

ALASKA LEGISLATURE COMMITTEE FILES 1905-1904

3022 SSA SB 68-71 (FILE 9) 8672

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P.O. Box 6288
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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Carolyn S. Guess, Chairman
Marvin R. Weatherly
Susan M. Knowles
Diana E. Snowden
Louis E. Agi

In the Matter of a Tariff Filing)
by ENSTAR NATURAL GAS COMPANY,) U-83-2
Designated as TA36-4, Requesting)
Approval of Gas Supply Contracts)
and Related Tariff Revisions)

STAFF RECOMMENDATION

I. Authority and Scope of Review.

In Order No. 2 of Docket U-83-2, the Commission directed Staff to file its recommendation regarding TA36-4 by February 22, 1983. Enclosed with TA36-4 are proposed revisions of sheets No. 23 and 24 of Enstar Natural Gas Company's (Enstar's) tariff. The revisions include the cost of gas purchased under new contracts in the purchased gas adjustment determination. In addition, interest on gas which is paid for but not taken is added to the cost of purchased gas.

Enstar has entered into two natural gas supply contracts, both subject to Commission approval. Enstar contracted with Shell Oil Company (Shell contract) to purchase, through the year 2000, 220 million mcf of Beluga gas. Enstar's contract with Marathon Oil Company (Marathon contract) calls for the purchase of 250 million mcf from the Kenai, Beaver Creek, and Trading Bay Units through the year 1997. Under each contract, the base price is \$2.32 per mcf.

The Commission has authority to regulate the gas contracts and the amendment of Enstar's tariff under a number of statutory provisions. AS 42.05.361-441 deal with utility tariffs and rates. AS 42.05.141 grants Commission the liberal power to

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1 regulate public utilities, and specific power to regulate the
2 practices, services, and facilities of public utilities. AS 42.-
3 05.511 grants the Commission authority to regulate management
4 practices of utilities. These liberal grants of authority to the
5 Commission include the power to approve or disapprove major supply
6 contracts, especially since the Commission determined in Docket
7 U-81-101 that future gas supplies are "of critical importance to
8 [Enstar's] present and prospective ratepayers." (U-81-101, Bench
9 Order)

10 Staff recommends that the Commission's review of
11 Enstar's contracts be limited in light of the purposes for the
12 Commission's authority. The Commission generally does not exer-
13 cise close review over a utility's supply contracts. While the
14 magnitude and importance of Enstar's gas supply contracts may
15 mandate review in this docket, as a practical matter contract
16 negotiation must remain initially in the hands of the utility.
17 Enstar and its predecessors have historically shown good judgment.
18 Under these circumstances, the Commission's review should be
19 limited to considering whether the contracts were executed fol-
20 lowing proper management practices, and whether the contracts are
21 reasonable in light of all relevant factors.

22 II. The Contracts.

23 The Shell and Marathon contracts are very similar. The
24 Shell contract sells Shell gas at Beluga. The period of the
25 contract is 1986 through 2000, but provision is made for potential
26 earlier delivery. The Marathon contract supplies Marathon gas
27 from the Kenai, Beaver Creek, and Trading Bay Units. The term of
28 the contract is 1983 through 1997. Both contracts require greater
29 amounts of gas to be taken in the middle years of the contract.
30 The combined annual requirement of the contracts rises gradually
31 from 8 million mcf in 1983 to 47 million mcf in the years 1993 to
32 1995. Thereafter, the combined annual requirement is reduced

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2 practices, services, and facilities of public utilities. AS 42.-
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6 contacts, especially since the Commission determined in Docket
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8 [Enstar's] present and prospective ratepayers." (U-81-101, Bench
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25 contract is 1986 through 2000, but provision is made for potential
26 earlier delivery. The Marathon contract supplies Marathon gas
27 from the Kenai, Beaver Creek, and Trading Bay Units. The term of
28 the contract is 1983 through 1997. Both contracts require greater
29 amounts of gas to be taken in the middle years of the contract.
30 The combined annual requirement of the contracts rises gradually
31 from 8 million mcf in 1983 to 47 million mcf in the years 1993 to
32 1995. Thereafter, the combined annual requirement is reduced

1 annually to 10 million mcf in the year 2000. The quantity of gas
2 sold is limited to the seller's uncommitted reserves.

3 In the Shell contract, the swing factor is set at ap-
4 proximately 2.0 throughout the contract term. This means that, on
5 any given day, Enstar may request up to two times the average
6 daily take for the year (annual quantity divided by 365). The
7 swing rate (maximum quantity per day) of the Marathon contract is
8 such that the swing factor changes from year to year. The 1983
9 swing factor is 1.18, and the swing factor increases annually
10 until it reaches 3.13 in 1988. Thereafter, it decreases until
11 1997, the last year of the contract, when it is 1.06.

12 The base price under both contracts is \$2.32 per mcf.
13 The prices are adjusted annually for changes in the posted price
14 of No. 2 fuel oil. Under both contracts, Enstar is obligated to
15 pay certain taxes incurred by the suppliers, and to pay excess
16 royalty payments required by lessors.

17 Both contracts contain 35¢ per mcf price adjustments for
18 premium delivery, but the provisions in the two contracts differ
19 markedly. Under the Shell contract, Enstar may request delivery
20 at a swing rate higher than that set out in the contract. If
21 Shell agrees, and if the resulting swing rate produces a swing
22 factor greater than 2.5, then a premium delivery fee of 35¢ per
23 mcf applies to all gas delivered during the time that the swing
24 factor (called the "swing rate" in the contract) remains greater
25 than 2.5. (Shell contract, pages 11-12.) The Marathon contract
26 does not require a request for a higher swing rate by Enstar, and
27 merely applies a premium delivery charge whenever Marathon
28 "maintains the ability" to deliver the annual contract amount at
29 various swing factors (2.5 from 1986 through 1989, 2.25 during
30 1990, and 2.0 thereafter). These swing factors are less than that
31 required by the quantity and swing rate provisions of the contract
32 for the years 1986 through 1992. Therefore, the application of

different than any other contract 710

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1 premium delivery charge appears to be almost certain during these
2 years. (Marathon contract, pages 9-10, 24-25.)

3 Both contracts require Enstar to "take or pay." Under
4 the Shell contract, Enstar can make up for gas paid for and not
5 taken during the next five years. Under the Marathon contract,
6 the make up period is extended until the end of the contract, but
7 this advantage may be illusory given the low swing rates in the
8 final years of the Marathon contract. Both contracts require
9 adjustment of the price at the time the gas is actually taken.
10 Both contracts contain liberal force majeure clauses and various
11 provisions for contingencies which allow the quantity to be ad-
12 justed. (Shell contract, pages 12-22; Marathon contract, page
13 11-17.)

14 Both contracts require monthly billing and an annual
15 adjustment for gas not taken, and contain provisions relating to
16 the pressure, quality, and measurement of the gas. Both contracts
17 also require timely approval by proper regulatory authorities.
18 The Marathon contract contains an arbitration clause.

19 III. The Tariff Changes.

20 TA36-4 amends the Purchased Gas Cost Adjustment provi-
21 sions of Enstar's tariff to allow flow through of the cost of gas
22 taken under the Shell and Marathon contracts. Interest on gas
23 paid for but not taken is also included in the cost of gas deter-
24 mination. It is apparently Enstar's intent not to collect the
25 cost of gas paid for but not taken until the gas is eventually
26 taken. The ratepayers will currently pay only interest on the
27 amount Enstar has paid under the "take or pay" provision, until
28 the gas is taken. The ratepayers will then pay the full adjusted
29 price of the gas. This treatment is not explicitly set out in
30 TA36-4, but seems implicit in the filing. Staff believes the
31 Commission in its Order approving the filing should specify pay-
32 ments made under the "take or pay" provisions should be deferred.

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1 Staff concurs with Enstar's flow through scheme, and it should
2 cause no great difficulty as long as Enstar eventually takes the
3 full contract amounts.

4 IV. Recommendations for Approval of Contracts.

5 Staff's analysis of Enstar's gas supply contracts is
6 limited due to time and information constraints. The cost to
7 ratepayers of the contracts will very probably be higher rates,
8 and the benefit will be increased availability of relatively
9 low-cost gas. Both the cost and the benefits depend to great
10 extent on future events and, therefore, are difficult to quantify.

11 Staff's review was limited to analysis of the contracts
12 and their effect on Enstar ratepayers. Staff made no attempt to
13 review the actual amount of gas reserves, and assumes throughout
14 these comments that the gas supplies are sufficient to meet the
15 quantities set out in the contracts. Staff recognizes that a
16 delicate balancing of cost and benefits at this time is impossi-
17 ble. Absent some strong indication that supply contracts would
18 not be favorable to a utility's ratepayers, it is Staff's belief
19 that contracts of this type should be approved. Staff does recom-
20 mend approval of the Enstar contracts.

21 Enstar's contracts appear to be eminently timely.
22 According to Enstar's (Alaska Gas and Service Company's) last
23 filed annual report, it had total natural gas sales in 1981 of
24 31,602,247 mcf. (AGAS/APC 1981 annual report, schedule 59,
25 page 514.) Its peak daily delivery during 1981 was 159,699 mcf on
26 December 28. Its highest monthly gas sales amounted to 3,837,310
27 mcf during the month of December. At the end of 1981 its esti-
28 mated total gas available pursuant to long-term contracts was
29 300 million mcf. (AGAS/APC 1981 annual report, page 550.) At the
30 1981 sales rate of approximately 30 million mcf per year, this
31 300 million mcf would last until the end of 1991.
32

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1982 demand projected.

1 Annual sales of 30 million mcf can hardly be expected
2 for future years. 1982 was a year of significant growth of the
3 Anchorage area, and according to a February 15, 1983 article in
4 the Anchorage Daily News, records of building permit applications
5 indicate that this summer will bring another major building sea-
6 son. High level of gas usage may eventually be limited by alter-
7 native energy development, including the Susitna dam project.
8 Whether this project will be built, and whether its construction
9 would result in a significant drop in demand for natural gas, are
10 subject to only the most general speculation.

11 Under these circumstances the reasonable price and
12 flexibility terms of the Enstar contracts must be seen as very
13 positive. Both contracts require Enstar to "take or pay," but
14 both allow inventory of paid for but not taken gas in the ground.
15 If gas is paid for but not taken, Enstar is responsible for price
16 adjustment when the gas is taken. The Shell contract allows a
17 make up period of five years and the Marathon contract allows make
18 up throughout the term of the contract. However, the Marathon
19 contract is not as liberal as it first appears, because the swing
20 rate for later years of the contract (1993 through 1997) is suffi-
21 ciently low, and the quantities required to be taken in 1993
22 through 1995 are sufficiently high (27 million mcf), that signifi-
23 cant make up in the later years is unlikely.

24 The annual contract quantity amounts are subject to
25 significant flexibility through a number of contract terms allow-
26 ing adjustment in response to future events. Enstar is specific-
27 ally protected from loss of demand due to a customer switching its
28 source of gas. (Shell contract, page 12-13; Marathon contract,
29 page 11.) Therefore, if the market for gas falls significantly
30 and a large customer bypasses Enstar, Enstar's other remaining
31 ratepayers will be protected from significant price increases due
32 to the reduced demand. In addition, Enstar may unilaterally

1 reduce the annual contract quantities during the term of the
2 contract, but is required to pay a higher price for what it does
3 take.

4 Another measure of flexibility is provided by the ad-
5 justment of the contract price to the price of heating oil. The
6 price adjustment clauses allow increased prices if heating oil
7 prices rise. Recent articles suggest, however, that oil prices
8 will more likely decline, and that gas contracts tied to the price
9 of oil will protect buyers. A. Tussing and C. Barlow, "A Survival
10 Strategy for Gas Companies in the Post-OPEC Era" Public Utilities
11 Fortnightly, Volume 111, no. 3, page 13-14 (February 3, 1983).

12 The significant cost to consumers will be immediately
13 higher natural gas prices due to the significant difference to the
14 base contract prices and the price terms of Enstar's earlier
15 contracts. In addition, the "take or pay" provisions of the
16 contracts may exert a significant disincentive to development of
17 alternative energy resources. For example, long-term "take or
18 pay" natural gas contracts could significantly effect the public
19 interest of a project like the Susitna dam if the energy developed
20 by that project would reduce the demand for Enstar's gas to less
21 than the required take or pay quantity. Under those circumstances
22 the alternative energy resource, while actually replacing the
23 usage of natural gas, would not result in a decrease in the total
24 cost paid by natural gas users. Whether these sorts of adverse
25 effects will occur in the future depends on the total demand for
26 natural gas or other energy resources in Southcentral Alaska, and
27 the relationship of that demand to the required take or pay quan-
28 tities.

29 V. Conclusion.


30 In summary, Staff's limited review indicates that the
31 Enstar contracts are in the public interest, and that TA36-4
32 provides a reasonable method of flowing through additional gas

*if fuel oil
decreases
gas!*

1 costs. Staff therefore recommends ~~approval~~ of the gas contracts
2 and TA36-4.

3 DATED this 22nd day of February, 1983.

4 NORMAN C. GORSUCH
5 ATTORNEY GENERAL

6 by: 
7 Mark L. Figura
8 Assistant Attorney General
9 Counsel for Alaska Public
10 Utilities Commission Staff

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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Carolyn S. Guess, Chairman
Marvin R. Weatherly
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Diana E. Snowden
Louis E. Agi

In the Matter of a Tariff Filing)
by ENSTAR NATURAL GAS COMPANY,)
Designated as TA36-4, Requesting)
Approval of Gas Supply Contracts)
and Related Tariff Revisions)
_____)

U-83-2

CERTIFICATION OF MAILING

Kathi Lauenius certifies as follows:

That I am an AST III in the offices of
the Alaska Public Utilities Commission, 420 L Street, Suite 100,
Anchorage, Alaska 99501.

That on the 22nd day of February, 1983, I mailed true
and accurate copies with postage thereon to the parties indicated
on the attached service list

STAFF RECOMMENDATION

in the above entitled cause.

DATED at Anchorage, Alaska, this 22nd day of February, 1983.

Kathi Lauenius

U-83-2

SERVICE LIST

Julian L. Mason, Esquire
510 L Street, Suite 312
Anchorage, AK 99501

51101

AGREEMENT

THIS AGREEMENT, made as of January 20, 1983, by and between CHEVRON U.S.A. INC., a California corporation (hereinafter called "Seller"), and CHUGACH ELECTRIC ASSOCIATION, INC., an Alaskan non-profit electric cooperative membership corporation (hereinafter called "Buyer").

W I T N E S S E T H

Whereas, Seller, then called Standard Oil Company of California and Buyer entered into an Agreement as of January 1, 1973, for the sale and purchase of a portion of Seller's share of natural gas produced from the Beluga River Unit for the operation of Buyer's Beluga Station electric generation facility; and

Whereas, pursuant to said January 1, 1973, Agreement, Seller agreed to sell and deliver to Buyer, and Buyer agreed to purchase and receive from Seller, volumes of gas at delivery rates as requested by Buyer from time to time, but not in excess of Seller's share of 60,000 MCF per day; and

Whereas, Buyer wishes to purchase from Seller, and Seller wishes to sell to Buyer, a quantity of gas in addition to the quantity provided for in the January 1, 1973, Agreement;

NOW, THEREFORE, the parties agree as follows:

1. Buyer may request delivery of additional volumes of natural gas in excess of Seller's share of 60,000 MCF per day from the Beluga River Unit and Seller shall use its best efforts to deliver the requested additional volumes from said Unit up to but not in excess of Seller's share of 20,000 MCF per day.
2. Buyer shall pay to Seller \$1.48 (One Dollar and 48/100) per One Million Btu's for Seller's share of additional volumes of natural gas delivered at Buyer's request pursuant hereto.
3. The total volume of natural gas delivered by Seller to Buyer hereunder shall not exceed one billion cubic feet (1 BCF).
4. Each of the parties hereto will use its "best efforts" to comply with the terms and conditions hereof, but if either party is unable to comply herewith due to circumstances beyond its reasonable control, it shall not be liable therefor to the other party.

5. Provisions identical to those contained in the January 1, 1973, Agreement which relate to Statements and Payment, Quality, Temperature, Delivery Pressure, Delivery, Gas Measurement, Extraction, Taxes, Title, Force Majeure, Conflicts and Notices are part of this Agreement as if said provisions were fully set forth herein.

6. This Agreement shall be effective for a period commencing January 1, 1983, and ending at midnight on May 31, 1983. ✓

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

CHEVRON U.S.A. INC.
(Seller)

BY: Thomas N. Finical, Jr.
Thomas N. Finical, Jr.
Manager, Natural Gas Sales

CHUGACH ELECTRIC ASSOCIATION, INC.
(Buyer)

BY: Walter V. Truitt, Jr.
Walter V. Truitt, Jr.
General Manager



ENSTAR Natural Gas Company
 3000 Spenard Road
 P.O. Box 6288
 Anchorage, Alaska 99502
 (907) 277-5551

Diana Snodder
 APUC

0-81-82
 0-83-2

DOB

January 31, 1983

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 A.P.U.C.

Mr. Tom Kolasinski
 Chugach Electric Association
 P. O. Box 3518
 Anchorage, Alaska 99501

Dear Tom:

We have negotiated a contract with Shell Oil Company to purchase their share of gas at the Beluga Gas Field which is not presently committed to Chugach. There will be time required for the necessary APUC approval and for financing and construction of a gathering system and pipeline to Anchorage, but we regard this development as a key to minimizing energy costs in the railbelt area. Specifically, without this gas, progressively increasing use of oil for power plant fuel for peak period use would have been necessary. Similarly, construction of marginal hydroelectric plants such as the \$500 million Bradley Lake project may now be deferred or superseded. We still expect the Susitna project to proceed, however, and we are giving it our support publicly.

It is our intent to provide whatever production of gas you may require next winter, above your present Beluga supply, from Shell -- and from Arco and Chevron if they so agree -- up to the limit of what they can produce, and to offer this gas to you at our tariff rate, for which the base price currently is \$1.2005 per Mcf. We would recover our cost of the gas through the usual operation of our flow-through tariff provision which spreads increased costs of gas across our entire rate structure, including Chugach's purchases. The benefit to us is that this purchase will enable us to commit to take all of Shell's Beluga gas over the contract period. Chugach and our other power plant customers and their customers would benefit by having this gas supply displace the use of oil which otherwise would be required. In effect this Beluga gas will substantially displace (or supplement) the purchase of North Cook Inlet royalty gas from the State of Alaska which was discontinued last winter, except for peaking purposes, as a result of our price dispute with the State.

We have filed our contract with Shell with the APUC. If you concur, we would request their approval of the new location for service to you as described above. Our proposed contract with Shell provides their

Tom Kolasinski
Chugach Electric Association
January 31, 1983
Page Two

best efforts to have 25 million cubic feet per day available by January 1, 1984 and 50 million cubic feet per day firm at the end of 1986 (or sooner). We expect to begin taking this gas into our Anchorage system in 1984 or 1985, as soon as practicable after completion of the necessary new gathering and transmission systems.

As a natural part of our position in this matter, we could reimburse your costs for any gas you pay for but do not take under your present Beluga contract, and after our transmission line is completed, we could purchase and take from you such gas as you cannot take, under your existing contract with the Beluga producers. We realize that as your load grows there will be progressively less of this pay-no-take gas available, but in the context of our offer to roll-in our gas to you for peaking, we believe it is only reasonable that we take whatever of your base load gas which you would be unable to take currently. The trade-off would be natural even if the volumes involved were not balanced.

Very truly yours,

ENSTAR Natural Gas Company



Dale Teel
President

DT/dms

cc: Alaska Public Utilities Commission



ENSTAR Natural Gas Company
3000 Spenard Road
P.O. Box 6288
Anchorage, Alaska 99502
(907) 277-5551

LL-83-2
Dobb

January 27, 1983

Alaska Public Utilities Commission
420 L Street, Suite 100
Anchorage, Alaska 99501

Attention: Commissioner Diana Snowden

Dear Commissioner Snowden:

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A.P.U.C.
JAN 28 12 39 PM '83

This will confirm earlier expressions to you by telephone regarding the Commission's timely emergency approval of our interim purchasing of "Beaver Creek" gas during the cold spell of January 8-18. With this new supply supplementing our other sources (Kenai field and State royalty gas), we were able to achieve hourly delivery rates of 220 million cubic feet per day so that there was no interruption of gas to any customers. Considering the mechanical and electrical problems experienced during that period by the electric utilities, it was most fortunate that these problems were not compounded by a need for fuel switching.

We should also report that each of our operating suppliers -- Union, Marathon, and Phillips -- cooperated with us most generously during that period. Each of them deserves high praise for that cooperation but each have chosen not to receive "public mention".

Naturally we are also very proud of our own operating personnel, who reacted unstintingly to the overload of service work which resulted from the power outages. All in all, we sincerely hope that from these problems a new era of cooperation and emergency planning will result and will help prevent or minimize similar problems in the future. Your emergency approval of our Beaver Creek gas supply was a key in keeping the problems manageable.

We trust that formal approval of the "Beaver Creek" contract and the "Beluga" contract can be given in the early future so that we can obtain the earliest schedule of financing and construction and be fully prepared for future peak loads.

Sincerely,

ENSTAR Natural Gas Company

Dale Teel
President

DT/dms

Dozz

January 26, 1983

In reply refer to: Tariff Section
File: TA36-4
U-83-2

Dale Teel, President
Enstar Natural Gas Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Mr. Teel:

Enclosed are validated copies of the special contract between Marathon Oil Company and Alaska Pipeline Company and the tariff sheets which were filed on December 17, 1982, by Enstar Natural Gas Company. The contract and tariff sheets, filed under TA36-4, were approved on an interim basis by Order No. 1 in Docket U-83-2, effective January 7, 1983. Please note that Staff has corrected the revision numbers on sheet 23.

Very truly yours,

ALASKA PUBLIC UTILITIES COMMISSION

Judith M. White

Judith M. White
Chief, Tariff Section

DJ:skm
Enclosures

[Handwritten initials]

*Yellow Copy***RECEIVED**

DEC 17 1982

State of Alaska
Public Utilities Commission

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OriginalSheet No. 23**ENSTAR NATURAL GAS COMPANY****b. Purchased Gas Cost Adjustment**

The cost of gas base rate, effective January 1, 1981, is \$.6439 per Mcf. Billings to customers will be increased to reflect the amount by which the weighted average unit cost of gas exceeds the base rate and decreased to reflect the amount by which the weighted average unit cost of gas is less than the base rate in accordance with the procedure set forth in (e.) below.

c. Gas Cost Balance Account

The utility shall maintain a Gas Cost Balance Account commencing June 1, 1981. The Gas Cost Balance Account will consist of the debit or credit balance remaining in account 191.00 "Unrecovered Purchased Gas Costs" at May 31, 1981, plus or minus the sum of the debit and credit entries prescribed. The prescribed entries are as follows:

- (1) A debit entry equal to the actual purchased gas cost during the month.
- (2) A credit entry equal to the total number of Mcf of gas sold during the month multiplied by the weighted average unit cost of gas as computed in (e.) below.
- (3) A debit entry equal to interest on the average of the sum of the balances in this account and account 165.05 (Prepayments-Gas) at the beginning of the month and the balances in such accounts after entries (1) through (2) above, if the average balance is a debit (credit entry if the average balance is a credit). Interest charged will be at a rate equal to the lesser of or interest credited will be at a rate equal to the greater of the most recent Commission determination of weighted average cost of capital of the Company or the prime rate charged by Chemical Bank of New York on the last business day of the month. (C)
(C)
(C)
(C)

d. Revision of Purchased Gas Cost Adjustment

- (1) On or before January 1 of each year (but not less than 45 days before the proposed effective date of change - the "Revision Date") the Company will by tariff advice letter file the information required by 3AAC 48.275(a) and the Determination of Purchased Gas Cost Adjustment detailed in (e.) below to reflect the change in the average unit cost of purchased gas for the ensuing twelve months.

Pursuant to Order No. 1, U-83-2

Tariff Advice No. TA 36-4Effective: JAN 7 1983

ENSTAR Natural Gas Company

Issued by: Division of ENSTAR CorporationBy: Bill B. Hickman
Bill B. HickmanTitle: Treasurer

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DEC 17 1982

Revision 1

State of Alaska
Public Utilities Commission

ENSTAR NATURAL GAS COMPANY

d. Revision of Purchased Gas Cost Adjustment (continued)

- (2) After making the annual January filing required by (1) above, the Company may, but not more often than quarterly, revise the Purchased Gas Cost Adjustment to reflect changes in the average unit cost of purchased gas by filing the information outlined in (e.) below by tariff advice letter.
- (3) Unless sooner authorized by the Commission, the revised Purchased Gas Cost Adjustment will be effective for all billings subsequent to the Revision Date.

e. Determination of Purchased Gas Cost Adjustment

(1) Current average cost of system gas supply:

Base Supply Contracts	Estimated Purchases* (A)	Effective Rate on (Date) (B)	Total (A x B) (C)
a) Kenai Field	Mcf	\$/Mcf	\$
b) North Cook	Mcf	\$/Mcf	\$
c) Westfork	Mcf	\$/Mcf	\$
d) Other			
Beaver Creek	Mcf	\$/Mcf	\$ (C)
Beluga	Mcf	\$/Mcf	\$ (C)
e) Total			

- (2) Balance of Gas Cost Balance Account _____
(immediate prior month end)
(negative if credit balance) \$ _____
- (3) Estimated Interest Charge (Credit) _____ (C)
pursuant to c. (3) above \$ _____ (C)
- (4) Total of (1), (2), and (3) above \$ _____
- (5) Mcf Sales* \$ _____
- (6) Weighted Average Unit Cost of Gas (4 ÷ 5) \$ _____
- (7) Cost of Gas Base Rate \$ _____
- (8) Purchased Gas Cost Adjustment (6 - 7) \$ _____

* For a _____ month period beginning _____, _____.

Pursuant to Order No. 1, U-83-2

Tariff Advice No. TA 36-4

Effective: JAN 7 1983

ENSTAR Natural Gas Company

Issued by: Division of ENSTAR Corporation

By: *Bill B. Mickman* Treasurer

Bill B. Mickman

U-83-2

NOTICE OF UTILITY TARIFF FILING

The ALASKA PUBLIC UTILITIES COMMISSION hereby gives notice that ENSTAR NATURAL GAS COMPANY (Enstar), a gas utility, has filed a tariff advice (TA35-4) which includes two gas purchase contracts and changes to Enstar's tariff provisions for purchased gas cost adjustments (PGCA). Enstar states that the contracts, between Alaska Pipeline Company and two producers (Shell Oil Company and Marathon Oil Company), provide deliverability and reserves to complement the existing Kenai gas supply at a base price of \$2.32 per MCF (plus 35¢/MCF for premium deliverability). The base price is adjusted up or down with the change in the price of fuel oil.

Enstar states that it also proposes to change the present PGCA provisions to include gas costs from the new contracts including interest costs on gas inventoried under the take or pay provisions of the contracts.

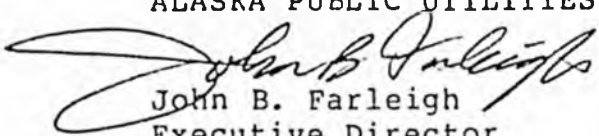
If after investigation the Commission finds a rate or classification different from that proposed by Enstar is reasonable, the Commission may approve a rate or classification which varies from that proposed.

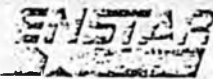
Detailed information may be obtained from the utility whose address is P.O. Box 6288, Anchorage, Alaska 99502. The filing may be inspected at the offices of the Alaska Public Utilities Commission, 420 "L" Street, Suite 100, Anchorage, Alaska 99501.

Any interested person may file a statement of views favoring or opposing this tariff filing with the Alaska Public Utilities Commission on or before January 21, 1983. As required by the Alaska Administrative Code, any statement filed with the Commission should clearly affirm that the interested person has filed a true copy of the statement with Enstar.

DATED at Anchorage, Alaska, this 23rd day of December, 1982.

ALASKA PUBLIC UTILITIES COMMISSION


John B. Farleigh
Executive Director



RECEIVED
A.P.U.C.

ENSTAR Natural Gas Company
3000 Spenard Road
P.O. Box 6288
Anchorage, Alaska 99502
(907) 277-5551

U-83-2
D076

DEC 17 3 04 PM '82

December 17, 1982

Alaska Public Utilities Commission
420 L Street, Suite 100
Anchorage, Alaska 99501

Dear Commissioners:

Subject: Tariff Advice Letter 36-4

The attached tariff filing is transmitted to you for filing in compliance with the Alaska Public Utilities Commission Act and Sections 3AAC 48.200 - 3AAC 48.420 of the Alaska Administrative Code:

<u>Tariff Sheet</u>		<u>Cancels Sheet</u>		<u>Schedule or Rule</u>
<u>Number</u>	<u>Revision</u>	<u>Number</u>	<u>Revision</u>	<u>Number</u>
23	2	23	Revision 1	708
24	2	24	Revision 1	708

This tariff revision "flows through" the cost of gas purchased under two new gas supply contracts (the Beaver Creek and Beluga contracts). Cost which must be "flowed through" is the cost of the gas purchased including the carrying (i.e., interest) cost of gas inventoried, if any, under the take or pay provisions of the contracts. We believe the ability to flow through interest cost of gas inventoried by take or pay under the Beaver Creek and Beluga contracts, while essential, is not likely to be a material matter. The tariff filing affects all our customers.

The contracts have significance for our customers tantamount to the advent of natural gas service in Anchorage twenty-one years ago and will be as beneficial to the ratepayers as the 1971, 1974, and 1977 contracts. The new contracts' base price of gas is \$2.32, much less than the current price of interruptible gas (\$4.94 per Mcf) at the Canadian border and always would be substantially less than the equivalent price of fuel oil which currently is about \$7.00 per Mcf. The contracts assure that natural gas in Anchorage should continue among the lowest costs for energy in the country. The contracts are also very significant to the people of the Matanuska Valley as we plan to apply to amend our certificates to include a portion of the Matanuska-Susitna Borough as soon as possible.

*assumes
what price
per barrel*

Alaska Public Utilities Commission
December 17, 1982
Page Two

The contracts (copies attached) are with Shell Oil Company, a producer at the Beluga gas field, and Marathon Oil Company, a producer at the Beaver Creek gas field. The contracts provide deliverability and reserves which complement our existing Kenai gas supply at very attractive prices and give us adequate gas supplies for the next fifteen years. The base price of \$2.32 (plus \$0.35 per Mcf for premium deliverability) per Mcf is adjusted up or down with the change in the price of fuel oil. The take or pay provisions of the contracts allow us to inventory gas "in the ground" at no additional operating cost.

Since the Beaver Creek gas supply (from Marathon Oil Company) is already connected to our system, we believe there should be no delay whatever in approving flow through of Beaver Creek gas cost. The Beaver Creek gas will result in rate payer savings whenever it can be substituted for more expensive (\$3.22) royalty gas - which may be needed at any time this winter.

The Beluga gas supply (from Shell Oil Company) would not begin physical deliveries into our existing service area until completion of the necessary gas transmission line, in 1984 or 1985. The Beluga gas transmission line would be run through the Susitna Valley and around Knik Arm to Anchorage. It will enable us eventually to offer natural gas utility service to communities such as Wasilla and Palmer and environs. We have proceeded on the assumption that these new contracts and the new pipeline would be appropriately treated as an extension of our operations and our service area rather than a separate operation or service area in any sense, and that our tariffs in the added service area would be the same as in the present service area.

The new contracts are mutually dependent and must be considered together. Neither contract alone provides adequate deliverability or reserves. The contracts were negotiated and executed simultaneously but independently at arm's length.

We believe that these gas contracts are exemplary in their structure and terms, and reflect the competition in effect locally as well as the aggressive attitudes of the respective producers as Sellers, ENSTAR Natural Gas as Buyer, and ENSTAR Corporation as the equity holder and probable equity investor for the expansion of our transmission system. We are not aware of any contracts of this magnitude in recent years which contain pricing and deliverability features so favorable to the rate payer. Further, these prices should assure that gas will continue to be available at a fraction of the price of heating oil.

Alaska Public Utilities Commission
December 17, 1982
Page Two

In accordance with the Commission's Order in U-81-101, the contracts are expressly subject to Commission approval. The contract deadline for approval by the Commission is 90 days from execution. We are aware of the Commission's crowded calendar but we need to proceed promptly on the Beluga pipeline in order to have construction underway by next fall. We need to be proceeding with design, right of way (permit) applications, engineering, materials ordering, and construction bid invitations, at the very earliest opportunity, parallel with the seeking of financing.

Under the Beluga contract, we must obtain financing for the pipeline within 180 days of contract execution. Obtaining financing will be difficult, may be impossible, and cannot be approached until the contracts and this tariff revision are approved. Consequently, the Commission's ability to expedite consideration of this filing is of the utmost importance.

We will be pleased to discuss this Tariff Advice Letter with you at length either formally or informally. We respectfully request an expedited decision approving the two new gas supply contracts and the revision of our Purchase Gas Cost Adjustment so that we can proceed as outlined.

Very truly yours,

ENSTAR Natural Gas Company



Dale Teel
President

DT/dms
Enclosures

Conciling

ENSTAR NATURAL GAS COMPANY

b. Purchased Gas Cost Adjustment

The cost of gas base rate, effective January 1, 1981, is \$.6439 per Mcf. Billings to customers will be increased to reflect the amount by which the weighted average unit cost of gas exceeds the base rate and decreased to reflect the amount by which the weighted average unit cost of gas is less than the base rate in accordance with the procedure set forth in (e.) below.

c. Gas Cost Balance Account

The utility shall maintain a Gas Cost Balance Account commencing June 1, 1981. The Gas Cost Balance Account will consist of the debit or credit balance remaining in account 191.00 "Unrecovered Purchased Gas Costs" at May 31, 1981, plus or minus the sum of the debit and credit entries prescribed. The prescribed entries are as follows:

- (1) A debit entry equal to the actual purchased gas cost during the month.
- (2) A credit entry equal to the total number of Mcf of gas sold during the month multiplied by the weighted average unit cost of gas as computed in (e.) below.
- (3) A debit entry equal to interest on the average of the sum of the balances in this account and account 165.05 (Prepayments-Gas) at the beginning of the month and the balances in such accounts after entries (1) through (2) above, if the average balance is a debit (credit entry if the average balance is a credit). Interest charged will be at a rate equal to the lesser of or interest credited will be at a rate equal to the greater of the most recent Commission determination of weighted average cost of capital of the Company or the prime rate charged by Chemical Bank of New York on the last business day of the month. (C)
(C)
(C)
(C)

d. Revision of Purchased Gas Cost Adjustment

- (1) On or before January 1 of each year (but not less than 45 days before the proposed effective date of change - the "Revision Date") the Company will by tariff advice letter file the information required by 3AAC 48.275(a) and the Determination of Purchased Gas Cost Adjustment detailed in (e.) below to reflect the change in the average unit cost of purchased gas for the ensuing twelve months.

Tariff Advice No. TA 36-4

Effective: _____

ENSTAR Natural Gas Company

Issued by: Division of ENSTAR Corporation

By: Bill B. Hickman
Bill B. Hickman

Title: Treasurer

Cancelling

ENSTAR NATURAL GAS COMPANY

d. Revision of Purchased Gas Cost Adjustment (continued)

- (2) After making the annual January filing required by (1) above, the Company may, but not more often than quarterly, revise the Purchased Gas Cost Adjustment to reflect changes in the average unit cost of purchased gas by filing the information outlined in (e.) below by tariff advice letter.
- (3) Unless sooner authorized by the Commission, the revised Purchased Gas Cost Adjustment will be effective for all billings subsequent to the Revision Date.

e. Determination of Purchased Gas Cost Adjustment

(1) Current average cost of system gas supply:

Base Supply Contracts	Estimated Purchases* (A)	Effective Rate on (Date) (B)	Total (A x B) (C)
a) Kenal Field	Mcf	\$/Mcf	\$
b) North Cook	Mcf	\$/Mcf	\$
c) Westfork	Mcf	\$/Mcf	\$
d) Other			
Beaver Creek	Mcf	\$/Mcf	\$
Beluga	Mcf	\$/Mcf	\$
e) Total			

- (2) Balance of Gas Cost Balance Account _____, _____
(immediate prior month end)
(negative if credit balance) \$ _____
- (3) Estimated Interest Charge (Credit) _____ (C)
pursuant to c. (3) above \$ _____ (C)
- (4) Total of (1), (2), and (3) above \$ _____
- (5) Mcf Sales* \$ _____
- (6) Weighted Average Unit Cost of Gas (4 ÷ 5) \$ _____
- (7) Cost of Gas Base Rate \$ _____
- (8) Purchased Gas Cost Adjustment (6 - 7) \$ _____

* For a _____ month period beginning _____, _____.

Tariff Advice No. TA 36-4

Effective: _____

ENSTAR Natural Gas Company

Issued by: Division of ENSTAR Corporation

By: Bill B. Hickman

Treasurer

Bill B. Hickman



Alaska Pipeline Company
3000 Soenard Road
P.O. Box 6288
Anchorage, Alaska 99502
(907) 277-5551

The Contract With
Shell Oil Company
At the Beluga Gas Field
Signed in Houston December 17, 1982
Will be Hand Delivered to the APUC
On Monday, December 20, 1982
Pursuant to Reference Made To Same
In Our Tariff Advice Letter 36-4

A handwritten signature in cursive script, appearing to read "Dale Teel", written over a horizontal line.

Dale Teel, President
Alaska Pipeline Company

U-83-2
D 006

GAS PURCHASE CONTRACT

SHELL OIL COMPANY, SELLER

AND

ALASKA PIPELINE COMPANY, BUYER

RECEIVED
A.P.U.C.
Dec 20 11 01 AM '82

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GAS PURCHASE CONTRACT

THIS CONTRACT is made and entered into as of this ____ day of _____, 1982, by and between Shell Oil Company, a Delaware corporation (hereinafter referred to as "Seller"), and ALASKA PIPELINE COMPANY, an Alaska corporation (hereinafter referred to as "Buyer");

WITNESSETH:

WHEREAS, Seller now owns and/or controls an interest in certain oil, gas and mineral leases in the Beluga Gas Field area, Cook Inlet, Alaska; and

WHEREAS, Buyer is engaged in the purchase, transmission and sale of natural gas in the State of Alaska; and

WHEREAS, the Beluga Field is currently remote from pipeline facilities necessary to market Buyer's natural gas reserves in the Cook Inlet area; and

WHEREAS, Buyer is willing to construct and operate a new pipeline system to transport natural gas from the Beluga Gas Field; and

WHEREAS, Seller desires to deliver and sell to Buyer and Buyer desires to receive and purchase from Seller certain natural gas upon the terms and conditions herein set forth;

NOW, THEREFORE, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, paid by Buyer to Seller, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants and agreements herein set forth, the parties hereto agree as follows:

ARTICLE I: DEFINITIONS

Except where the context otherwise indicates another or different meaning or intent, the following terms are intended and used herein and in Exhibit A and shall be construed to have the meanings as follows:

- 1.1 The term "day" shall mean a period of twenty-four (24) consecutive hours beginning and ending at 8:00 A.M. Alaska Standard Time.
- 1.2 The term "month" shall mean a period beginning at 8:00 A.M. on the first day of the calendar month and ending at 8:00 A.M. on the first day of the next succeeding calendar month.
- 1.3 The term "contract year" shall mean any period of twelve (12) consecutive calendar months during the life of this contract beginning at 8:00 A.M. on the first day of January following the date of initial delivery of gas hereunder and any anniversary of such date during the term hereof.

- 1.4 The "initial period" shall mean the period beginning on the first day of delivery and ending at 8:00 A.M. on the start of the first contract year.
- 1.5 The term "calendar year" shall mean a period of twelve (12) consecutive months beginning on the first day of January of any calendar year.
- 1.6 The term "gas" shall mean natural gas meeting the standards set forth in Article VI hereof.
- 1.7 The term "cubic foot of gas" means the volume of gas contained in one cubic foot of space at a standard pressure base of fourteen and sixty-five one-hundredths (14.65) pounds per square inch absolute and a standard temperature base of sixty degrees Fahrenheit (60° F.). For the purposes of measurement, calculations and meter calibrations, the atmospheric pressure shall be assumed to be fourteen point seven (14.7) pounds per square inch absolute. Temperature shall be determined by a recording thermometer continuously used and installed by Buyer so as to record properly the temperature of the gas being metered, and specific gravity shall be determined by Buyer by use of the Acme gravity balance, or, at the option of Buyer, by such other tests and instruments as may be standard for such purposes in the gas industry.

- 1.8 The term "MCF" shall mean one thousand (1,000) cubic feet of gas.
- 1.9 The term "British thermal unit" (Btu) is defined as the amount of heat required to raise the temperature of one pound of water from fifty-nine degrees Fahrenheit to sixty degrees Fahrenheit at a pressure of fourteen and 65/100 pounds per square inch absolute. For the purpose of this contract, the Btu content per cubic foot ("gross") shall be determined for a cubic foot of gas at a temperature of sixty degrees Fahrenheit (60° F.) when saturated with water vapor and at an absolute pressure equivalent to thirty inches (30") of mercury at thirty-two degrees Fahrenheit (32° F.) when the products of combustion are cooled to the initial temperature of gas and air and when the water formed by combustion is condensed to the liquid state.
- 1.10 The term "contract area" means the area described in the schedule attached hereto as Exhibit A and made a part hereof and as shown on the plat attached hereto as Exhibit B and made a part hereof.
- 1.11 The term "daily deliverability" shall mean that quantity of gas which Seller has available to Buyer during each day from the contract area when

Seller's wells and facilities are produced and operated at the maximum efficient rate of flow determined by Seller, or the rate permitted by applicable orders, rules, regulations or laws, whichever is the lesser amount.

1.12 The term "price" shall mean the price to be paid by Buyer to Seller for gas delivered to Buyer hereunder as provided for in Article VII hereof.

1.13 The term "annual contract quantity" or "ACQ" shall mean the quantity of gas which Seller agrees to sell and deliver to Buyer and Buyer agrees to take and pay for, or pay for if available whether taken or not, during each contract year during the term hereof.

1.14 The term "average daily contract quantity" shall mean one/365th or the annual contract quantity committed by Buyer to Seller hereunder.

1.15 The "term of this contract" shall mean the period during which this Gas Purchase Contract shall remain in full force and effect as provided for in Article XV hereof.

1.16 The term "swing rate" means the maximum obligation of Seller to deliver gas in millions of cubic feet per day.

1.17 The term "swing factor" means the relationship between the swing rate and the average daily con-

tract quantity.

For example, 20 billion cubic feet per year annual contract quantity divided by 365 is 55 million cubic feet per day; and 110 million CFD swing rate (E.G.), divided by this million CFD, is a swing factor of 2.0.

1.18 The term "Seller's gas" shall mean Seller's entire interest in natural gas contained in sands underlying the contract area, presently developed or developed during the term of this contract less gas previously committed under sales contracts to others as reserved pursuant to Article IV hereof.

ARTICLE II: POINT OF DELIVERY, CONSTRUCTION OF FACILITIES,
OWNERSHIP AND CONTROL OF GAS

2.1 The point of delivery for all gas to be purchased hereunder shall be at the inlet flanges of Buyer's or its designee's central meter station to be located at a mutually agreeable point in the contract area. Seller will construct, at its sole expense, the gathering pipeline and other facilities required to deliver the gas produced to the point of delivery.

2.2 Seller shall, to the extent Seller has the right to do so, furnish to Buyer, at no expense to Buy-

er, a suitable site at the point of delivery, together with the right of ingress and egress, to be used by Buyer for Buyer's or its designee's measuring and other equipment. All property of Buyer placed on or under the property of Seller shall, insofar as Seller is concerned, be deemed the personal property of Buyer whether or not affixed to the realty, and shall at all times be subject to the absolute control and disposition of Buyer. Seller, to the extent that Seller has the right to do so, hereby grants to Buyer a right-of-way and easement on and over the various leases within the contract area together with the right of ingress and egress, for the construction, maintenance, operation, repair and removal of the pipelines, measuring stations, and any other facilities which may be installed by Buyer or its designee in order to receive and transport the gas delivered hereunder.

2.3 Title to all gas purchased hereunder shall pass from Seller to Buyer at the point of delivery. As between the parties hereto, Seller shall be in control and possession of the gas deliverable hereunder and responsible for any loss of such gas or for any damage or injury caused thereby until the same shall have been delivered to Buyer at the point of delivery, after which delivery Buyer

shall be deemed to be in control and possession thereof and responsible for any loss of such gas or for any injury or damage caused thereby.

ARTICLE III: PRESSURE

3.1 The gas delivered hereunder at the point of delivery shall be delivered into Buyer's facilities at the pressure existing therein from time to time but not in excess of one thousand (1,000) pounds per square inch gauge. Seller agrees to continue deliveries at such pressure so long as such pressure is naturally available but when the natural well pressures decline Seller shall not be required to deliver such gas in excess of natural well pressures.

3.2 Should it become necessary to install compression facilities in order to deliver gas hereunder, Seller agrees to install such facilities and operate same if in the sole judgment of Seller it is economical and desirable for Seller to do so. In the event Seller elects not to install and operate such facilities, it shall so advise Buyer; then Buyer shall for a period of ninety (90) days have the right and option to elect to do so or cause same to be done. If Buyer so elects to install

and operate, or cause to be installed and operated such compression facilities, then Seller agrees that Buyer shall have the right to deduct each month as a compression fee, from the proceeds due and payable to Seller hereunder, Buyer's out-of-pocket cost and expenses incurred in the acquisition, installation and operation of such facilities (including but not limited to the value of Buyer's equipment utilized and labor costs, including fringe benefits). The amount to be deducted each month and any terms and conditions pertaining thereto shall be set forth in a letter agreement executed by and between Buyer and Seller at the time Buyer elects to install and operate, or cause to be installed and operated, such compression facilities. In the event neither party elects to install compression facilities, then Seller may terminate this contract by written notice to Buyer.

ARTICLE IV: RESERVATIONS OF SELLER

4.1 Seller reserves from this contract such quantities of Seller's gas as are required for the development, operation and maintenance of Seller's leasehold interests within the contract area, such quantities as are necessary to fulfill Seller's obligations to deliver gas to the lessors and such

quantities as are subject to contracts executed prior to this contract.

4.2 Seller may process the gas delivered hereunder either prior to the point of delivery or downstream from the point of delivery for the extraction of liquefiable hydrocarbons at a mutually agreeable point in the contract area. Such processing shall be for the recovery of liquefiable hydrocarbons, other than methane (except such methane unavoidably removed in such processing). Seller shall not subject such gas to any process or operation which will cause such gas to fail to meet the applicable specifications as to quality contained in this contract. The fuel, shrinkage and all other losses attributable to and resulting from such processing shall be borne by Seller. When such gas is processed downstream from the point of delivery, Seller's plant volume (as used herein meaning fuel, shrinkage and all other losses attributable to such processing) which is attributable to the gas delivered hereunder shall be subtracted from the volumes delivered for sale hereunder at the point of delivery, and the net volume thus obtained shall be used for the purposes of computing Buyer's payments for gas purchased hereunder.

ARTICLE V: QUANTITY

5.1.1 During the term of this contract, Buyer shall have the right to take and purchase, if available, and Seller shall make its best efforts to sell and deliver or cause to be delivered to Buyer, the following quantities of gas:

<u>Year</u>	<u>Annual Contract Quantity (ACQ) (MMMcf)</u>	<u>Swing Factor</u>	<u>Swing Rate (MMcf per day)</u>
1985	0	Not Applicable	25
1986	5	2.0	25
1987	10	2.0	50
1988	10	2.0	50
1989	15	2.0	80
1990	15	2.0	80
1991	20	2.0	110
1992	20	2.0	110
1993	20	2.0	110
1994	20	2.0	110
1995	20	2.0	110
1996	15	2.0	80
1997	15	2.0	80
1998	15	2.0	80
1999	10	2.0	50
2000	10	2.0	50

5.1.2 Premium Deliverability

Buyer may request Seller to increase the swing rate (swing factor) tabulated above, said increase to be known as "premium deliverability". Seller shall thereafter have six (6) months to respond

to Buyer regarding Seller's ability and intent to meet Buyer's request for said premium deliverability, said response by Seller to be at Seller's sole option. If Seller's said response results in swing rate(s) sufficient to produce a swing factor of 2.5 or more as requested by Buyer, then from the first day of the month following an effective swing rate of 2.5 or more, Buyer shall, so long as the swing rate remains at 2.5 or more, pay Seller a premium deliverability fee of 35¢ per MCF applicable to all gas delivered. Said premium deliverability fee shall be adjusted by the same factor as the base price given per paragraph 7.2(a) of Article VII hereof.

5.2.1 Relief by Loss of Market

Seller recognizes that Buyer's ability to meet the annual contract quantity is limited to demands for gas made on Buyer by Buyer's customers and that if said customers discontinue or reduce their demands for Buyer's gas as a result of obtaining increased quantities of gas from any source other than Buyer, then to the extent of said increased quantities Buyer shall be relieved of its annual contract quantity obligation to Seller and the total contract quantity will be reduced by an amount equal to the sum of said reductions in contract quantities. In such event, Seller's obligation

of swing rate shall be proportionally reduced simultaneously.

5.2.2 Seller recognizes that Buyer's ability to meet the annual contract quantity is limited to demands for gas made on Buyer by increased demand(s) by Buyer's customers and that if such customers projected demand(s) fail to materialize, then undue hardship will result as to Buyer. Therefore, notwithstanding any other provisions of this Agreement, if, in its sole discretion, Buyer determines at any time and from time to time that Buyer cannot market some or all of the gas to be delivered hereunder at the annual contract quantity or quantities provided for herein, Buyer shall so notify Seller in writing, no later than April 1 of any contract year, identifying the lower annual contract quantity(s) (but such reduction not to be in excess of thirty percent (30%) of the annual contract quantity(s)) which Buyer projects it will be able to market during the following contract year(s). As of January 1 of the following contract year the annual contract quantity(s) shall be the lower annual contract quantity(s) as set forth in the hereinabove mentioned notice from Buyer; provided, however, in consideration of the relief provided by Seller to Buyer, Buyer agrees to pay to Seller a premium on

the then applicable gas price, including any premium deliverability fee in effect, as determined by Article VII applicable to all gas delivered, as follows:

<u>If the Annual Contract Quantity is Reduced</u>		<u>The Applicable price per MCF Shall be Increased by</u>
<u>From</u>	<u>TO</u>	
0%	10%	5.6%
11%	20%	12.5%
21%	30%	21.4%

Thereafter, the total contract quantity will be reduced by an amount equal to such lower contract quantity or quantities, and Seller may commit and deliver such quantity(s) to any other purchaser, provided, however, as to the quantity(s) of gas sales made to another party or parties by Seller, Buyer shall be proportionally relieved of paying the premium hereinabove stated for each MCF sold.

If Seller has now committed such quantity(s) to another purchaser, Seller shall have the right and option to extend the term of this Agreement by recommitting such quantity(s), including a swing factor of 1.33, to Buyer, otherwise upon the same terms and conditions set forth herein, provided

Seller gives Buyer written notice three (3) years prior to end of the term of this Agreement.

If Buyer elects to reduce the annual contract quantity under this option, and if during the period of such reduced contract quantity Buyer purchases gas from any other producer(s) at the Beluga Unit at a price higher than the price then payable to Seller hereunder, then Buyer shall pay Seller such higher price during said period.

In the event Buyer elects to reduce the annual contract quantity as set forth hereinabove, Buyer agrees to take gas from Seller ratably insofar as possible, based on deliverability, with all others supplying gas to Buyer during such period(s).

5.3 Pre-construction Deliveries of Gas

The parties to this agreement recognize that an imminent demand for gas may exist or develop for which neither Seller nor Buyer is prepared to make delivery immediately on demand through facilities owned outright by either Seller or Buyer. It is agreed that Buyer will proceed diligently to negotiate to supply said demand by deliveries of

gas owned and through facilities owned by Seller in part and in part by others. To the extent of Seller's ability to do so, Seller will make available to Buyer its share of spare delivery capacity (production) at these existing facilities so that Buyer can offer said spare delivery capacity to supply said demand pending completion by Seller of its own facilities and the commencing of deliveries therethrough to Buyer. Buyer will simultaneously negotiate with the other owners of said gas and facilities to utilize their spare delivery capacity similarly to supply said imminent demand, it being intended by both Buyer and Seller that immediately upon Seller's completion of its own delivery capacity, Buyer would terminate its purchases from said other owners of gas and facilities and commence taking Seller's gas only to supply said imminent demand for gas.

During the period until January 1, 1986 no annual contract quantity shall apply to Buyer's taking of gas under this Article 5.3, and no swing rate and no swing factor shall be in effect, but Seller will develop a swing rate of 25 MMCF per day with all due diligence, by January 1, 1984 if practicable with prudent practice.

Buyer's takes of gas from Seller as contemplated above in this Article 5.3, and as may be further accomplished into Buyer's own facilities prior to January 1, 1986, shall together count toward Buyer's annual contract quantity obligation to which commences at January 1, 1986, and Buyer shall be relieved of its annual contract quantity obligation to Seller until such time as a deficiency of annual contract quantity takes of gas may exist in excess of the amounts so taken by Buyer from Seller prior to January 1, 1986.

5.4 Relief by Taking of Royalty Gas in Kind

The annual contract quantities and the swing rates set forth in Paragraph 1 of Article V hereof shall be reduced whenever and to the extent that any lessor or lessors within the contract area shall exercise partially or wholly any right to take their shares of royalty gas (attributable to Seller's leaseholds in the contract area) in kind. Should any such lessor deliver such royalty gas to Buyer or to any of Buyer's affiliated companies, then for the purpose of annual contract quantities and the swing rate hereunder such royalty gas shall be deemed delivered hereunder.

5.5 Seller shall, with due diligence, operate the lands and leaseholds subject to this contract in a skillful and prudent manner to the end that

Seller's delivery capacity to Buyer shall be maintained during the term hereof at a rate equal to the swing rate set forth in Paragraph 5.1 of Article V hereof; provided, however, in the event Seller should at any time during a period of peak demand (normally winter time) in a contract year fail or be unable to develop, or having developed fail to maintain during a period in excess of 120 days, the delivery capacity necessary to deliver to Buyer the swing rate then in effect, the annual contract quantity shall be reduced by 1.25 times the percentage by which Seller's demonstrated delivery capacity as established by Article V, Paragraph 5.5 is below the swing rate then in effect. In the event there is an increase in Seller's demonstrated delivery capacity as defined in Paragraph 5.5 of Article V subsequent to the reduction of the annual contract quantity as provided above, then from the first day of the month following such increase (pro rated for any partial year), and for subsequent calendar years, the annual contract quantity shall be increased by the percentage by which Seller's demonstrated delivery capacity shall have increased above the previously determined delivery capacity which caused the reduction of annual contract quantity, but in no event to more than the annual contract quantity

set forth in paragraph 5.1 of Article V hereof for such year, subject to Buyer's prior written acceptance of such increase at Buyer's sole option, provided Buyer has contracted with a third party to replace gas lost due to the lack of Seller's delivery capacity. In determining the annual quantities of gas Buyer is required to take or pay Seller for, whether taken or not, during any year by reason of change in Seller's delivery capacity, the annual contract quantity for any year shall be computed by prorating the several values of the annual contract quantity on the basis of the portion of the year each such value was in effect.

5.6 As soon as practicable after deliveries of gas have commenced and stabilized, the delivery capacity of Seller's gas wells shall be determined during a mutually agreeable consecutive three (3) day deliverability test. Seller's delivery capacity shall be the average daily quantities of gas delivered to Buyer attributable to Seller's interest in the lease(s) during said three (3) day test.

5.7 At any time but no more often than once in any twelve (12) month period, except at Seller's option, Seller's delivery capacity (demonstrated capacity) may be redetermined upon request by either party by actual measurements and calcula-

tions and shall be estimated or calculated for each month in the months in which no actual tests are made using the result of the last actual test, if any, as the basis of the estimation. Each test will be for a period of three (3) consecutive days, during which time the wells will be produced at the maximum efficient rate of flow as determined by Seller against the pressures provided for in Article III hereof or under such other conditions as determined by mutual agreement of the parties and the delivery capacity shall be the average daily quantities of gas delivered to Buyer during said three (3) day test.

5.8 Buyer shall use its best efforts to keep Seller informed as to any peak demand that may occur during a period other than a normal peak demand period to the end that Seller can more expeditiously schedule any well workover(s) that Seller believes necessary.

5.9 It is understood and agreed that nothing in this Agreement shall be construed to require Seller to produce and deliver or Buyer to purchase and receive from Seller or pay Seller for any quantities of gas in excess of that which may be produced under the applicable rules, regulations and orders of regulatory bodies having jurisdiction. It is expressly understood that Buyer shall have the

right and option to purchase at any time and from time to time such daily quantity of gas as it desires up to the swing rate then in effect and, in addition, such daily quantities of gas, if any, in excess of the swing rate then in effect which in Seller's sole judgment can be produced and delivered from Seller's lands and leaseholds efficiently and in accordance with good operating practices and without impairment of Seller's obligations under prior contracts. It is recognized that Seller is not obligated to provide facilities to meet the quality specifications set forth in Article VI for quantities of gas in excess of the swing rate in effect from time to time, and therefore any additional gas which Buyer may elect to receive under this Paragraph, which is in excess of the capacity of Seller's facilities as then installed, may be bypassed around such facilities and the quality specifications of Article X shall not apply to such excess quantity. The taking by Buyer of such bypassed gas shall be at Buyer's sole risk.

5.10 In the event Buyer is required by the provisions of this agreement to pay Seller for a quantity of gas which Buyer shall not have actually taken during any year of the term hereof, then during the 5 years next succeeding the year in which Buyer

has failed to take the gas so paid for, all gas taken by Buyer from Seller which is in excess of the annual contract quantity for the current year shall be known as make-up gas and shall be delivered without charge to Buyer until such excess equals the amount of gas previously paid for but not taken; provided, however, Buyer will pay Seller any price differential between that price previously paid and that price in effect when such make-up gas is actually taken. In the event Buyer has not by the end of the term of this agreement made up all gas paid for but not taken, then Seller shall refund, without interest, monies to Buyer for that portion of the gas volumes paid for but not taken which Seller is unable to deliver as a result of Seller's wells not being capable of producing all of such volumes as Make-up Gas when produced at their delivery capacity throughout the remaining term following the year in which Buyer has failed to take the gas so paid for; provided, however, in lieu of paying such refund, Seller shall have the right and option to extend the term of this Agreement for a period of time which is sufficient to enable Buyer to receive the volumes paid for but not received.

ARTICLE VI: QUALITY

6.1 Seller agrees that:

(a) The gas delivered hereunder shall have a total heating value of not less than nine hundred fifty (950) Btus per cubic foot or more than one thousand fifty (1,050) Btus per cubic foot. If at any time Seller shall become unable to produce gas possessing at least such total heating value, Buyer shall have the option from time to time to refuse to accept that part of Seller's gas which is deficient so long as said heating value remains below nine hundred fifty (950) Btus per cubic foot. In the event Buyer accepts delivery of said gas when the heating value thereof is below nine hundred fifty (950) Btus per cubic foot, Buyer may reduce the total amount payable as the purchase price for gas delivered under this contract for each month during which such deficiency exists by an amount determined by multiplying such total amount by a fraction having as its numerator the average deficiency of British thermal units per cubic foot of gas below nine hundred fifty (950) and its denominator nine hundred fifty (950). If Buyer shall refuse, pursuant to the foregoing, to accept any percentage of Seller's gas, then Seller's obligations to deliver Seller's gas hereunder shall be reduced by a similar percentage.

If Buyer shall refuse, pursuant to the foregoing, to accept any of Seller's gas for a period of thirty (30) days, then Seller, as to such volume of refused gas, may terminate this contract by written notice to Buyer.

(b) Buyer shall have the right to determine, at such time or times as it may desire, the total heating value of the gas in Btus per cubic foot by means of some approved method of general use in the industry and on the standard set forth in Paragraph 1.3 hereof. Buyer shall give to Seller notice of the time of all tests for determining the BTU content of the gas to be conducted by such party reasonably in advance of making the test in order that the other party may conveniently have its representative present. Should there be any material variance between tests by Buyer and Seller, a joint test will be run and will be controlling, effective from the first day of the calendar month preceding such joint test.

6.2 Seller agrees that Buyer may refuse to accept any gas hereunder which:

(a) Shall contain more than one (1) grain of hydrogen sulphide per one hundred (100) cubic feet of gas as determined by the Tutwiler test or some other quantitative test, mutually agreeable to the parties hereto, after the presence of hydrogen

- sulphide has been indicated by qualitative test;
- (b) Shall contain more than twenty (20) grains of total sulphur per one hundred (100) cubic feet of gas;
 - (c) Shall contain in excess of:
 - (i) Three percent (3%) by volume of carbon dioxide;
 - (ii) One percent (1%) by volume of oxygen;
 - (d) Shall have a temperature of more than one hundred twenty degrees Fahrenheit (120° F.);
- or
- (e) Shall contain more than four (4) pounds of water per one million (1,000,000) cubic feet of gas.

6.3 In addition to meeting the above specifications, the gas delivered hereunder shall be commercially free from dust, gums, gum forming constituents, or other liquid or solid matter which might become separated from the gas in the course of transportation through pipelines.

6.4 In the event Buyer shall exercise its option to refuse to accept any part of Seller's gas not meeting any of the above quality specifications, Seller shall be free to sell such rejected gas to others. Should Buyer exercise its option to refuse to accept any of Seller's gas by reason of

the above quality specifications, then Seller, as to such volume of refused gas, may by written notice terminate this contract.

ARTICLE VII: PRICE

7.1 Subject to the provisions of paragraphs 7.2 and 7.3 below, the base price to be paid by Buyer to Seller for gas delivered to Buyer hereunder shall be \$2.32 per MCF.

7.2 Subject to the provisions of Paragraph 7.3 below, it is expressly understood and agreed between the parties that there shall be an adjustment the price provided for in Paragraph 7.1 above, as follows:

(a) Annual Price Adjustment:

Effective January 1 of each year during the term of this agreement, the base price provided for in Paragraph 7.1 shall be increased or decreased by multiplying it by the following ratio:

$$\frac{\text{Posted Price No. 2 Fuel Oil on November 1} \\ \text{preceding date of adjustment}}{\text{Posted Price No. 2 Fuel Oil on November 1,} \\ \text{1982}}$$

The term "Posted Price" shall mean the average posted price of No. 2 fuel oil f.o.b., Tesoro Refinery, Nikiski, Alaska. In the event that there ceases to be a posted price for No. 2 fuel oil at Tesoro's Refinery at Nikiski, the

average of the postings for No. 2 fuel oil as published in Platt's Oilgram Price report (or another mutually agreed upon publication in the event Platt's Oilgram discontinues publishing such quotes) f.o.b. Seattle, Washington, shall be substituted in the ratio described above.

(b) Taxes:

The full amount of any tax or taxes paid by Seller irrespective of the mode or basis of imposition. The term "tax or taxes" as used herein shall mean (i) any tax (other than ad valorem, capital stock, general property or income and excess profit taxes) or (ii) similar charge now or hereafter levied, assessed or made by any governmental or native authority, including any Federal windfall profits taxes, on the gas itself, or on the act, right or privilege or occupation of production, severance, gathering, transportation, sale or delivery of gas which tax is measured by the volume, value, removal price, prevailing value or sales price to Buyer of the gas in question but shall not include any value attributable to the liquid hydrocarbons in said gas that are removed by Seller by processing; provided,

however, that the term "tax" shall not be deemed to include (i) any processing tax imposed on Seller because of the fact that gas may be processed or handled through or in any plant, or (ii) any general franchise tax imposed on corporations on account of their corporate existence or on their right to do business within the state as a foreign corporation; or (iii) any delinquent interest and penalty that may be attributable to any tax. Taxes or assessments applicable to any royalty, overriding royalty, production payment or similar interest shall be considered to be covered by the provisions hereof to the extent reimbursement made by Buyer to Seller with respect thereto is passed on by Seller to the owner of such royalty, overriding royalty, production payment or similar interest or to the extent Seller has paid such taxes without reimbursement from the owner of such royalty, overriding royalty, production payment or similar interest.

The above provisions of this paragraph 7.2(b) notwithstanding, should Seller at any time pay ad valorem mineral rights property taxes

attributable to gas which Buyer has the right to receive hereunder, Seller will notify Buyer in writing, stating the amount thereof, along with adequate supporting information, and Buyer will, within thirty (30) days after the receipt of such notice from Seller, reimburse Seller in the amount of such taxes. The reimbursement shall be based upon the ratio which the volume of gas Buyer has the right to receive hereunder as of the date of assessment bears to the total volume of gas reserves underlying the properties subject to this agreement as of the assessment date or in the event the lands subject to this agreement are not assessed separately but rather as part of other lands, the reimbursement shall be based upon the ratio which the volume of gas Buyer has the right to receive hereunder as of the date of assessment bears to the total volume of gas reserves underlying all the lands so assessed. Unless the total gas underlying the properties is valued separately for assessment purposes, the amount of the ad valorem mineral rights property taxes assigned to the gas each year shall be that portion of the total tax that the value of the gas bears to the total value of all liquids and gas combined as de-

terminated by the assessor before applying any depreciation charges, operating costs or present worth factors. The intent of this paragraph is that the Buyer shall pay all ad valorem mineral rights property taxes reasonably attributable to gas which Buyer has the right to receive hereunder, and the amount of such taxes shall be determined in an equitable manner to produce that result. Nothing contained herein shall imply that Buyer has any title to any volume of gas it has the right to receive hereunder. Failure of Seller to notify Buyer, within one (1) year after the due date, of the payment by Seller of any ad valorem mineral rights property taxes on gas which Buyer has the right to receive hereunder shall constitute a waiver by Seller of the reimbursement by Buyer for that particular item, but shall not constitute a waiver of any rights to reimbursement for the payment of such tax for subsequent periods.

(c) Excess Royalty Payments - Seller agrees to pay or cause to be paid to the parties entitled thereto all royalties, overriding royalties or like charges against said gas or the value thereof. Buyer agrees to reimburse Seller for all "excess royalty payments" which Seller

shall be required to pay to the State of Alaska, United States of America or other royalty owners with respect to gas sold and delivered to Buyer hereunder. Such payments shall be made by Buyer to Seller within ten (10) days following receipt of statements from Seller therefor. The term "excess royalty payments" as used herein is defined as the amount by which actual royalty payments by Seller to the State of Alaska, United States of America, or other royalty owners under the Agreement exceed the amount such payment would have been if the royalty value thereunder had been calculated upon the sums received by Seller pursuant to this agreement.

7.3 Notwithstanding the provisions of paragraphs 7.1 above, the price to be paid by Buyer to Seller for gas delivered to Buyer hereunder shall not exceed the applicable maximum lawful price, and adjustments thereto, permitted by FERC, the Congress, the President or any other Governmental authority having jurisdiction to establish such maximum lawful prices.

ARTICLE VIII. MEASUREMENT

8.1 Buyer shall measure the gas purchased hereunder by means of standard-type equipment known as turbine meters, conforming to the requirements of AGA Gas

Measurement Committee Report No. 7, installed in series of two identical units at the point of delivery, and the average of the two measurements shall be used as the basis for purchases unless either Buyer or Seller may show cause to the other that good reason exists to choose one or the other of the series measurements to be preferable and more accurate pending any necessary repairs or adjustments to the questioned measurement. Installation and operation and maintenance of said turbine meters shall be done by Buyer. Seller may at its option install suitable orifice meter(s) also in series with Buyer's turbine meters for purposes of auditing the measurement obtained from said turbine meters. Said orifice meter(s), if installed, shall be operated and maintained by Seller as prescribed by AGA Gas Measurement Committee Report No. 5 or subsequent revisions thereof. Buyer and Seller each shall have access to the other's measuring equipment at reasonable hours, and the reading, calibrating, and adjusting thereof and the changing of charts shall be done by the respective owner.

- 8.2 At appropriate intervals, the meters and instruments shall be calibrated and if in the aggregate they are found to be inaccurate by more than one percent (1%), the quantities of gas based on such

registration shall be corrected at the rate of inaccuracy for any period which is known or agreed upon. In the event the period of inaccuracy is not known or cannot be agreed upon, then such period shall be deemed to be thirty (30) days.

ARTICLE IX: AMOUNT OF SELLER'S GAS

9.1 As soon as is practicable after the date of this agreement, Seller shall make available to Buyer all information, material and data which Seller has available and does not consider confidential concerning Seller's gas.

9.2 At any time during this contract, but not more often than once each year, Seller will, at Buyer's request, furnish to Buyer such geological, engineering and production data (except interpretive data) available to Seller, without cost to Buyer, as may be needed for an independent determination of gas reserves and deliverability thereof. Such data shall include any and all information pertaining to Seller's wells, including but not limited to pressure data.

9.3 Determinations of the amount of Seller's gas not yet produced shall be made by Seller and Buyer upon the written request by Buyer, but in no event sooner than one (1) year after the date of the last determination. The effective date for any

redetermination of the amount of Seller's gas not yet produced shall be the last day of the month following the date of notice by Buyer for such redetermination. Buyer's reliance upon any such determination or redetermination shall be at its sole risk.

9.4 If, as a result of a determination made subsequent to January 1, 1993 of the amount of Seller's gas not then produced, it is determined that the amount of Seller's gas on the date of this agreement was less than two hundred twenty million (20,000,000) Mcf, plus the undelivered portion of the delivery obligations contained in any such other contracts as Seller may enter into pursuant to Paragraphs 9.5 of this Article IX, then the annual contract quantities, swing factors and swing rates set forth in Paragraph 5.1 of Article V hereof remaining on the effective date for such determination shall be adjusted as of such date by multiplying said quantities, factors and rates by a fraction the numerator of which is the amount of Seller's gas not yet produced as so determined, expressed in MCF, and the denominator of which is two hundred twenty million (220,000,000) MCF plus the undelivered portion of any delivery obligations contained in any such other contracts.

9.5 Seller shall have the right and option during the term hereof, at any time or times, to sell and deliver Seller's gas to any new gas purchaser or purchasers, or to increase sales to existing gas purchasers, provided, however, said Seller's gas that is to be sold is not needed to meet its obligations to Buyer hereunder. In reaching its decision for such additional sales, Seller agrees that it will not on or after the date hereof enter into a contract or contracts for the sale of Seller's gas which obligates Seller to deliver any Seller's gas which would reduce the quantity of Seller's gas to an extent that the total gas available to Buyer under this agreement would be less than two hundred twenty million (220,000,000) Mcf. In addition, Seller will provide in the sales contract with said gas purchasers that if any future determination of the amount of Seller's gas not yet produced, together with the amount of prior deliveries under this contract, is found to be less than 220,000,000 Mcf plus the amount of gas sold in such new contract or contracts, the purchaser(s) of said gas shall deduct from the quantities to be purchased such amounts as are required to enable Buyer to purchase a total of 220,000,000 Mcf hereunder.

9.6 Buyer will, subject to all the terms, conditions, reservations and limitations set forth in this

agreement, accept from Seller during the term hereof a total quantity of gas up to but not in excess of two hundred twenty million (220,000,000) MCF, which can be produced and delivered from the lands and leaseholds described in Exhibit "A". Seller, however, reserves the right, in its sole discretion, to deliver gas from lands and leaseholds other than those described in said Exhibit "A" without in any way enlarging its delivery obligations hereunder.

ARTICLE X: WARRANTY OF TITLE

10.1 This contract embraces one hundred percent (100%) of the gas delivered and purchased hereunder and Seller warrants that it has full and unqualified title and authority to sell such gas to Buyer upon the terms and conditions herein specified. Buyer shall pay Seller for one hundred percent (100%) of all gas sold and delivered to Buyer hereunder, and Seller shall pay the royalty owners, the other owners of the working interest and all other persons, if any, owning an interest in such gas the proportionate part due each of them for and with respect to the sale of such gas. Seller agrees to indemnify and hold Buyer harmless from and against any and all claims arising out of the wrongful payment of or failure to pay any owner of an interest in such gas, and against all suits,

actions, debts, accounts, damages, costs, losses and expenses arising from or out of any adverse claims to or against such gas or any interest therein or in the value thereof. Seller further agrees to warrant and forever defend unto Buyer the title to all gas delivered to Buyer hereunder, and warrants that such gas is free from any and all liens, charges, adverse claims and encumbrances at the point and time of delivery of such gas to Buyer hereunder.

ARTICLE XI: BILLING AND PAYMENT

11.1 On or before the last day of each calendar month after the month of initial delivery of gas hereunder, Buyer agrees to account and make payment to Seller for all gas received by Buyer during the preceding calendar month or billing period. Payments are to be based on gas purchased by Buyer at its measuring station at the point of delivery during the applicable billing period.

11.2 If Buyer shall fail in any year during the term hereof to take the Annual Contract Quantity, then Seller shall, within sixty (60) days after the end of such year, render a bill to Buyer for the amount of the deficiency based on the average price paid for gas delivered hereunder during the last month of the year in which such deficiency

occurred. In computing the amount due Seller for any deficiency in takings by Buyer occurring during any year, the following quantities shall be deducted from such deficiency:

- (a) The total of the daily quantities of gas which Buyer requests (up to and including the Swing Rate) and which Seller fails to deliver on any day or days during such year.
- (b) The total of the quantities of gas not included in (a) above which Buyer is unable to take on any day or days during such year by reason of force majeure or for failure to meet the quality requirements of Article X.

Buyer agrees to make full payment for the full amount for such deficiency within fifteen (15) days after receipt of such bill.

ARTICLE XII: TAXES

12.1 Subject to reimbursement as provided in this agreement, Seller shall pay all gross production, severance and other taxes now or hereafter required by law to be paid to governmental authorities with respect to the production or other handling of gas at any point upstream from the point of delivery.

ARTICLE XIII: FORCE MAJEURE

13.1 If any party is rendered unable, wholly or in part, by force majeure or other causes herein specified, to carry out its obligations under this contract, then upon such party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other party within a reasonable time after the occurrence of the cause relied on, the obligations of the party giving such notice, so far as they are affected by such force majeure or other causes herein specified, shall be suspended during the continuance of such cause, but for no longer period, and such cause shall be remedied so far as possible with all reasonable dispatch.

13.2 The term "force majeure" as employed herein means acts of God; strikes, lockouts or other industrial disturbances (including an event of force majeure which causes a major customer of Buyer to interrupt its gas purchases); acts of the public enemy; wars; blockades; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms; floods; washouts; arrests and restraints of the government, either federal or state, civil or military; civil disturbances; explosions; breakage; breakdown or accident to machinery, equipment or lines of pipe; the necessity or desirability of

repairing, altering, maintaining, inspecting, replacing, changing the size of, substituting or removing machinery, equipment, pipelines or appurtenant facilities; and any other causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension, and which by the exercise of due diligence such party is unable, wholly or in part, to prevent or overcome. Such term likewise includes (i) in those instances where either party hereto is required to obtain servitudes, right-of-way grants, permits, exceptions or licenses to enable such party to fulfill its obligation hereunder, the inability of such party to acquire, or the delays on the part of such party in acquiring, at reasonable cost and after the exercise of reasonable diligence, such servitudes, right-of-way grants, permits, exceptions or licenses, and (ii) in those instances where either party hereto is required to furnish materials and supplies for the purpose of constructing or maintaining facilities or is required to secure permits or permission from any governmental agency (federal, state or municipal, civil or military) to enable such party to fulfill its obligations hereunder, the inability of such party to acquire, or the delays on the part of such

party in acquiring, at reasonable cost and after the exercise of reasonable diligence, such material and supplies, permits and permissions. Settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty and the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such cause is inadvisable in the discretion of the party having the difficulty.

13.3 In the event Buyer invokes force majeure hereunder, Buyer agrees to take gas from Seller ratably insofar as possible, based on deliverability, with all others supplying gas to Buyer during such periods of force majeure.

ARTICLE XIV: DEFAULT AND TERMINATION

14.1 If either party hereto shall fail to perform any of the covenants or obligations imposed upon it under and by virtue of this agreement, the other party hereto, in addition to any and all other remedies which it may have, may at its option terminate this agreement by proceeding as follows: The party not in default shall cause a written notice to be served on the party in default, stating specifically the cause for termi-

nating this agreement and declaring it to be the intention of the party giving notice to terminate the same; whereupon the party in default shall have sixty (60) days after the service of the aforesaid notice in which to remedy, remove or take all appropriate action to remedy or remove the cause or causes stated in the notice for terminating this agreement, and if, within said period of sixty (60) days, the party in default does so remedy or take all appropriate action to undertake to remedy or remove said cause or causes and fully protect, defend and indemnify the party not in default for any and all consequences of such breach, then such notice shall be withdrawn and this agreement shall continue in full force and effect. In case the party in default does not so remedy, remove or take all appropriate action to undertake to remedy or remove the cause or causes and does not indemnify the party giving the notice from any and all consequences of such breach within said period of sixty (60) days, this agreement, at the option of the party giving the notice, shall terminate upon the expiration of said period.

ARTICLE XV: TERM

15.1 The term of this contract shall commence on the date of initial delivery of gas hereunder and

shall continue thereafter in force and effect for a period of fifteen (15) years or longer as may be required under Article V hereof to enable Buyer to receive gas which has not theretofore been available to Buyer from Seller, as provided in Article V hereof.

ARTICLE XVI: ASSIGNMENT

16.1 The terms and provisions of this contract shall extend to and be binding upon the parties hereto, their respective successors and assigns, provided, however, that no change in ownership or change in any right to receive payment hereunder with respect to Seller's leases, wells or the gas produced therefrom shall be binding upon Buyer until the first (1st) day of the calendar month next following the date upon which Buyer shall have been furnished with certified copies of recorded instruments and other proper and sufficient evidence supporting and defining such change, without regard to whether Buyer has had previous notice or knowledge thereof.

16.2 Seller agrees to indemnify, defend and hold harmless Buyer against any claim, action, suit or demand by any transferee or mortgagee of Seller which contends or alleges that the lands described on Exhibit A are not subject to this contract.

ARTICLE XVII: NOTICE

17.1 Any notice, request, demand or statement provided for in this contract shall be in writing and shall be deemed delivered seven (7) days after the post-marked date when mailed by registered or certified mail to the post office address of each of the parties hereto as follows:

BUYER: Alaska Pipeline Company
P. O. Box 6288
3000 Spenard Road
Anchorage, Alaska 99502
Attention: President

SELLER: Shell Oil Company
Attention: Natural Gas
P. O. Box 576
Houston, Texas 77001

or at such address as Seller or Buyer shall from time to time designate by letter properly addressed.

ARTICLE XVIII: GOVERNMENT REGULATIONS

18.1 This contract and each provision hereof shall be subject to all valid applicable federal and state laws and to all present and future valid orders, rules and regulations of any duly constituted regulatory body of the Federal Government, the State of Alaska or any other authority having jurisdiction hereof.

18.2 Buyer shall promptly undertake to obtain an initial determination by the Alaska Public Utilities

Commission that the costs incurred by Buyer hereunder constitute reasonable and recoverable costs of Buyer's public utility business. In the event that within ninety (90) days from the date of this contract such determination is refused, then Buyer or Seller may by written notice terminate this contract.

ARTICLE XIX: PACIFIC ALASKA LNG ASSOCIATES

19.1 Seller herein shall cancel that certain Agreement entitled "Gas Sale and purchase Agreement" dated July 11, 1977 between itself and Pacific Alaska LNG Associates concurrently with the execution of this Contract. Notice shall be by Certified Mail, return receipt requested.

ARTICLE XX: MISCELLANEOUS

20.1 Each party shall promptly furnish to the other party copies of any and all notices, determinations, orders, documents, applications and forms filed or received with or from the Federal Energy Regulatory Commission and with or from the public Utilities Commission of Alaska relative to the gas, wells and leases in the contract area.

20.2 This contract was prepared jointly by the parties hereto and not by either to the exclusion of the other.

20.3 The failure of either party to insist upon strict performance of any provision hereof shall not constitute a waiver of, or estoppel against asserting, the right to require such performance in the future, nor shall a waiver or estoppel in any one instance constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise.

20.4 Time is of the essence with regard to all obligations to be performed on or by a specified date, if any, herein contained.

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

20.6 In the event Buyer has not obtained financing acceptable to Buyer for pipeline construction and installation on or before one hundred eighty (180) days after the execution of this agreement and so notifies Seller, then either party may terminate this agreement by written notice. In the event Buyer obtains financing prior to said one hundred eighty (180) days, Buyer shall notify Seller within a reasonable time thereafter.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed, in multiple originals, on the day and year first hereinabove written.

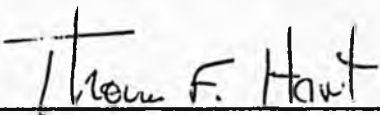
BUYER

ALASKA PIPELINE COMPANY

By 
President

SELLER

SHELL OIL COMPANY

By 

THE STATE OF ALASKA)

BEFORE ME, the undersigned authority, on this day personally appeared DALE TEEL, President of ALASKA PIPELINE COMPANY, a corporation, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein set forth and as the act and deed of said corporation.

GIVEN under my hand and seal of office, this the 20th day of December, 1982.

Margaret M. Moses
NOTARY PUBLIC in and for
ALASKA
my commission expires
September 14, 1985

THE STATE OF TEXAS)
COUNTY OF HARRIS)

BEFORE ME, the undersigned authority, on this day personally appeared Thomas F. Hart, Vice President of SHELL OIL COMPANY, a corporation, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein set forth and as the act and deed of said corporation.

GIVEN under my hand and seal of office, this the 17th day of December, 1982.

Elsie Gilmore
NOTARY PUBLIC in and for
Harris County, Texas

ELSIE GILMORE
Notary Public in and for Harris County, Texas
My Commission Expires June 9, 1983

EXHIBIT A

ATTACHED TO AND MADE A PART OF
 GAS PURCHASE CONTRACT BETWEEN
 SHELL OIL COMPANY
 AND
 ALASKA PIPELINE COMPANY
 COOK INLET AREA, ALASKA

<u>Tract No.</u>	<u>Description</u>	<u>Acres</u>	<u>Application Serial No., or Name</u>	<u>Lessor</u>
1	<u>T. 13 N., R. 10 W., S.M.</u> Sec. 33: S $\frac{1}{2}$ SE $\frac{1}{4}$ Sec. 34: S $\frac{1}{2}$ SW $\frac{1}{4}$, Fractional S $\frac{1}{2}$ SE $\frac{1}{4}$ <u>T. 12 N., R. 10 W., S.M.</u> Sec. 3: Fractional W $\frac{1}{2}$ NW $\frac{1}{4}$ except that portion lying within U.S. Survey #3072 Sec. 4: Fractional all, except that portion lying within U.S. Survey #3072 Sec. 9: Fractional NW $\frac{1}{4}$ Lots 1 and 2, U.S. Survey #4540, U.S. Survey #4541	831.66	A-029656	U.S.A.
2	<u>T. 13 N., R. 10 W., S.M.</u> Sec. 26: SW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$ Fractional S $\frac{1}{2}$ SE $\frac{1}{4}$ Sec. 27: SE $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ SW $\frac{1}{4}$ Sec. 33: NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ Sec. 34: N $\frac{1}{2}$, Fractional N $\frac{1}{2}$ S $\frac{1}{2}$ Sec. 35: Fractional N $\frac{1}{2}$, Fractional N $\frac{1}{2}$ S $\frac{1}{2}$ Lot 1 and 2, U.S. Survey #3962, U.S. Survey #3963	1394.00	A-029657	U.S.A.

Exhibit A (Continued)

<u>Tract No.</u>	<u>Description</u>	<u>Acres</u>	<u>Application Serial No., or Name</u>	<u>Lessor</u>
3	<u>T. 13 N., R. 10 W., S.M.</u>	1090.43	ADL-17658	State of Alaska
	Sec. 13: SE $\frac{1}{4}$ (Excl. lands North of PLO 2162)			
	Sec. 23: S $\frac{1}{2}$ SE $\frac{1}{4}$			
	Sec. 24: S $\frac{1}{2}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ (Excl. lands North of PLO 2162)			
	Sec. 25: N $\frac{1}{2}$ NW $\frac{1}{4}$, NW $\frac{1}{2}$ NE $\frac{1}{4}$, Fractional S $\frac{1}{2}$ NE $\frac{1}{4}$, Fractional NW $\frac{1}{4}$ SW $\frac{1}{4}$			
	Sec. 26: NE $\frac{1}{4}$, Fractional N $\frac{1}{2}$ SE $\frac{1}{4}$			
	<u>T. 13 N., R. 9 W., S.M.</u>			
	Sec. 18: S $\frac{1}{2}$ SW $\frac{1}{4}$ (Excl. lands North of PLO 2162)			
	Sec. 19: W $\frac{1}{2}$ NW $\frac{1}{4}$			
4	<u>T. 12 N., R. 10 W., S.M.</u>	858.10	ADL-17592	State of Alaska
	Sec. 3: All tide and submerged land within: W $\frac{1}{2}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$, NW $\frac{1}{4}$			
	Sec. 4: All tide and submerged land			
	Sec. 9: All tide and submerged land in N $\frac{1}{2}$			
	Sec. 10: All tide and submerged land in NW $\frac{1}{4}$ NW $\frac{1}{4}$			

Exhibit A (Continued)

<u>Tract No.</u>	<u>Description</u>	<u>Acres</u>	<u>Application Serial No., or Name</u>	<u>Lessor</u>
5	<u>T. 13 N., R. 10 W., S.M.</u> Sec. 25: Tide and submerged lands within: SE $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$ Sec. 26: Tide and submerged lands within: S $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 34: Tide and submerged lands within: E $\frac{1}{2}$ SE $\frac{1}{4}$ Sec. 35: Tide and submerged lands within: W $\frac{1}{2}$, W $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$, NE $\frac{1}{2}$, NE $\frac{1}{4}$	488.54	ADL-17599	State of Alaska
6	<u>T. 13 N., R. 10 W., S.M.</u> Sec. 22: SE $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$	240.00	ADL-21126	State of Alaska
7	<u>T. 13 N., R. 10 W., S.M.</u> Sec. 23: NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ Sec. 24: NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ NE $\frac{1}{4}$, except that portion lying within ADL-17658, (Tract No. 3)	489.01	ADL-21128	State of Alaska
8	<u>T. 13 N., R. 10 W., S.M.</u> Sec. 23: W $\frac{1}{2}$ Sec. 26: N $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 27: N $\frac{1}{2}$ NE $\frac{1}{4}$	480.00	ADL-21127	State of Alaska

Exhibit A (Continued)

<u>Tract No.</u>	<u>Description</u>	<u>Acres</u>	<u>Application Serial No., or Name</u>	<u>Lessor</u>
9	T. 13 N., R. 10 W., S.M. Sec. 27: N $\frac{1}{2}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ NW $\frac{1}{4}$	160.00	ADL-21129	State of Alaska
10	T. 13 N., R. 10 W., S.M. Sec. 13: All, excl. any land within the SE $\frac{1}{4}$ lying South of former PLO 2162 Sec. 14: E $\frac{1}{2}$, SW $\frac{1}{4}$	1108.57	ADL-58831	State of Alaska
11	T. 13 N., R. 9 W., S.M. Sec. 7: S $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	120.00	ADL-58815	State of Alaska
12	T. 13 N., R. 9 W., S.M. Sec. 18: W $\frac{1}{2}$ NE $\frac{1}{4}$, W $\frac{1}{2}$, excl. any lands in the S $\frac{1}{2}$ SW $\frac{1}{4}$ lying South of former PLO 2162	329.69	ADL-58320	State of Alaska
13	T. 12 N., R. 10 W., S.M. U.S. Survey #3072	5.00	E. F. Roberts	Earl F. Roberts & Glennie L. Roberts, his wife
14	T. 13 N., R. 10 W., S.M. U.S. Survey #3596	5.00	J. W. Hensley	Jerome W. Hensley & Nellie G. Hensley, his wife

Recapitulation:

2	U. S. Oil and Gas Leases	2225.66 Acres
10	State of Alaska Oil and Gas Leases	5364.34 Acres
2	Fee Oil and Gas Leases	10.00 Acres
	Totals: 14 Tracts	7600.00 Acres

Exhibit A (Continued)

<u>Reservoirs covered by this Agreement</u>	<u>Depths in Type Log BRU 212-35</u>
Upper Sterling	2520'-3125'
Lower Sterling	3125'-3608'
Upper Beluga	3608'-5175'
Lower Beluga	5175'-8115'

At such time as lands and leases contiguous to lands hereinabove described are proved to be a part of the Beluga River Field as defined by the appropriate State of Alaska governmental authority, then such lands and leases, whether held or owned by Seller or subsequently acquired by Seller, shall be included within this Exhibit A.

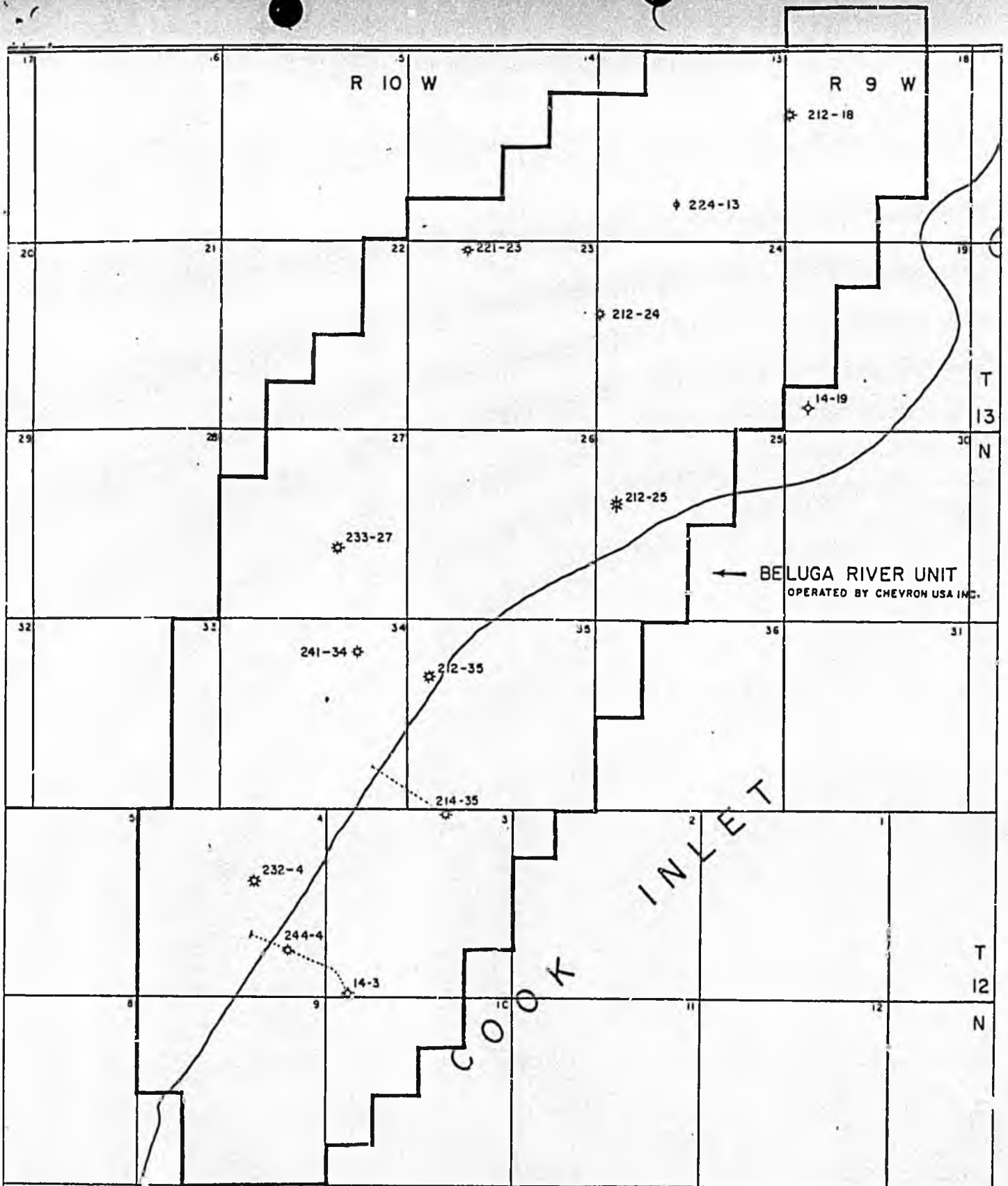


EXHIBIT B
 ATTACHED TO AND MADE A PART OF
 GAS PURCHASE CONTRACT BETWEEN
 SHELL OIL COMPANY
 AND
 ALASKA PIPELINE COMPANY
 COOK INLET AREA, ALASKA
BELUGA RIVER GAS FIELD

GAS PURCHASE CONTRACT

MARATHON OIL COMPANY

AND

ALASKA PIPELINE COMPANY

Dated: December 16, 1982

GAS PURCHASE CONTRACT

MARATHON OIL COMPANY
and
ALASKA PIPELINE COMPANY

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