barrel per day refinery to be built on private land in Valdez.
- Expected products, approximately 110 million gallons per year ($\frac{1}{4}$ of the purchased oil volume):
 - at least 20 million gallons per year of jet fuel for Mark Air;
 - approximately 10 million gallons per year heating fuel and marine diesel, available in Valdez for Prince William Sound consumers; and
 - the balance will be marine diesel sold to Petro Marine Services, a marine fuel distributor servicing south central Alaska. Most of this fuel will be sold in Seward, Kodiak, and Dutch Harbor.
- \$30 million capital investment; \$25 million in Alaska. 16-20 permanent jobs with an annual payroll of approximately \$1.7 million. Approximately \$400,000 per year in property taxes.
- Construction could start as early as this spring; operation, as early as next winter.

SALE OF IN-KIND ROYALTY OIL

- 30,000 barrels per day from the Kuparuk River Unit (approximately 80% of Kuparuk's Royalty Oil).
- 10-year contract beginning seven months after the legislature approves the sale, or when the refinery is ready to process the oil (whichever is later).
- Price would be the weighted-average per-barrel value paid to the state by ARCO and BP. These two companies own approximately 95% of production from the Kuparuk field.

WHO IS PETRO STAR VALDEZ REFINERY JOINT VENTURE? A joint venture of three Alaskan Companies:

- Petro Star Inc, a subsidiary of the Arctic Slope Regional Corporation;
- Alaska Refinery, a wholly owned subsidiary of Neil Bergt Trust; and
- Harbor Enterprises which operates Petro Star Marine Services.

WHERE TO GO FOR MORE INFORMATION? For more information or copies of the proposed contract or preliminary finding, please contact Bob Loeffler at Box 107034; 3601 "C" Street, Suite 1380; Anchorage, Alaska 99510. Telephone: (907) 762-2578.

YOUR COMMENTS ARE REQUESTED. The public is invited to comment on the proposed sale. Comments must be received by **February 24, 1992** and should be mailed to:

James E. Eason, Director
Division of Oil and Gas
Box 107034
Anchorage, Alaska 99510

Conceptual Outline of
Minimum Terms for a RFP
Prudhoe Bay State of Alaska Royalty Gas Sales

- An open solicitation Request for Proposal (RFP) leading to a Letter of Intent leading to a Gas Sales Contract
- Long-term reserve dedication of one-half of the State of Alaska's Prudhoe Bay royalty gas (~1.5 TCF)
- Schedule of Signing Bonus Payments (Non-Refundable)
 - \$ ___ MM signing bonus to seal letter of intent (within 6 months of selection by State)
 - \$ ___ MM signing bonus to seal sales contract (within 18 months of letter of intent)
- Schedule of Contract Maintenance Payments (Non-Refundable)
 - \$ ___ MM at the start of the contract's 2nd year
 - \$ ___ MM at the start of the contract's 3rd year and for each year thereafter until 10 years of gas sales are completed
- Investment Credit Offset to Contract Maintenance Payments
 - Equity investments in Alaska portion of gas transportation system design and construction
 - No credit for investment prior to contract
 - Investment proportioned based on total holding of reserve dedication
- Failure to timely and fully make any payment automatically terminates the contract
- Pricing Terms to be the Highest of:
 - Burner tip parity w/alternate fuels netted back by negotiated formula to the wellhead; or
 - ___ ¢/MMBTU; or
 - Highest field price received by others for comparable (but not equal) volumes; or
 - Wellhead price received on State of Alaska's other half of royalty gas share

H.C. Heinze
2/4/92

Recommended Approach to Moving Ahead on North Slope Royalty Gas Sales

- Request for Proposal (RFP) for long-term dedication of half of Alaska's Prudhoe Bay in-kind royalty gas (~1.5TCF)
 - work with all potential consumers
 - contract development with Royalty Board and Legislature under existing regulations
 - contract terms for consideration would include:
 - signing bonus(es); contract maintenance payments prior to sales and investment credit offsets; and "highest of" pricing terms
- Continue technical work with all project sponsors through Joint Pipeline Coordinator's Office
- Analyze production management implications of gas sales on all North Slope oil and gas fields
 - confidential review of Prudhoe Bay intermediate reservoir modeling results
 - update all plans of development
- Maintain contact with other North Slope gas owners on progress in marketing gas
- Participate in any joint consumer/producer/project sponsor studies

H.C. Heinze
1/23/92

DRAFT FOR PUBLIC REVIEW

AGREEMENT FOR THE SALE AND PURCHASE

OF

STATE ROYALTY OIL

to

**PETRO STAR VALDEZ REFINERY JOINT VENTURE
PETRO STAR VALDEZ, INC.
ARCTIC SLOPE REGIONAL CORPORATION
HARBOR ENTERPRISES, INC.
ALASKA REFINING, INC.**

**THE STATE OF ALASKA
Department of Natural Resources**

January 23, 1992

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**AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL**

THIS AGREEMENT is entered into as of _____
_____by and between the State Of Alaska ("the State") and Petro
Star Valdez Refinery Joint Venture, Petro Star Valdez, Inc.,
Alaska Refining, Inc., Arctic Slope Regional Corporation, and
Harbor Enterprises, Inc. (collectively hereinafter referred to as
"Petro Star JV").

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 his designee.

1.2 "Daily Royalty Oil" means the quantity of Royalty
Oil available from the Lessees of the Kuparuk River Unit each
day.

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

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

1.5 "Field Cost Agreement" means the Agreement for
Settlement of Cleaning, Dehydration and Transportation Charges
Applicable to Royalty Oil Taken from the Kuparuk River Unit,

Royalty Settlement Agreement, the royalty value calculated in accordance with BP's and Arco's Royalty Settlement Agreement for Kuparuk River Oil.

1.14 "TAPS" means the Trans Alaska Pipeline System.

1.15 "Unit Agreement" means the Kuparuk River Unit Agreement effective December 1, 1981, by and between the Lessees, as amended from time to time.

ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity. The State agrees to sell to Petro Star JV and Petro Star JV agrees to buy from the State that amount of Oil equal to 76.17% (Note: This figure to be adjusted to equal 30,000 barrels per day) of the Daily Royalty Oil ("Maximum Quantity"). Petro Star JV may permanently decrease the Maximum Quantity only twice: (1) once by giving the State written notice seven months before the date of first delivery and (2) once thereafter by giving the State nine months written notice.

Petro Star JV may at any time decrease or increase the amount of Oil to be tendered but not the Maximum Quantity except as provided above. To increase or decrease the amount of oil to be tendered, Petro Star JV must give the State at least nine months written notice. If, however, the increase or decrease is less than ten percent of the then current nomination, Petro Star JV must give at least one hundred Days written notice.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

**AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL**

THIS AGREEMENT is entered into as of _____
_____by and between the State Of Alaska ("the State") and Petro
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consecutive hours, beginning at 12:01 a.m., Alaska Standard Time.

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

1.5 "Field Cost Agreement" means the Agreement for
Settlement of Cleaning, Dehydration and Transportation Charges
Applicable to Royalty Oil Taken from the Kuparuk River Unit,

effective as of December 13, 1981, and attached to the Kuparuk River Unit Agreement of December 1, 1981 as Appendix I.

1.6 "Leases" means the Oil and Gas Leases which are subject to the terms of the Kuparuk River Unit Agreement.

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

1.8 "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.

1.9 "Oil" shall have the same meaning as the word "Oil" under the Leases and the Kuparuk River Unit Agreement, except where inconsistent with Section 2.2 of this Agreement, in which case Section 2.2 shall control.

1.10 "Point of Delivery" shall have the meaning set out in Section 2.5.

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

1.12 "Royalty Settlement Agreement" means the written royalty settlement agreements between the State and BP Exploration (Alaska) Inc. ("BP") dated December 31, 1991, and the State and Atlantic Richfield Company and Arco Alaska, Inc., ("ARCO") dated September 12, 1990.

1.13 "Royalty Value" means, with respect to each

Royalty Settlement Agreement, the royalty value calculated in accordance with BP's and Arco's Royalty Settlement Agreement for Kuparuk River Oil.

1.14 "TAPS" means the Trans Alaska Pipeline System.

1.15 "Unit Agreement" means the Kuparuk River Unit Agreement effective December 1, 1981, by and between the Lessees, as amended from time to time.

ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity. The State agrees to sell to Petro Star JV and Petro Star JV agrees to buy from the State that amount of Oil equal to 76.17% (Note: This figure to be adjusted to equal 30,000 barrels per day) of the Daily Royalty Oil ("Maximum Quantity"). Petro Star JV may permanently decrease the Maximum Quantity only twice: (1) once by giving the State written notice seven months before the date of first delivery and (2) once thereafter by giving the State nine months written notice.

Petro Star JV may at any time decrease or increase the amount of Oil to be tendered but not the Maximum Quantity except as provided above. To increase or decrease the amount of oil to be tendered, Petro Star JV must give the State at least nine months written notice. If, however, the increase or decrease is less than ten percent of the then current nomination, Petro Star JV must give at least one hundred Days written notice.

It is understood and agreed that the volume of Daily Royalty Oil available to the State 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. The State disclaims and Petro Star JV 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. The State warrants that it has good title to the Oil tendered under this Agreement.

If the State underlifts or stores Royalty Oil at Kuparuk River Unit, or if the State 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 State at the Point of Delivery. It is understood and agreed that the quality of the Oil sold may vary from time to time. The State disclaims, and Petro Star JV 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. Petro Star JV expressly waives any claim that any

liquid hydrocarbons made available to the State by the Lessees, including such substances as crude oil, condensate, natural gas liquids, or return oil from the Kuparuk River Unit Crude Oil Topping Plant, that may be blended with crude by the Lessees before the Point of Delivery and tendered as a common stream by the Lessees to the State as Royalty Oil are not Oil, for purposes of this Agreement.

2.3 Price of the Royalty Oil. The price each Month for Oil purchased under this Agreement shall be the average Royalty Value (weighted by production volume) for that Month of all Oil delivered from the Kuparuk River Unit production for which the Royalty Value is determined by the Royalty Settlement Agreements plus field costs. See examples attached as Exhibits A and B.

Field costs are those costs as defined in the Field Cost Agreement. If a field cost different from that in the existing Field Cost Agreement is established through future written agreement, or settlement or final resolution of any litigation, then that new field cost shall apply to the portion of the liquid hydrocarbons deemed not to be covered by the now existing Field Cost Agreement. In the interim, Petro Star JV agrees to pay the State the field costs claimed by the Lessees for any Royalty Oil taken by Petro Star JV. Any future field cost adjustments shall bear interest as provided in Section 5.6.

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 the State, operate to prohibit or prevent the

State from receiving the full amount due under the above provision, Petro Star JV'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 the State to comply with that law, rule or regulation.

2.4 Purchase Price Reopener. The State and Petro Star JV shall have the right to reopen this Agreement as to purchase price only. At any time after Petro Star JV receives Oil for two years from the Date of First Delivery (as defined in Section 2.11), the State or Petro Star JV may exercise the right to reopen by giving the other party one Month prior written notice. Upon issuance and receipt of a notice to reopen, Petro Star JV and the State will promptly commence good faith negotiations in an attempt to establish a new purchase price. If a new purchase price is not agreed to by Petro Star JV and the State within three Months after giving the notice to reopen, either Petro Star JV or the State may terminate this Agreement upon nine Months written notice to the other. The purchase price for Oil tendered during any period pending termination shall be determined in accordance with the price term in effect immediately before giving the notice of intent to reopen. If a new purchase-price provision is agreed to by Petro Star JV and the State, the new purchase-price provision shall become effective for Oil tendered in the Month following the written Agreement on the new purchase-price provision. Not less than two years after the conclusion of the purchase-price reopener process described above, either Petro

tar JV or the State again may reopen this Agreement, as to purchase price only, by giving notice of intent to exercise the right to reopen. At that time, the purchase-price reopener process described above may again be followed and every two years hereafter.

2.5 No Third-Party Intervention. Petro Star JV shall not voluntarily intervene or otherwise participate in any way regarding litigation, styled State of Alaska v. Exxon, et.al., Case No. 1-JU-77-847, ("ANS Royalty Litigation"), any future Royalty Settlement Agreements, or any reopeners or other discussions under or pertaining to Royalty Settlement Agreements. Any judgment resulting from the ANS Royalty Litigation, any future Royalty Settlement Agreements, or any reopener under any Royalty Settlement Agreement shall be conclusively binding upon Petro Star JV whether or not Petro Star JV agrees with or consents to the terms of any such judgment, settlement, or reopener. Furthermore, Petro Star JV has no independent right to invoke any of the provisions of any Royalty Settlement Agreement. If the Royalty Value is modified in the future as a result of a modification of any Royalty Settlement Agreement, a corresponding retroactive modification will be made to the price term of this Agreement and interest will apply to the modification, whether resulting in an overpayment or underpayment, as set forth in Section 5.6. Petro Star JV agrees to be conclusively bound by any such modification agreed to by the State and BP or ARCO.

2.6 Point and Time of Delivery. Simultaneously with receipt of its Royalty Oil from its Lessees, the State shall tender the Oil to Petro Star JV at the point at which the State receives the Royalty Oil from its Lessees. That point as presently agreed to by the State and its Lessees in Section 2.3 of the Field Cost Agreement is the Central Production Facility Meter into the Kuparuk Pipeline.

2.7 Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under this Agreement shall pass from the State to Petro Star JV for all purposes when the State tenders the Oil at the Point of Delivery.

2.8 Petro Star JV's Responsibility. Petro Star JV shall be responsible for the Oil after passage of title. Petro Star JV will indemnify and hold the State 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 Oil after title has passed to Petro Star JV.

2.9 Transportation Arrangements. Petro Star JV 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 the Kuparuk Pipeline and of TAPS, if any. If requested by the State, Petro Star JV shall submit specific information concerning its arrangement for transportation of the Oil sold under this Agreement through and away from the Kuparuk

Pipeline and the TAPS and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to the Kuparuk Pipeline and TAPS and identification of tankers, if any, which will transport the Oil. In addition, Petro Star JV will provide the State, if requested by the State, 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 the State's election by notice to Petro Star JV, be a material default under this Agreement.

2.10 Absolute Obligations. The obligations of Petro Star JV 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 Petro Star JV, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.11 Date of First Delivery. The date of First Delivery will be the first Day of the first Month that is the later of (i) seven Months after the Effective Date or (ii) seven Months after Petro Star JV certifies that within seven Months the refinery will be ready to accept and process Oil. If requested by Petro Star JV, the State, in its sole discretion, may set an earlier date of First Delivery.

2.12 Performance Guaranty and Reservation Fee. If at

any time, Petro Star JV does not take the Maximum Quantity, Petro Star JV shall pay to the State, in addition to the purchase price on the actual quantity taken, an amount equal to .75% of the purchase price per barrel per Day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Petro Star JV for each Day Petro Star JV does not take the Maximum Quantity.

2.13 In-state Processing. Petro Star JV agrees that not less than 80% of the Royalty Oil sold under this Agreement, averaged on a quarterly basis, shall be processed through Petro Star JV's refinery near Valdez, Alaska, except as provided below. "Process" means producing refined petroleum products from the Oil in quantities not less than 20% of the volume of Royalty Oil run through Petro Star JV's refinery pursuant to this Agreement.

Petro Star JV's obligation to process Royalty Oil in-state may only be suspended or excused under (1) the provisions of Articles VIII and XI, or (2) during refinery maintenance.

The State may, at its sole option, waive the in-state processing requirement in whole or in part, if the State is satisfied that Petro Star JV is using its best efforts to process the Royalty Oil sold under this Agreement at Petro Star JV's Valdez refinery and that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

ARTICLE III

REPRESENTATION AND OBLIGATIONS OF PETRO STAR JV

Petro Star JV warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. are and at all times during the operation of this Agreement shall remain, corporations 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. Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. each have all necessary corporate power to enter into this Agreement and to perform the covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Petro Star Valdez, Inc., Alaska Refining Inc., Arctic Slope Regional Corporation, and Harbor Enterprises, Inc. entering into this Agreement and performing its covenants and obligations under this Agreement.

Petro Star Valdez Refinery Joint Venture is, and at all times during the operation of the Agreement, shall remain a joint venture consisting of Petro Star Valdez, Inc., Alaska Refining Inc., and Harbor Enterprises, Inc. Petro Star Valdez Refinery Joint Venture is organized and exists under and by virtue of the laws of the State of Alaska, and is qualified to do business in, and in good standing with, the State of Alaska. Petro Star

Valdez Refinery Joint Venture is authorized by and on behalf of Petro Star Valdez, Inc., Alaska Refining Inc., and Harbor Enterprises, Inc., to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary acts have been taken to authorize Petro Star Valdez Refinery's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to the State is complete and correct and fairly presents Petro Star JV's financial condition at the time the information was submitted to the State. 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 Petro Star JV have not been materially adversely affected in any way. Petro Star JV agrees to inform the State immediately if there is any material adverse change in its condition, business, or properties which may have an appreciable adverse effect on its ability to perform under this Agreement. Petro Star JV, in addition, will immediately inform the State of any significant change in ownership of Petro Star JV, affiliates, parent company, and of any change in Petro Star JV's operations or Agreements, which may appreciably affect Petro Star JV's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Petro Star JV, and in any event

within one hundred twenty Days thereafter, Petro Star JV will furnish to the State, at Petro Star JV'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 the State which will include each of Petro Star JV's balance sheet as of the close of the year and the income statement for that year, prepared in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this article in the first year of this Agreement, Petro Star JV may submit, and the State will accept, the annual report of the corporate parties to this agreement filed with the United States Securities and Exchange Commission pursuant to Sec. 13 or 15(d) of the Security Exchange Act of 1934.

ARTICLE IV

MEASUREMENTS AND TESTS

The quantity and quality of 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 Kuparuk River Unit, Alaska, between the Lessees and the operators of Kuparuk Pipeline.

ARTICLE V

PAYMENTS AND ACCOUNTING

5.1 Billing. The State will send to Petro Star JV, on or before the tenth business Day of each Month after delivery of Oil, an invoice statement of account of all Oil estimated to have been measured at the Central Production Facility Meter into the Kuparuk Pipeline and tendered to Petro Star JV under this Agreement during the immediately preceding Month according to the best information available to the State, the estimated purchase prices applicable to those deliveries, and the total amount due ("Initial Billing"). The estimates will be made by the State according to the best information reasonably available to the State. The State may render its Initial Billing to Petro Star JV based in part upon information reported by the Lessees to the State, information published by the U.S. Government, and information published in Platt's Oilgram Price Report or any other publicly available report. The State 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. The State, however, shall not be required to adjust the Initial Billing before the sending of the next Month's invoice statement of account.

5.2 Initial Adjustment. After the Initial Billing under Section 5.1, the next Monthly invoice will also state the State'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 the State. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Section 5.5.

5.3 Payment. Petro Star JV will make payment of each amount billed under this Article within ten 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 the State's account at the following address:

State Street Bank & Trust Company
Boston, Massachusetts
ABA #011000028
For credit to the State of Alaska
General Investment Fund, AY01
Account #00657189
Attn: Kim Chan, Public Funds

Payment may be made in such other manner or to such other address as the State 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 the State may bill, and that Petro Star JV will pay, amounts that are based upon confidential information held or received by the State. If confidential information is used as the basis for a billing, then upon request, the State will furnish Petro Star JV with the certified statement of the Commissioner that the amounts billed

are correct based upon the best information available to the State. If a dispute concerning a bill arises, Petro Star JV agrees to pay the full amount billed by the State, except for obvious clerical mistakes, pending final resolution of the dispute.

5.4 Payment to Lessee. Petro Star JV, at the request of the State in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by the State 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 the State. The payment will be made within the time limit specified in Section 5.3. The State 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. Petro Star JV acknowledges that after the Initial Billing and initial adjustment, more accurate information concerning the quantity of or purchase price for Royalty Oil tendered may become available to the State. If any such information should later become available to the State, it shall promptly furnish a corrected invoice statement of account to Petro Star JV and the State will adjust the amount billed; and Petro Star JV will pay, or the State will credit or refund the amount of those adjustments. If

the State should render a corrected invoice to Petro Star JV, any amount to be credited or refunded from the State to Petro Star JV or paid from Petro Star JV to the State will be refunded or paid within thirty Days after the date of the corrected invoice. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. The amount of all sums, which are not paid when due under this Agreement or which are later determined to be due as an adjustment, shall bear interest from the date accrued until paid in full at the rate as provided in AS 38.05.135(d) or as may later be amended. Currently, that interest rate in a calendar quarter is at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first Day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater, compounded quarterly as of the last Day of that quarter. The term "date accrued" means the date of the receipt of the "Initial Billing plus ten Days." Interest shall apply to both adjustments for overpayments and underpayments.

5.7 Late Payment Penalty. If Petro Star JV fails to make a full payment within ten business Days 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 actual payment, Petro Star JV will pay an amount of one to five percent of the amount owed.

5.8 Payment to Third Parties. The State may direct

that Petro Star JV pay any amount due or which may become due directly to a third party in a manner and time as may be directed by the State in written notice to Petro Star JV if, in the State's sole discretion, the payment to the third party will assist State 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

December 31, 1993, or if Petro Star JV does not certify that it will within seven Months be ready and able to accept and process the Oil as required by Section 2.11 before December 31, 1993.

Subject to the other provisions contained in this Agreement, State's obligation to sell and Petro Star JV's obligation to buy Royalty Oil shall begin as provided above, and shall end December 31, 2003. 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 the State's sole option, the State 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, Petro Star JV (a) repudiates any of its covenants or obligations under this Agreement, or (b) fails, within five Days, after written request from the State to provide the State with written affirmation of this Agreement and of Petro Star JV's intention to perform under this Agreement (together with evidence or assurances of transportation arrangements pursuant to Section 2.9 reasonably satisfactory to the State); or
- (ii) Petro Star JV does not pay in full any sum owed under this Agreement at the time when payment is due; or
- (iii) Petro Star JV fails to observe or perform any of its other covenants and obligations under Article II; or
- (iv) Petro Star JV does not perform any act required or contemplated under this Agreement

and: (a) the nonperformance cannot be cured;
(b) the nonperformance continues for more
than thirty Days after the State has notified
Petro Star JV of Petro Star JV's
nonperformance; or (c) Petro Star JV had
failed to perform the same or any other act
required or contemplated under this Agreement
during the immediately preceding twelve Month
period; or

- (v) There is a material adverse change in Petro
Star JV's condition, business, or property
which may appreciably affect its ability to
perform any of their obligations under this
Agreement and Petro Star JV is unable or
unwilling to give the State adequate
assurance of continued performance either
within five Days of a request for such an
assurance or within such other shorter time
period as the State may request under the
circumstances; or
- (vi) Any representation or warranty made by Petro
Star JV in this Agreement was materially
false or incorrect when made.
- (vii) Petro Star JV's failure or inability for any
reason (including reasons beyond Petro Star
JV's control) to maintain the Security

described in Article XV, notwithstanding Petro Star JV's continuing willingness and ability to perform its other obligations and covenants under the Agreement.

7.2 Failure to Pay Debts. If Petro Star JV becomes unable to pay any of its debts when due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Petro Star JV will immediately give notice of that fact to the State. Whether that notice is given, if Petro Star JV becomes unable to pay any of its debts when due or should otherwise become insolvent, the State's obligation to tender and sell Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by the State; however, Petro Star JV will nevertheless be and remain liable for payment and performance of all its obligations and covenants under this Agreement with respect to Oil actually tendered by the State to and after any such termination. Within thirty Days after receipt of Petro Star JV's notice or, if no notice is given, after the State otherwise becomes aware (as determined in the State's sole discretion) of Petro Star JV's insolvency, the State will have the right, upon written notice to Petro Star JV, to reinstate all of the State's and Petro Star JV's obligations under this Agreement retroactively to the date of termination.

7.3 State's Remedies. If any Event of Default occurs or if the State's obligation to tender and sell Oil under this

Agreement is terminated or suspended, all Petro Star JV's obligations accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Petro Star JV will indemnify and hold the State harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorney's fees and disbursements) incurred by the State and arising out of the Event of Default, termination, or suspension. The State 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.

Additionally, in its sole discretion, the State, upon occurrence of any Event of Default: (1) may dispose to third parties Royalty Oil to be tendered and sold under this Agreement and (2) may release Petro Star JV from the in-state processing obligations set forth in Article 2.13 until the Event of Default no longer exists or the obligation of Petro Star JV to take Oil under this Agreement expires. If the State disposes Oil to third parties, or if Petro Star JV is released from Article 2.13, whether or not this Agreement is terminated, Petro Star JV will nevertheless remain liable for the difference between the purchase price for that Oil under this Agreement and the price received by the State by disposition, including all of the expenses (including reasonable attorneys' fees and costs), and

losses incurred by the State arising out of the Event of Default or disposition.

7.4 Petro Star JV's Exclusive Remedies. Upon any breach of, or default in performance of any of the State's covenants or obligations under this Agreement, Petro Star JV agrees that its remedies will not include a temporary restraining order or preliminary injunction preventing the State 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.

Petro Star JV recognizes that the State may be required to give six Months notice under the Unit Agreement (or ninety Days if the amount increased or decreased is less than ten percent of the then current nominations) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. Petro Star JV agrees that the State's election to invoke its rights to return to taking its Royalty Oil in-value on less than six Month's prior notice, or to attempt to secure a waiver of any condition or requirement, is at the State's sole discretion. Notwithstanding termination of this Agreement for any reason, Petro Star JV shall continue to take and purchase the State's Royalty Oil in the amount and for the price set forth in this Agreement for up to six Months following termination if the State, in its sole discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Petro Star JV is unable or refuses to accept or receive any Oil tendered under this Agreement, Petro Star JV shall nevertheless be and remain responsible for the disposal of that Oil and for paying the State for the Oil as though it had been received and accepted by Petro Star JV unless the State, in its sole discretion, elects to waive this requirement. In order to secure the obligations of Petro Star JV under Section 8.2 and Section 2.10, Petro Star JV shall, if the State requests, assign to the State all right, title and interest of Petro Star JV 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 Kuparuk Pipeline and the Trans Alaska Pipeline System; provided, that the State 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, the State shall actually exercise its rights to succeed to Petro Star JV's interest under them and shall obtain the benefits of them.

8.3 No Right to Storage or Underlift. Petro Star JV waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which the State 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 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 Petro Star JV's obligations to pay for Oil tendered and to accept and

dispose of Royalty Oil, neither party shall be liable for any failure to perform when the failure is caused in whole or in substantial part, by force majeure. The term "force majeure" 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 Petro Star JV is excused or suspended by a force majeure for three hundred sixty-five successive Days or more, the State will have the right to terminate this Agreement. Before the State exercises its right to terminate, the State and Petro Star JV shall in good faith negotiate to restore the benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. If a party believes that force majeure has occurred, the party shall immediately notify the other party of its claim of force majeure. If force majeure

occurs, that occurrence shall, so far as possible, be remedied with reasonable diligence. Except for Petro Star JV's obligations to pay for Oil tendered and to accept and dispose of Oil, the disabled party's obligations to perform that are affected by the force majeure shall be suspended from the time that notification occurs until the disability should have been remedied with reasonable diligence, and for no longer. But, the settlement of strikes, lockouts, or industrial disputes or disturbances will be entirely within the sole discretion of the party having the difficulty.

ARTICLE XII

NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally, telecopied, or sent by registered or certified United States mail, postage prepaid, with a return receipt requested, to the party to be notified. Notice deposited in the mail in this manner shall be effective upon the expiration of seven 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 shall be as follows:

If to the State: State of Alaska
 Commissioner of Natural Resources
 400 Willoughby Avenue
 Juneau, AK 99801

and

Commissioner of Revenue
P.O. Box S
Juneau, AK 99811-0400

and

Director, Division of Oil and Gas
P.O. Box 107034
Anchorage, AK 99510-0734

If to Petro Star JV:

Telecopy Number: _____

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

ARTICLE XIV

SOVEREIGN POWER OF THE STATE

This Agreement shall not be interpreted as a limit on the State of Alaska's exercise of any of its sovereign or regulatory powers, whether conferred by constitution, statute or regulation, including, but not limited to, its regulatory power over the Leases. Its exercise of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of

Petro Star JV or to limit or impair any obligations or liability of Petro Star JV under this Agreement.

ARTICLE XV

SECURITY

One hundred ninety Days before the Date of First Delivery, Petro Star JV shall cause to be issued and delivered to the State an irrevocable stand-by letter of credit, with an effective date no later than the Date of First Delivery, issued for the benefit of the State by a state or national banking institution of the United States ("Issuer"), which is insured by 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 the State in its sole discretion. The principal face amount of such letter of credit shall be a sum estimated by the Commissioner to be equal to the aggregate purchase price for the approximate total amount of Oil to be tendered by the State to Petro Star JV during the first ninety Days following the Date of First Delivery. The letter of credit shall be 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 his designee and the Attorney General of the State of Alaska or his designee that Petro Star JV is liable to

the State for a sum equal to the amount of such draft, and that sum is due and payable in full and has not been timely paid. The letter of credit must be renewed ninety Days before its expiration so that a letter of credit is continuously valid for ninety Days after the date of the last delivery of Royalty Oil. If a replacement letter of credit, in a form satisfactory to the Commissioner in his sole discretion, is not received ninety Days before the expiration of the existing letter of credit, then Petro Star JV shall be deemed to have materially breached this Agreement, there shall have occurred an event of default under Article 7.1, and all obligations of Petro Star JV accrued, but not otherwise due and payable under this Agreement, will immediately become due and payable in full.

If the State has reasonable grounds for asserting any claims against Petro Star JV 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, Petro Star JV shall upon the State's request (whether or not Petro Star JV may deny, reject or otherwise resist such claims) cause the principal face amount to be increased by an amount equal to the excess. Petro Star JV shall also automatically increase the principal face amount, without request from the State, whenever the face amount is less than the expected purchase price of ninety Days of Oil tenders, to an amount equal to the expected purchase price of ninety Days of Oil tenders. Petro Star JV may decrease the principal face amount upon approval of the State, if the face

amount is more than the expected purchase price of ninety Days of Oil tenders to an amount equal to the expected purchase price of ninety Days of Oil tenders.

The letter of credit must allow drafts to be drawn and presented to the Issuer up to and including the 90th Day after the last delivery of Royalty Oil to Petro Star JV under this Agreement. The Commissioner may accept such other or additional security as he, in his sole discretion, considers adequate to protect the State.

ARTICLE XVI

PREFERENTIAL HIRING AND NON-DISCRIMINATION

Petro Star JV agrees to employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska in connection with the Agreement. "Alaska resident" means an individual who has resided in Alaska for one year at the time of employment and "Alaska companies" means companies incorporated in Alaska or whose principal place of business is in Alaska.

If this provision is determined to be unconstitutional, then Petro Star JV agrees to 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 Petro Star JV 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 is subject only to the warranties of the State expressly set forth in this Agreement and the State disclaims and Petro Star JV waives all other warranties, express or implied in law, whatsoever.

ARTICLE XIX

AMENDMENT

This Agreement may be supplemented, amended, or modified only by written instrument duly executed by the parties. Any amendment 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 the written consent of the other party. The Commissioner or his designee may grant or deny such consent in his sole discretion. 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.

ARTICLE XXI

HEADINGS

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

ARTICLE XXII

RECORDS

22.1 Preservation of Records. Petro Star JV 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 no less than six years from the date of transaction or last adjustment relating to the

transaction. Petro Star JV 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 Petro Star JV nor the State shall be required to retain any records for more than six years unless retention of such records is specifically required by applicable law or regulation, or this Agreement. Petro Star JV shall either maintain its records within the State of Alaska or make such records available to the State at Petro Star JV's principal office in the State of Alaska within thirty Days after written request by the State.

22.2 Inspection of Records of Parties. Petro Star JV and the State 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 Petro Star JV's or the State'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. The State shall not be required to disclose any information, data, or records which are required to be held confidential by state or federal law or regulation. If the information obtained by the State may be held confidential under state or federal law or regulation, Petro Star JV may request that information be held confidential by the State and the State will keep this information confidential.

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, Petro Star JV will present the arguments supporting its view in writing to the Commissioner for his consideration. The Commissioner will subsequently issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for his conclusions. Petro Star JV agrees to accept findings by the Commissioner under this Article are supported by substantial evidence.

SIGNATURES

the State:

THE STATE OF ALASKA

Commissioner,
Department of Natural Resources

Date: _____

Petro Star Valdez Refinery
Joint Venture:

By: _____

Date: _____

Petro Star Valdez, Inc.

By: _____

Date: _____

Alaska Refining, Inc.

By: _____

Date: _____

Arctic Slope Regional Corp.

By: _____

Date: _____

Harbor Enterprises, Inc.

By: _____

Date: _____

ACKNOWLEDGMENT

STATE of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____, 19 ____, before me, appeared Harold C. Heinze, the Commissioner, Department of Natural Resources, State of Alaska; that Harold C. Heinze executed this document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this Agreement first above written.

Notary Public in and for Alaska
My commission expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____, 19 ____, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared _____, who executed this document as _____ of _____ and _____ acknowledged to me that _____ signed the same as _____ of _____ in the name of and for and on behalf said corporation, freely and voluntarily and by authority of its Board of Directors for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND and official seal the day and year last above written.

Notary Public for _____
My commission expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____
, 19 ____, before me, the undersigned, a Notary Public in and for
the State of Alaska, duly commissioned and sworn, personally
appeared _____, who executed this document as _____
_____ of _____ and _____ acknowledged to
me that _____ signed the same as _____
of _____ in the name of and for and on behalf said
corporation, freely and voluntarily and by authority of its Board
of Directors for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND and official seal the day and
year last above written.

Notary Public for _____
My commission Expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____
, 19 ____, before me, the undersigned, a Notary Public in and for
the State of Alaska, duly commissioned and sworn, personally
appeared _____, who executed this document as _____
_____ of _____ and _____ acknowledged to
me that _____ signed the same as _____
of _____ in the name of and for and on behalf said
corporation, freely and voluntarily and by authority of its Board
of Directors for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND and official seal the day
and year last above written.

Notary Public for _____
My commission expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____
, 19 ____, before me, the undersigned, a Notary Public in and for
the State of Alaska, duly commissioned and sworn, personally
appeared _____, who executed this document as _____
_____ of _____ and _____ acknowledged
to me that _____ signed the same as _____
_____ of _____ in the name of and for and on behalf said
corporation, freely and voluntarily and by authority of its Board
of Directors for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND and official seal the day and
year last above written.

Notary Public for _____
My commission Expires: _____

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the ____ day of _____
, 19 ____, before me, the undersigned, a Notary Public in and for
the State of Alaska, duly commissioned and sworn, personally
appeared _____, who executed this document as _____
_____ of _____ and _____ acknowledged
to me that _____ signed the same as _____
_____ of _____ in the name of and for and on behalf said
corporation, freely and voluntarily and by authority of its Board
of Directors for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND and official seal the day
and year last above written.

Notary Public for _____
My commission expires: _____

WEL-ASKA CORPORATION

P.O. BOX 962
VALDEZ, AK 99686
PHONE: (907) 835-2424
FAX: (907) 835-5170

TELEFAX TRANSMITTAL COVER SHEET

Date: March 16, 1992

Please Deliver To:

Name: Sen. Sam Cotton, Chair

Firm: Senate Oil and Gas Committee

Location: Juneau

Telecopier No.: 465-4979

From: Del and Virginia Welch

Total number of pages this transmittal - including cover sheet: 2

Remarks: Letter in support of the Petro Star Valdez Refinery
Joint Venture.

Sent By: SB

Time Sent: 11:20 AM

WEL-ASKA CORPORATION

P.O. BOX 362
VALDEZ, AK 99686
PHONE: (907) 835-2424
FAX: (907) 835-6170

March 16, 1992

Sen. Sam Cotton, Chair
Senate Oil and Gas Committee
Alaska Legislature
Fax# 465-4979

Dear Sen. Cotton,

We are writing to lend our support for selling state royalty oil to Petro Star Valdez Refinery Joint Venture for its new refiner Valdez. (HB 559)

Through our mother firm, Wel-Aska Corporation and a number of companies, we have been in the construction business here in Valdez more than 20 years. In 1981 we bought the best of the Na corporation timber in the area, and over the next years sold mill of board feet to Japan. More recently, we have purchased Kata Alaska's first oil field. We are looking at the possibility of preserving the site and developing there again.

We welcome the establishment of a new industry in Valdez. As property values in Valdez are declining, and our community needs additional revenues that the refinery will generate. Also, we need two dozen year-round jobs that the refinery will bring.

We also like the fact that the refinery's owners are Alaskans instead of outsiders. We have known Petro Star's Walt Schlotfeldt for years and we know him to be a responsible, prudent businessman who makes point to give something back to the community. The MarkAir people, the Lindseys of Seward are also real Alaskans. Their joint venture refinery will be a fine addition to Valdez.

Sincerely,

Virginia Welch

Virginia Welch
President
Wel-Aska Corporation

Del Welch

Del Welch
President
Ocean Green Alaska, Inc.

Valdez Realty

"The Dirt Merchant"

DATE:

TO: Senator Sam Cotton Chair
Senate oil & Gas Committee
Alaska Legislature
FAX - 465-4979

FAX NO. -

Phone -

FROM: Walter M. Wood
VALDEZ REALTY
P.O. Box 868
Valdez, Alaska 99686

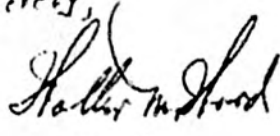
FAX NO. - 835-5462

Phone - 835-2408

COVER PAGE PLUS (1)

MESSAGE -

Please give serious thought to this matter

Sincerely,

Walter M. Wood

Valdez Realty

"The Dirt Merchant"

March 16, 1992

Sen. Sam Cotten, Chair
Senate Oil & Gas Committee
Alaska Legislature
Fax #465-4979

Dear Sen. Cotton,

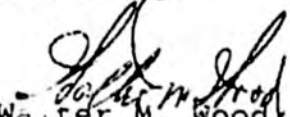
I am writing to ask your favorable vote on HB 559, which calls for selling state royalty oil to the Petro Star Valdez REfinery Joint Venture for use in its new refinery in Valdez.

I have been in the real estate business in Valdez since July 1, 1976. Before that, my wife and I homesteaded in the Big Lake area north of Anchorage, beginning in 1958, where we voted in the Alaska Statehood Election. Later we moved to Anchorage. Over the years I have lived through the ups and downs of our local economy, the boom years and the slow times.

I support the Petro Star refinery because our economy is strengthened by the establishment of a new small business such as this one. My experience has been that a number of small businesses lead to better local employment than one huge new industry. Petro Star's 20 to 30 new jobs, once the refinery comes on line next fall, will have positive impacts throughout the community.

Thank you for your consideration.

Sincerely,


Walter M. Wood, Broker

March 19, 1992

Senator Sam Cotten
State Capitol
Juneau, Alaska 99801-1182

RE: SB 448

Dear Senator Cotten:

This is in response to your March 17, 1992 letter regarding SB 448 that inquired about "oil spill response services provided by Alyeska for the proposed new refinery."

The Petro Star Valdez Refinery Joint Venture has not contacted Alyeska to inquire about oil spill response services for the refinery. There are no arrangements or plans for arrangements whereby Alyeska would provide such services to the Petro Star Joint Venture. Alyeska does not contemplate participation in the facility's discharge Prevention and Response efforts.

Please contact me if I may be of further assistance in this matter.

Sincerely,


Paul M. Richards
Government Relations

PMR:ph



March 13, 1992

Senator Sam Cotton
Special Senate Committee on Oil and Gas
Alaska Senate
Post Office Box V
Juneau, Alaska 99801

RE: CITY OF VALDEZ SUPPORT FOR PETRO STAR PROJECT

Dear Senator Cotton:

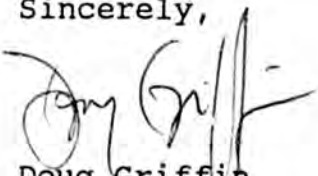
Enclosed is a letter from Valdez Mayor John Harris to Commissioner Harold Heinze supporting the sale of State royalty oil to the Petro Star Valdez Refinery Joint Venture. Please accept this as evidence of the formal position of the City of Valdez as it pertains to legislation pending before your committee.

I reiterate that the City of Valdez believes it is in the best interests of the State of Alaska and this community to add value to raw products leaving this State. This processing enriches and diversifies our economy and provides petroleum products to Alaskan markets at competitive prices.

Please make this letter and the attached letter from Mayor Harris a part of the record for legislation approving the royalty sale of oil to Petro Star.

Thank you for your assistance.

Sincerely,


Doug Griffin
City Manager

DG:blp

cc: Senator Jalmar Kerttula
Senator Curt Menard
Representative Gene Kubina



Office of the Mayor
February 12, 1992

Mr. Harold Heinze, Commissioner
Alaska Department of Natural Resources
P.O. Box 107034
Anchorage, Alaska 99510-7034

Re: Proposed Sale of State Royalty Oil to Petro Star Valdez
Refinery Joint Venture

Dear Mr. Heinze:

The City of Valdez has reviewed the preliminary findings and determination to sell royalty oil to Petro Star Valdez Refinery Joint Venture. The City is very supportive of this contract in that it will allow the state to use a portion of its oil from the North Slope to create jobs for Alaskans.

The Petro Star Refinery Joint Venture is proposing to construct a 30,000 barrel per day topping unit in Valdez. This project will create between 20 and 25 jobs for Valdez residents. The products which are produced will be made available to Alaskan markets. This will help to reduce the cost of fuel to Alaskan purchasers.

The City of Valdez is supportive of the Petro Star Project and strongly urges you to determine that the proposed sale of state royalty oil to the Petro Star Valdez Refinery Joint Venture is in the state's best interest and forward the contract along with the final findings and determinations to the Alaska Legislature so that the Legislature may take action as soon as possible to allow this project to move forward.

Sincerely,


John L. Harris
Mayor

CC: Representative Gene Kubina
Senator Kurt Menard
Senator Jay Kertulla

#51 PetroStar.212



First National Bank
of Anchorage

March 16, 1992

Senator Sam Cotten, Chair
Senate Oil and Gas Committee
Fax # 465-4979

Dear Senator Cotten,

I have learned that your committee is taking up the issue of selling state royalty oil to the Petro Star Valdez Refinery Joint Venture for its new refinery in Valdez. (HB 559)

I am writing to lend my unqualified support to the refinery. At a time of unemployment and declining revenues Valdez looks forward to the 20 to 30 new jobs and increased property tax revenues created by the project.

In-state processing of our North Slope oil resources has long been a goal of all Alaskans. The Petro Star project will keep the jobs in Alaska rather than sending them out of state on tankers, while providing a local source for marine diesel and home heating fuel.

I hope the members of the Oil and Gas Committee will agree with me that the Petro Star Valdez Refinery is a project worth supporting.

Sincerely,

Jim Shirrell, Vice President & Valdez Branch Manager
First National Bank of Anchorage

MODERATOR:
SITE:

JUDY
ANCHORAGE



Trouble

Complete u/Kenai PARTICIPANT LIST

why I really
need it

Premium?
why



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discount



To see 100% what

Resin

TESTIFIER

NAME/REPRESENTING	ADDRESS/ZIP	PHONE	BILL NO.
1. <u>KEN BOYD</u> /DIVISION OF OIL AND GAS			SB 448

2.

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Resin

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6.

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8.

9.

FILE NO. _____ FILED IN _____ FILED BY _____ FILED FOR _____ FILED AT _____ FILED ON _____ FILED BY _____ FILED FOR _____ FILED AT _____ FILED ON _____

T/C NO: 92-03-088
DATE: MARCH 19, 1992
SPONSOR: SENATE OIL & GAS
SUBJECT: SB 448
MODERATOR: SHARON LAWRENCE
SITE: VALDEZ

[illegible]

NAME/REPRESENTING
1. DAVE DENGEL

PHONE

BILL NO.

SCOMM

78:45

FISCAL NOTE

STATE OF ALASKA

1992 LEGISLATIVE SESSION

BILL NO. SB 460Revision Date: 3-Apr-92Department Affected: Natural ResourcesTitle: Oil and Gas Exploration LicensesBRU: Petroleum ManagementComponents: Petroleum ManagementSponsor: Senate Rules by RequestRequestor: Senate Oil and GasCOMPONENT SERIAL NO. 439

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE						
Funding Source:	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
Funding Source:						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME	0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of Current year impact: No additional funds necessary

ANALYSIS: (Attach a separate page if necessary)

The oil and gas exploration license program established by this bill could lead to new discoveries of oil and gas on State land, and as a result, significantly increase State revenues. Existing staff will implement and manage the program.

Prepared by: Bob LoefflerPhone: 762-2578Division: Oil and GasDate: 3-Apr-92Approved by Commissioner: Harold C. HeinzeDate: 3-Apr-92Agency: Department of Natural ResourcesDistribution (by preparer) : Legislative Finance, legislative Sponsor, Requestor, OMB,
& Impacted Agency(ies).

DIVISION OF LEGAL SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

240 Main Street, Suite 500
Juneau, Alaska 99801-2101

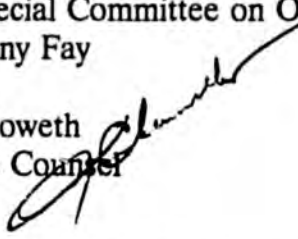
MEMORANDUM

March 23, 1992

SUBJECT: Oil and gas exploration licenses and related leasing methods
(Work Order No. 7-LS2149D)

TO: Senator Sam Cotten, Chair
Senate Special Committee on Oil and Gas
Attn: Ginny Fay

FROM: Jack Chenoweth
Legislative Counsel



Since time is of the essence and you and the personnel of the Division of Oil and Gas who participated in Thursday's teleconference agree that the committee should give the substance of the proposed measure careful attention, I am sending this along, warts and all. It is a bill that does, indeed, require more work.

Per expectation of the Division of Oil and Gas, I settled the new section, bill section 1 authorizing exploratory licenses, ahead of the current statutes (AS 38.05.-135 - 38.05.184, collectively designated as Article 6 of AS 38.05) that direct state leasing of its mineral lands. Frankly, I think it may be a mistake to place this provision outside Article 6, for by doing so, none of the substantive provisions of AS 38.05.135 - 38.05.184 necessarily applies to the exploratory licenses and, more significantly, none of them applies to leasing activities commenced on the basis of exploratory licensing.

I'm worried that proposed AS 38.05.133(a) says nothing about who may be a "qualified applicant." Omitted from the subsection, too, is any requirement that the commissioner of natural resources will provide advance public notice that the department will receive license applications. In the model I was asked to work from, delivered to me on Friday, the department has deleted even reference to licensing on a competitive basis. Consequently, there are no statutory criteria offered as to award of licenses, on any basis, and precious little provided to guide the commissioner on what factors to consider in evaluating applications. (At least under the regular leasing provision of current law, AS 38.05.180(f), the commissioner must report how the anticipated bidding procedure will be in accord with the best interests of the state.)

In Thursday's teleconference, you touched on the omission of the scope of the licensee's work commitment. In response, division personnel related that, at a minimum, they would expect the commitment include completion of seismic work, reporting of seismic data, and drilling of necessary wells. Rather than rely on insertion of these requirements in regulation, the legislature may want to set out the anticipated minimum requirements in the legislation.

In (b)(1), is the 2,500,000 acre maximum defensible when division personnel suggested that the more likely maximum would be 600,000 acres, or roughly only one-quarter that size?

Proposed AS 38.05.133(b)(3) mentions a bond. The bond must at least equal "the estimated cost of completion of the activity under the approved exploration plan and work commitment." It seemed clear to me on the basis of the teleconference that the bond requirement did not reach to reclamation costs and expenses of habitat rehabilitation. If you want those to be covered, they should be inserted.

Under (b)(4), termination is authorized, but basic due process provisions--notice and an opportunity to contest a proposed finding--are not included.

With respect to proposed AS 38.05.133(c), there is no guidance provided as to what "part of the land subject to the license" may be leased--division personnel alluded to a decision based on the reported structural formation and, by implication, indicated that the area to be leased would include the likeliest prospects for recovery.

With respect to proposed AS 38.05.133(d), there is no language offered to indicate the basis for the commissioner's decision to award a lease and nothing to indicate what might be meant by "condition[ing] a lease upon other payments to the state."

The division personnel indicated that they would anticipate loading into the exploration license agreement (that is, up front, at the beginning) some tie to the kind of lease terms that would be imposed if a lease were eventually to be entered into under (c) and (d). While, upon reflection, those who spoke may find that front end guessing to be unworkable, if it can be done, the committee may want to consider making it a requirement.

Bill sections 2 and 3 are drawn from the earlier draft and are unobjectionable. Since the license provision mentions that a lease under proposed AS 38.05.133 would be exempt from the acreage limitation of AS 38.05.180(m), I carried that change forward from the earlier draft where it had appeared as bill section 4.

JBC:LMB
92-072.lmb

Enclosure

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FACSIMILE: (907) 586-2754

April 6, 1992

The Honorable Sam Cotten, Chair
Senate Special Committee for Oil and Gas
State Capitol
Juneau, AK 99811-1182

Dear Senator Cotten:

Subject: Senate Bill 460, which establishes an oil and gas exploration license and leasing program.

Position: The Department of Natural Resources supports this bill because it will encourage exploration of state land that industry is not interested in exploring under current oil and gas leasing methods. Oil and gas discoveries under this new program will return royalty and tax dollars to the state, provide jobs for Alaska's residents, and increase the tax base for local governments.

Background: In areas of Alaska where there is a significant probability of discovering oil and gas, the level of risk justifies the large up-front investment (bonus bids, lease rentals, etc.) industry must make to acquire targeted acreage under the existing oil and gas leasing program. But in areas where the potential is low or unknown, appropriate areas to lease cannot be identified and the level of risk does not justify the large up-front expenditures. As a result, the interior basins of Alaska remain largely unexplored for oil and gas.

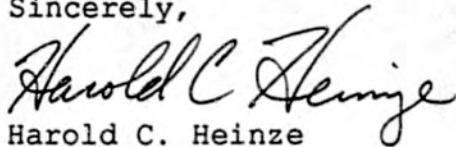
The exploration license and leasing program established in this bill would encourage industry to explore areas of low or unknown potential such as the Copper River or Yukon-Kandik basins. Up-front expenses would be greatly reduced because bonus bids would not be required. Very large tracts would be available for exploration, increasing the probability of finding oil somewhere in the area.

A company would "bid" on an area with a work commitment. The company or companies with the "best" work program would win the right to explore the acreage. The best program would generally be one which used a variety of exploration techniques in a relatively short period of time. If oil or gas is found, the licensed company would have the right to produce it. The state would receive its agreed upon royalty share. Finding oil on state land could increase interest in adjacent federal or private land. The state also shares in revenues from private and federal land through taxes and in some cases royalties.

Recommendation: Work with the Administration and industry to craft a bill that meets state and industry needs and concerns. We have

enclosed a suggested amendment for your information.

Sincerely,

A handwritten signature in cursive script, reading "Harold C. Heinze". The signature is written in dark ink and is positioned above the printed name and title.

Harold C. Heinze
Commissioner

cc: Paul Fuhs, Legislative Liaison, Office of the Governor

BRIEFING PACKAGE

**SENATE SPECIAL COMMITTEE
FOR OIL AND GAS**

SB 460

Exploration Licensing and Leasing Program

April 7, 1992

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034
ANCHORAGE, ALASKA 99510-7034
PHONE: (907) 762-2553

Proposed Revision to SB 460, Large Block Exploration Licenses:

Proposed Revision (Deletion is ~~struck-out~~, proposed addition is *in italics*.)

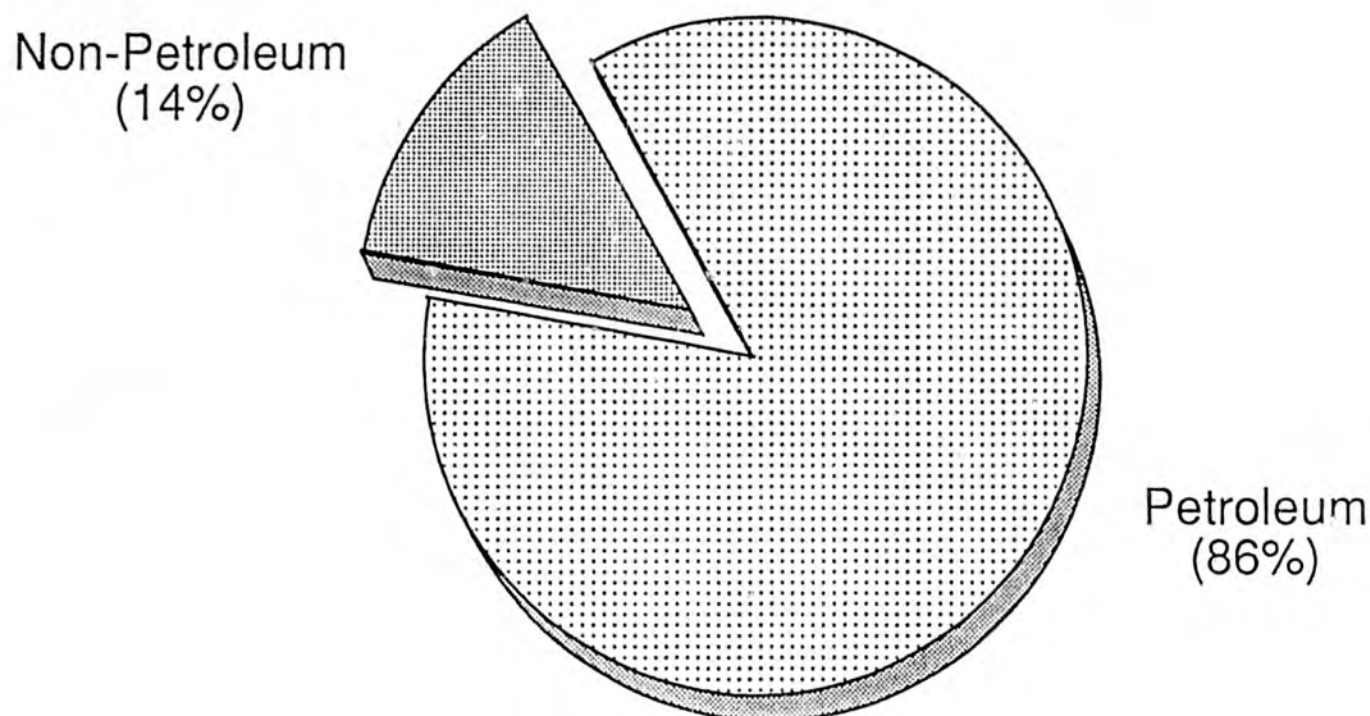
AS 38.05.133(c):

(c) *Upon making a discovery of oil or gas, and submitting a plan of development for the discovery which the commissioner determines is in the state's best interest, the licensee is entitled to a lease covering that portion of the licensed area containing the discovery. At any time during the term of the license, if the licensee submits a plan of development satisfactory to the commissioner, the commissioner may issue the licensee a lease of part of the land subject to the license.*—A lease awarded under this subsection is not subject to the acreage limitation imposed by AS 38.05.180(m).

Justification

In this proposal, the incentive for companies to "bid" work commitments in speculative oil and gas regions, is that if oil or gas is found, the exploring company will gain an exclusive right to the production. The present language in the bill does not provide that incentive. It makes the production rights subject to the discretion of the commissioner. Without a guarantee that rights will follow from a discovery, there is little incentive to spend exploration funds. The proposed revision reestablishes the incentive, giving the commissioner direction to ensure an adequate plan to develop the discovered oil or gas. (The commissioner's decision is analogous to what happens during unitization of a discovery.)

Where Our Money Comes From



Major Sources of Income (In 1991):

BONUS:	\$38.3 Million
RENTS:	\$21.3 Million
ROYALTIES:	\$1.26 Billion
TAXES:	\$1.28 Billion

Invitation to Bid for Petroleum Acreage

Mongol Petroleum Company (MGT) is pleased to announce that contract areas in Eastern Mongolia will be offered on a production-sharing basis in 1992. These areas are located in the previously oil-producing East Govi basin and the Tamsag, Choybalsan, and Nyalga basins.

MGT and Western Geophysical are currently conducting a 1500-km speculative seismic survey over the East Govi, Tamsag, and Choybalsan basins. Purchase of the complete data package is a requirement for application in these three basins. The applications for all areas will be processed in four stages:

Stage 1

Application opening
June 1, 1992

Stage 2

Geological, geophysical, legal,
and fiscal evaluation
June 1 - Nov. 15, 1992

Stage 3

Application closing
Nov. 16 - Dec. 15, 1992

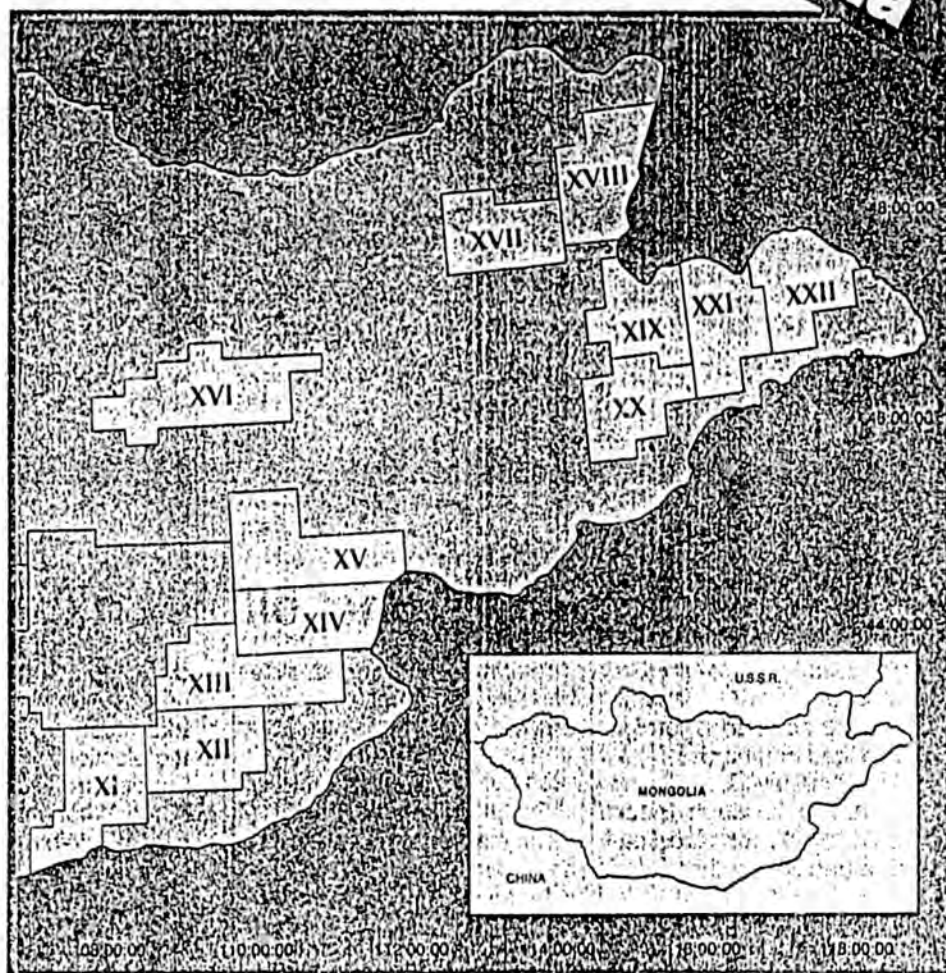
Stage 4

Contract negotiation and award
Jan. 1 - Feb. 28, 1993

For further information, contact:

Mongol Petroleum Company (MGT)
Gudamj Mongol Gazryntos
Ulaanbaatar 37, Uildverchnii Eveliin,
Tel: 31176, 31038, or 31048
Telex: 79238 ICCME MH

D. Sodnom, President
Mongol Petroleum Company (MGT)



Block No.	Block Name	Area (km ²)
XI	Galba	13 800
XII	Ergel	11 700
XIII	Tsagaan Els	14 600
XIV	Zuunbayan	12 800
XV	Tariach	15 300
XVI	Nyalga	18 430
XVII	Bayan Tümen	12 550
XVIII	Höh Nuur	13 570
XIX	Toson Uul	10 460
XX	Matad	10 700
XXI	Tamsag	11 130
XXII	Buir	11 400

Reservoir Geomorphology and the Application of Sequence Stratigraphy

April 19-26,

Cape Town, South Africa

Transgressive-Regressive Cycles and Foreland Basin Tectonics

May 4-10, Utah

Wave-Dominated Deltas and Shelf Sands: Depositional Models for Hydrocarbon Exploration

June 8-17

Aug. 17-26

Utah, Colorado and Wyoming

Turbidite Systems and Facies and Their Relations to Depositional Systems

June 11-18, Spain

Clastics - Modern

Modern Clastic Depositional Environments

April 11-18

Sept. 22-28

North and South Carolina

Modern Deltas

July 20-24, Louisiana

Structure

Utah-Nevada Overthrust Belt and Eastern Great Basin Tectonics

June 7-12,

Utah and Nevada

Sedimentation, Tectonics and Basin Evolution: Application to International and Domestic Exploration

July 27-31, Alberta, Canada

Intracontinental and Foreland Wrench-Tectonics - A Structural Journey into the Heartland of Europe

Sept. 11-19, France

Tectonics and Sedimentation

Exploration Potential and Tectonic and Depositional Framework of Strike-Slip Related Basins

April 6-12, California/Nevada

Styles of Deformation and Exploration Strategies in Mobile Belts

May 3-10, Sicily

Tectonics and Sedimentation of Turbidites in California

Sept. 11-20, California

Jointly Arranged with Geodynamics Institute of Nice

Cosponsor: EAPG

Alpine Mesozoic Basin in the Southeast of France

June 5-12, Grenoble-Nice, France

(Register through Geodynamics Institute, Attn: Michel Popoff, CNRS B3, Sophie Antipolis, Ave. Albert Einstein F-06560 Valbonne)

For more information, contact the AAPG education department, P.O. Box 979, Tulsa, Okla. 74101; (918) 584-2555.

problems.

DELLING ERPRETATION

- Wav-X
WAVELET
EXTRACTION
- Software
Training
ON-SITE
COURSES

IGRAPHIC
DELLING

SEISMIC
INTERPRETATION

STRUCTURAL
MODELLING

• SSD
SEISMIC SECTION
DIGITIZING

PHYSICAL MICRO COMPUTER
CAPABILITIES

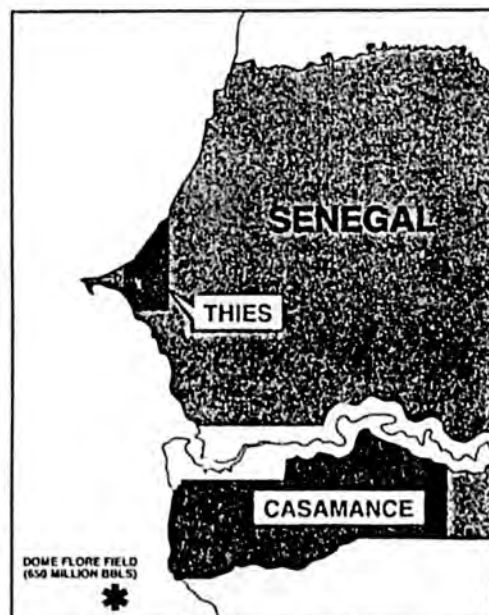
Canada CAN T2P 3C8 Fax: 263-6493 (403) 261-4025

USA USA 77079 Fax: 589-0617 (713) 589-6898

USA (303) 595-4848

SENEGAL

SECOND ROUND OF HYDROCARBON LICENSING



The Government of Senegal and Petrosen is inviting oil companies to apply for hydrocarbon licenses over the onshore areas of Casamance and Thies. Three blocks are offered over these areas covering approximately 18,000 sq. km.



PRESENTATION

Presentations of the hydrocarbon potential, legislative and fiscal terms will be made as follows:

Calgary - March 2, 1992
Houston - March 5, 1992
London - March 9, 1992

For more information, contact:

Petrosen - Dakar
Ousmane N'Diaye - Gen. Manager
(221) 22.04.44
Houston - Roger Welch
(713) 954-4600
Calgary - Fred Rayer
(403) 262-5886
London - Cliff Hunter
(0784) 434-377
or fax - (713) 954-4650



FIRST EXCHANGE
A FIRST SEISMIC COMPANY



62.5 mi.

2,500,000 acres
3,906 square miles



39 mi.

1,000,000 acres
1,562 square miles



28 mi.

500,000 acres
781 square miles



3 mi.

5,760 acres
9 square miles

Scale: 1: 2,500,000
1" = 40 miles

Concessions

The concession was the original system used in world petroleum arrangements. It is still the most widely used system.* Where legislation has been enacted to govern petroleum, it may be called a license or permit (exploration) or a lease (exploitation). Countries using this system are as varied as the United Kingdom, Norway, Thailand, the United States, and Australia. In the Middle East where there is minimal or no petroleum legislation, concessions are given through negotiations directly with governments.

The concession is an arrangement whereby the oil company receives the right—in exchange for its payment of all costs and specified taxes—to explore for petroleum and, if production is begun, to produce and market the oil or gas. The right to transport hydrocarbons that are discovered is usually included. In exchange, the company pays a royalty and income tax in addition to costs. Bonuses and minor taxes may be levied as well.

The company is usually given the right to export crude oil or gas produced, subject to various obligations. Such obligations are extensive. They include satisfying national consumption needs before export, employing nationals, and using local products.

The principal advantage of the concession system is that it is a tried-and-true system that works. It can be enacted as a corpus of legislation (as in the United Kingdom, the United States, France, and Australia), or it can be negotiated directly to incorporate the same requirements and achieve the same results.

The principal disadvantage of the concession is that in the past it gave the government less direct involvement and voice in managing

*Concessions, generally granted through a petroleum or mining law, are used in 121 countries. This does not mean they are used exclusively. Nigeria has concessions for most of its producing companies, production sharing for one (Ashland), and joint ventures in most through 60% government participation. Abu Dhabi has concessions with joint ventures through participation and a straight service contract with Total for developing Upper Zakum. The UK and Norway have concessions and, through obligatory participation, joint ventures via national oil companies.

Operator

Contractor

Minimum Obligations

The Contractor must have 150 km of seismic sections and must drill one well with a minimum expenditure of US\$3.2 million.

Taxes

Taxes are 52.5% of net income. Depletion allowance—15% of wellhead value. Maximum loss carry forward—10 years.

Royalty

Royalty is 12½% of wellhead value, creditable against income taxes.

Disposition of Production

The Contractor has an obligation to supply a pro rata share of the internal market subject to a maximum of 40% of the Contractor's share of production. The balance may be freely exported and proceeds may be retained abroad.

Price

Internal market oil is to be sold at the price of Saudi Light CIF Karachi, plus transportation to the point of sale in Pakistan, less the cost of transport from the field to the point of sale, less 10% discount.

Currency

Remittance of rupees on the current basis at the official rate of exchange for general commercial transactions prevailing on the date of the transaction.

Production Bonus

Bonus is US\$1 million upon commercial discovery; US\$3 million upon reaching 25,000 b/d production for 60 consecutive days; and US\$5 million upon reaching 50,000 b/d production for 60 consecutive days.

petroleum operations with less opportunity to enter into operations directly for vital objectives such as training national personnel and understanding the international energy industry. These advantages can be overcome, however, by incorporating in the concession document a provision for government participation through a joint venture and training programs.

Flexibility to accommodate rising or falling prices for oil is essential. This can be incorporated in the concession tax, as done in the UK by the special Petroleum Revenue Tax (PRT) that the government has raised with higher oil prices to skim off "windfall" profits. Norway has a similar tax.

Participation

The State may participate in the concession directly or through its own oil company. This is the system used extensively in the Middle East where participation was gradually raised from an original 25% in the early 1970s to 60% and, in most of the larger producing areas, subsequently to 100%. The most illustrative example of this is Saudi Arabia, which in 1981 completed payment for and received 100% of the Aramco concession holding. (For further discussion on this trend in participation, see the section on joint ventures.)

Sample Petroleum Concession Summary

As mentioned, the basic difference between a concession and a petroleum contract is that all production is acquired by the concessionaire. To even out the profitability of these arrangements requires a higher tax and royalty, as may be seen from the following example.

Pakistan

Duration

Exploration—eight years; production—20 years plus four renewal periods of five years each with the approval of the Government.

Disputes

Arbitration by the International Center for Settlement of Investment Disputes.

Import/Export Duties

The operator and its contractors may import and export duty free during the exploration phase. After commercial discovery, the import duty is fixed at 5¼% ad valorem for two years. Normal duties apply thereafter.

Fiscal Analysis for Risk Contracts

The following analysis is based on a petroleum concession in Norway granted in 1981 to an international oil company.

Fiscal Factors

Income tax	23% municipal, 27.8% federal, 15% dividend
Cost recovery limit	None
Royalty on production	8% to 40,000 b/d; 10% to 100,000 b/d; 12% to 225,000 b/d; 14% to 350,000 b/d; thereafter, 16%. Once 12% is reached, royalty cannot fall below
Depreciation rates	Six years, straight line from first production
Profit sharing	None
Interest on investment	None
Uplifts for income tax	10% development investment, straight line over 15 years against SPT only
Bonuses to be paid	US\$5,000 production bonus at 250,000 b/d, US \$10,000 at 400,000 b/d
Price controls	No, norm price assumed OMP
Special payments or conditions ...	35% special petroleum tax, nondeductible
Participation by government	50% to 50,000 b/d; 55% to 100,000 b/d; 60% to 150,000 b/d; 76% to 225,000 b/d; 70% to 300,000 b/d; 75% over 300,000 b/d; carried through exploration
Participation by local parties	50% of nongovernment participation
Right to export	Net working interest may be exported

Fiscal Analysis

Reserves (million bbl)	50	50	50	100	100	100	200	200	200
Well flow rates	Low	Med	High	Low	Med	High	Low	Med	High
Net cash flow (\$MM)	238	247	240	546	537	534	1,056	1,020	990
Deflation factor* (\$MM)	21	41	47	87	116	131	198	241	263
Present value, 15% (\$MM)	-24	-9	-2	-15	9	23	5	41	64
Net cash flow divided by maximum unrecovered investment	1.2	1.9	2.1	2.0	2.9	4.1	2.9	4.1	6.0
Deflation factor (\$/\$)	0.2	0.5	0.6	0.5	1.0	1.6	0.9	1.6	2.6
Discounted cash flow return	9.5	2.6	14.3	12.7	16.8	20.1	15.6	20.6	25.5
Deflation factor (%)	2.0	4.8	4.3	5.0	8.7	11.1	7.7	12.2	16.7
Company share of margin†	6.2	4.8	4.3	5.7	4.7	4.2	4.7	4.1	3.7
Company share of price increase‡	3.8	3.8	3.8	3.8	3.8	3.8	3.4	3.4	3.4

* Deflation factor is based on CPI (Consumer Price Index) deflator over entire period.

† Share of economic margin retained by company.

‡ Share of any increase in value of crude oil retained by company.

Australia

Petroleum Legislation

Onshore petroleum operations are separately controlled by the governments of the various Australian states and by the federal government in the territories.

Offshore

The Commonwealth government, under agreement with the states, on 16 October 1969 enacted the Petroleum (Submerged Lands) Act (Act 118 of 1967) to regulate the offshore.

Administration of the offshore legislation is in the hands of the states and territories, save only that the Commonwealth is consulted on all aspects that may affect its own special responsibilities under the constitution, e.g., external affairs.

The offshore law provides for awarding exploration permits and production licenses. Both Commonwealth and state approval is necessary before offshore rights are granted. The offshore act authorizes competitive bidding on either a cash bonus or a royalty basis, or a combination of both.

Area

An offshore exploration permit is 10,000 sq miles. There is no limit on the number of permits that may be granted to an individual entity. Onshore, each state has its own system for allocating rights.

Royalty*

The offshore royalty is 10% of the value of production. The royalty can be raised to 12½% when the Licensee has elected to include in his lease a larger-than-normal area surrounding his discovery. The Government may reduce the royalty to encourage recovery of petroleum that otherwise might not take place.

Tax*

The Company is subject to a corporate income tax of approximately 46%.

Duration*

Six years' offshore exploration with rights of renewal for successive

periods each of five years. Offshore production licenses have an initial duration of 21 years and may be renewed.

Work Obligations*

Companies holding permits are required to carry out exploration work in accordance with programs approved by the appropriate state or territory authority.

Conversion*

In the event of a permittee discovering payable petroleum, it has a preferential right to a production license.

Fees*

Exploration fee—US\$5/block/annum with a minimum of US\$100 for each permit. Production fee—US\$3,000/annum for each block in the license area. Pipeline fee—\$20/mile/annum. Registration fee—1% of the value of the transfer or of the interest created.

Onshore (Western Australia)

Petroleum development is governed by the Petroleum Act, 1967, the Petroleum (Registration Fees) Act, 1967, and the Petroleum Pipelines Act, 1969, as amended.

Administration

The Mines Department under the Minister of Mines is charged with administration of the acts.

The Petroleum Act of 1967 provides basically a two-title system of exploration permits and production licenses.

Exploration Permits

The Minister may invite applications for exploration permits by advertising blocks of available land by publication in the West Australian Government Gazette. A block is defined as a graticular section of 5 minutes longitude by 5 minutes latitude. In the northern part of the state, this results in a graticular block of about 30 sq miles reducing to about 25 sq miles in the southern part. The Minister has discretion in granting permits. A single application may be made for up to 200 blocks

and must be accompanied by an application fee of A\$1,000, particulars of:

- 1) The proposals of the applicant for work and expenditure in respect of the blocks specified in the application; for each of the five years of the first term a specific operational activity and minimum expenditure commitment should be stated
- 2) The technical qualifications of the applicant and of his employees
- 3) The technical advice available to the applicant
- 4) The financial resources available to the applicant; substantial evidence should be submitted regarding the ability of the applicant to fund the proposed work program

The permit is good for five years and entitles the holder to carry on all work necessary for exploration within the permit area. All petroleum discoveries must be reported to the Minister. There is an annual fee of A\$100 per permit or A\$5 per block, whichever is greater.

Production License

A production license entitles the holder to carry out operations for the recovery of petroleum. Any person holding an exploration permit may apply for a license. By a statutory formula, the holder of a permit may designate a location and apply for a production license that allows exploitation on a portion of the location. [See the discussion in Australia, Commonwealth, Petroleum (Submerged Lands) Act 1967.] Within two years of the granting of the primary license, the permittee may apply for a secondary license covering additional blocks within the location. The license term for all licenses is 21 years and may be renewed for additional 21-year periods.

During the first year of the license, the licensee is required to carry out a program of approved works, expending a minimum of A\$100,000 per block. The same expenditure must be made in subsequent years until petroleum is recovered. Then the above sum is reduced by the value of the petroleum produced. Additional work may be required at the discretion of the Minister.

There is an annual fee of A\$3,000 for each block included in the license. Any petroleum recovered under an exploration permit is subject to a royalty of 10% of the value at the wellhead. Royalties on production under a primary production license are to be determined by the Minister at between 5 and 10% of the value at the wellhead and under a secondary production license at between 10 and 12½% of the value at the

wellhead. If production from a well becomes uneconomic, the Minister has the discretion to reduce the royalty.

* Petroleum (Submerged Lands) Act of 1967 and parallel legislation of Australian states. Published in *Asia and Australasia—Basic Oil Laws and Concession Contracts*, supplement 57.

Austria

Petroleum Legislation

The General Mining Law of 13 May 1975 as amended by the Law of 1 February 1978 provides for the granting of exploration contracts and mining rights. Disposition of previously acquired oil rights (which includes all present production) was resolved in 1982.

Exploration

Exploration contracts may be awarded to qualified persons and entities. In the event of the discovery of a commercial deposit of petroleum, the Contractor is entitled to extract petroleum for 30 years.

Royalty

20%.

Taxes

The Company is subject to general corporation taxes. Nonresident companies (those having neither their principal office nor management in Austria) are subject to a corporate tax on their income from Austrian sources. The general corporation tax is 55%.

Rental

During exploration, an unspecified rent must be paid on each square kilometer covered by the contract and on those portions of the contract area separated from producing areas after discovery.

Cameroon

Petroleum Legislation

Law 64-LF-3 of 1964 as amended by Law 78/14 of 29 December 1978. Participation is established under Law 78/24 of 29 December 1978.*

These laws provide for prospecting licenses and exploration permits awarded by negotiation. Mining concessions are granted as a right to exploration permit holders who have discovered workable deposits.

Law 82/020 of 26 November 1982 provided the following: Petroleum companies that had not signed association contracts by 1 January 1983 immediately lost all rights to exploration and/or exploitation. All companies operating in Cameroon are obliged to declare any discoveries within three months from the date of the law, to develop any such discoveries under approved exploitation programs, and to convey all reports, data, and other information concerning same to the government. Any companies that have not, within the three-month-period, declared their discoveries or that have not placed discoveries on production within four years are to lose all rights to exploration and exploitation.

Duration

Prospecting licenses—two years, renewable for an additional two years. Exploration permit duration—four years, renewable three times for periods of four years each time. Mining concession duration—four years, renewable four times for a period of four years each time.

Surface Tax

Minimum granting fee for exploration is 15,000 francs/sq km. Mining concessions pay 18 million francs for an original grant. Income tax is 57.5%.

State Participation

Law 78/14 of 1978 places a 60% minimum on the State's share.

Royalty

None

*Published in *South and Central Africa—Basic Oil Laws and Concession Contracts*, supplement 59.

Canada

Petroleum Legislation

Subsoil ownership and title to hydrocarbons on public land in the provinces of Canada is vested in the provincial governments. The federal government holds the only title to hydrocarbons in the Northwest Territories, the Yukon, lands within Indian Reserves, and national parks. Some hydrocarbon deposits are owned privately as a result of either a former practice of granting mineral titles upon the completion of specified development work or outright grants of the subsurface estate to private landowners. Offshore jurisdiction is in dispute between the provinces and the federal government.

State Company

The Canadian government on 30 July 1975 established Petro-Canada, a Crown corporation. It has authority to explore for and develop hydrocarbon resources; carry out research and development projects; engage in production, distribution, refining, and marketing of fuels; and negotiate for and acquire petroleum products necessary to maintain Canadian supplies from abroad.

The Canada Oil and Gas Act (1982) gave the federal government a 25% retroactive interest in oil and gas fields on federal land, with companies already holding leases receiving some compensation. The Government's 25% interest would be held by Petro-Canada.

Other major provisions require a minimum 50% Canadian ownership by firms with petroleum production in frontier areas, companies to renegotiate exploration agreements on frontier lands and surrender some acreage to the federal government, and the federal Minister of Energy to have extensive discretionary powers in approving exploration agreements on federal lands.

Alberta Petroleum Legislation*

The province of Alberta produces most of Canada's oil and natural gas. It is therefore appropriate to select Alberta's petroleum legislation.

Duration and Area

Petroleum exploration in Canada is conducted under either a reservation or a permit, depending on the township involved. A reservation

has an initial term of four months. When drilling is undertaken, six further renewals of three months each may be given. A reservation holder may obtain a lease covering not more than 50% of the reservation area. (In certain instances, the lease for which the holder of a reservation is entitled to apply covers only one-fourth of the area subject to the reservation.)

A permit grants the same rights as a reservation but gives its holder the right to acquire leases over 100% of the permit area.

Leases are for production of oil and natural gas for a term of 10 years or so long as petroleum is produced thereunder. The maximum area of the lease is 5,760 acres.

Royalty

Albertan royalty on crude oil ranges from 8-16 $\frac{2}{3}$ %, depending on the rate of production. A flat 16 $\frac{2}{3}$ % royalty is levied on the production value of natural gas.

Tax

General corporate income taxes are imposed by both the federal and provincial governments with a combined rate of approximately 50%.

*Text of all Canadian legislation is published in *North America-Basic Oil Laws and Concession Contracts*.

Cayman Islands

Petroleum Legislation

The Petroleum Law of 1978 provides for exploration licenses and petroleum agreements with private companies. Many points are unspecified under the law and are left to negotiation.

Duration*

Total duration (exploration and exploitation) of 30 years.