



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Sean Parnell, Governor
Susan K. Bell, Commissioner
T.W. Patch, Chairman

Regulatory Commission of Alaska

September 9, 2013

In Reply: Tariff Section
Docket: TA242-4
Letter Order No.: L1300428

Colleen Starring
President
ENSTAR Natural Gas Company,
A Division of SEMCO Energy, Inc.
PO Box 190288
Anchorage, AK 995019-0288

Subject: TA242-4 Gas Sales Agreement Between Alaska Pipeline Company and Hilcorp Alaska, LLC

We approve the proposed Gas Sale and Purchase Agreement between Alaska Pipeline Company and Hilcorp Alaska, LLC, filed in TA242-4. We approve the inclusion of the costs of gas purchased under the Gas Sale and Purchase Agreement in the calculation of the Gas Cost Adjustment. We approve Tariff Sheet Nos. 89 and 221, filed in TA242-4 on July 24, 2013, with an effective date of September 9, 2013.

Background

ENSTAR Natural Gas Company (ENSTAR) filed TA242-4, requesting our approval of a gas sale and purchase agreement (GSA) between Alaska Pipeline Company (APC)¹ and Hilcorp Alaska, LLC (APL-12 GSA). ENSTAR requests that we approve the proposed APL-12 GSA for firm natural gas deliveries beginning April 1, 2014 and continuing through March 31, 2018. ENSTAR also requests that we approve the APL-12 GSA as a base gas supply agreement, and include all costs incurred under the GSA in the calculation of its gas cost adjustment.² ENSTAR filed revised Tariff Sheets Nos. 89 and 221 and requested an effective date of September 9, 2013.³

We issued notice of TA242-4 on July 26, 2013, with a comment period ending August 22, 2013. Cook Inlet Energy; Buccaneer Alaska, LLC; and Furie Operating Alaska, LLC, filed comments critical of the APL-12 GSA. ENSTAR filed a reply to those comments along with a motion to accept the reply comments.

¹The Commission has historically regulated Alaska Pipeline Company and ENSTAR Natural Gas Company as a single entity.

²TA242-4 at 1.

³ENSTAR requested an effective date of the end of the standard notice and review period. TA242-4 at 10.

Discussion

Consent Decree

The State of Alaska entered into a Consent Decree with Hilcorp Alaska, LLC (Hilcorp) to resolve competitive concerns with Hilcorp's acquisition of Marathon Oil Company's Cook Inlet assets.⁴ The Consent Decree was approved by the Superior Court on January 17, 2013.⁵ The APL-12 GSA includes provisions that follow the terms and conditions⁶ of the Consent Decree, including pricing, gas disposition, negotiable costs (transportation, excess taxes, and excess royalties), Hilcorp non recoverable costs, (royalties and taxes, gas dehydration, gas treatment, facilities O&M), and RCA approval.

ENSTAR's Projected Gas Supply as of July 8, 2013

ENSTAR provided a forecast showing the gas supply requirements of its customers from January 2014 through March 2018, including the volumes to be delivered under the APL-12 GSA. The volumes supplied under the APL-12 GSA will meet the remaining requirements of ENSTAR's customers through March 31, 2018.⁷

Term

Purchases under the APL-12 GSA commence on April 1, 2014, and terminate on March 31, 2018.⁸ Year 1 of the contract is April 1, 2014, to March 31, 2015; Year 2 is April 1, 2015, through March 31, 2016; Year 3 is April 1, 2016, through March 31, 2017; and Year 4 is April 1, 2017, through March 31, 2018.

Gas Supply Volumes

Annual Contract Quantity

ENSTAR committed to a firm annual contract quantity of 10,000 MMcf for Year 1 of the contract. For Years 2 through 4, ENSTAR must provide Hilcorp with preliminary estimated annual contract quantities, final estimated annual contract quantities, and firm annual contract quantities. Within the contract quantities provisions, ENSTAR may adjust its contractual volumes up or down within a specified band to account for changes in customers demands.

ENSTAR provided Hilcorp preliminary estimated annual contract quantities of 15,000 MMcf for Year 2; 17,000 MMcf for Year 3; and 21,500 MMcf for Year 4. On March 1, 2014, ENSTAR will provide Hilcorp with an updated preliminary estimated annual contract quantity for Year 4. ENSTAR provided final estimated annual contract quantities of 15,000 MMcf for year 2. On March 1, 2014, ENSTAR must provide Hilcorp the final estimated annual contract quantity for Year 3, and on March 1, 2015, ENSTAR must provide Hilcorp with a final estimated annual contract quantity for Year 4. ENSTAR must provide Hilcorp firm annual contract quantities for Year 2, by March 1, 2014, for Year 3 by March 1, 2015, and for Year 4 by March 1, 2016.⁹

⁴<http://www.law.state.ak.us/press/releases/2012/110712-PricingProtection.html>

⁵See *State of Alaska vs. Hilcorp Alaska, LLC et. al*, 3AN-12-10858CI, Consent Decree, dated January 17, 2013.

⁶Consent Decree at 10-12.

⁷TA242-4 at 8.

⁸APL-12 GSA at §4.

⁹APL-12 GSA at §2.3(A), (B), Exhibit D, Exhibit E.

Daily Contract Quantity

The APL-12 GSA provides for different delivery periods for which Hilcorp will increase daily deliveries during the winter to accommodate increased demand. For Year 1 of the contract, Hilcorp will deliver, and ENSTAR will buy and receive, gas on each day according to the following delivery profile (daily contract quantity):

- April 1 through April 30, 2014: 24 MMcf per day;
- May 1, 2014, through September 30, 2014: 19 MMcf per day;
- October 1, 2014, through December 31, 2014: 34 MMcf per day; and
- January 1, 2015, through March 31, 2015: 38 MMcf per day.

ENSTAR will provide Hilcorp with its requested delivery rates for each subsequent contract year approximately 13 months prior to the start of the contract year. On or before March 1, 2014, ENSTAR will provide Hilcorp its daily contract quantity for year 2. On or before March 1, 2015, ENSTAR will provide Hilcorp its daily contract quantity for year 3. On or before March 1, 2016, ENSTAR will provide Hilcorp its daily contract quantity for year 4.¹⁰

Base Load and Swing Load Gas

Base load gas is the volume of gas delivered on a day of the contract year which is less than or equal to the average daily contract quantity.¹¹ The average daily contract quantity is the average of the volume of gas which would be sold on any given day during a contract year if the applicable contract year were delivered evenly on each day throughout the contract year (volumes divided by 365).¹² For any month, the volume of gas that Hilcorp delivers and ENSTAR receives up to the sum of the average daily contract quantities for that month will constitute base load gas volumes.¹³ Swing load gas is the volume of gas sold to ENSTAR on any given day in excess of the base load gas.

Emergency Load Gas

Emergency load gas is the gas sold to ENSTAR in excess of the base load gas and swing load gas to meet short term (less than one month) extraordinary or emergency gas supply needs.¹⁴ At any time during the term of the APL-12 GSA, ENSTAR may notify Hilcorp, via an Operational Notice, that it has an extraordinary or emergency gas supply need and request a specific volume of emergency load gas to be delivered. The Operational Notice must specify the nature and anticipated duration of the extraordinary or emergency situation which forms the basis of the need for additional gas. Hilcorp will promptly notify ENSTAR if it has the gas available. Emergency load gas transactions are not included in the annual contract quantity or daily contract quantities and shall not be included in the calculations of base load gas and swing load gas.¹⁵

¹⁰APL-12 GSA at §2.3(D).

¹¹APL-12 GSA at 2.

¹²APL-12 GSA at 2.

¹³APL-12 GSA at 7, §7.1(B), Exhibit H.

¹⁴APL-12 GSA at 5.

¹⁵APL-12 GSA at §2.3(F).

Additional Summer Storage Gas

ENSTAR may purchase up to 1 Bcf of additional summer gas to be placed into storage in CINGSA between April 1 and September 30 of the upcoming contract year. ENSTAR must notify Hilcorp on or before March 1 of each contract year of the amount of additional summer gas it wants delivered and Hilcorp is obligated to deliver the gas. The additional summer storage gas is added to the firm annual contract quantity volumes and the base load gas and swing load gas volumes are recalculated. Hilcorp will make reasonable efforts to deliver the gas in such a way that it will be priced at the base load gas price.¹⁶

Discretionary Gas

ENSTAR may request discretionary gas, which is defined as gas other than emergency load gas that ENSTAR may request to purchase from Hilcorp in ENSTAR's sole discretion and which Hilcorp may sell to ENSTAR in Hilcorp's sole discretion.¹⁷ This provision allows ENSTAR to request gas beyond the contracted volumes established by the process in Section 2.3(A) and (B)(1)-(5) (and Hilcorp to provide that gas, if it is willing) at times and for reasons that are not the result of an "emergency" (as set out in the Consent Decree), and thus would not be billed as "Emergency Load Gas." This provision allows occasional additional gas purchases throughout the contract year in response to non-emergency needs.¹⁸ Volumes purchased as discretionary gas are added to the daily contract quantity for the day it was delivered and the total volume delivered on that day will be sold at the sales price in effect during the month in which it is delivered.¹⁹ Because the parties anticipate that the provision will be used intermittently in a manner that does not allow for planning like the contracted adjustability in the prior subsections, the provision does not provide for adjustments to the annual contract quantity.²⁰

Market Out and Market Return

The GSA recognizes the possibility that during the term of the contract commercial gas sales customers may buy gas from a third party sellers who would transport the gas to those customers over the ENSTAR system. Under the GSA ENSTAR may reduce the Annual Contract Quantity and the Daily Contract Quantity by the amount of gas sales lost. If commercial customers who buy gas from third party sellers again become gas sales customers of ENSTAR, ENSTAR will contact Hilcorp to purchase the increased volumes needed to serve the returning customers. There is no requirement that Hilcorp supply increased volumes but, if Hilcorp agrees to supply the additional gas, the Annual Contract Quantity and Daily Contract Quantity will be increased by the amount of gas needed by the returning customers.

¹⁶APL-12 GSA §2.3(B)(5); Correspondence from D. Dieckgraeff, filed August 9, 2013.

¹⁷APL-12 GSA at 5.

¹⁸Supplemental Filing, filed August 13, 2013.

¹⁹APL-12 GSA at §2.3(B)(6).

²⁰Supplemental Filing, filed August 13, 2013.

Price

Gas purchased between 2014 and 2017 under the APL-12 GSA is priced at the cap set in the Consent Decree.²¹ To establish the price for gas purchased in 2018, Hilcorp and ENSTAR agreed to use the 4% price escalator contained in the Consent Decree.²² The table below provides the sales price of the base load gas, swing load gas, and emergency gas for each contract year.²³

Contract Year	Pricing Period	Base Load Gas	Swing Load Gas	Emergency Load Gas
1	4/01/2014 through 12/31/2014	\$6.86	\$8.58	\$10.29
	1/01/2015 through 3/31/2015	\$7.13	\$8.91	\$10.70
2	4/01/2015 through 12/31/2015	\$7.13	\$8.91	\$10.70
	1/01/2016 through 3/31/2016	\$7.42	\$9.28	\$11.13
3	4/01/2016 through 12/31/2016	\$7.42	\$9.28	\$11.13
	1/01/2017 through 3/31/2017	\$7.72	\$9.65	\$11.58
4	4/01/2017 through 12/31/2017	\$7.72	\$9.65	\$11.58
	1/01/2018 through 3/31/2018	\$8.03	\$10.04	\$12.05

Cover Gas

The APL-12 GSA provides “cover” as a remedy for certain failures to perform under the terms of the GSA.²⁴ Cover means that if there is failure to deliver or take any quantities of gas pursuant to the GSA, the performing party shall use commercially reasonable efforts as follows: (i) if ENSTAR is the performing party, obtain replacement gas (including gas from its contracted storage inventory in CINGSA or, if gas is not available from storage, gas obtained by calling on electric utilities to alter their generation to allow ENSTAR access to additional gas), or (ii) If Hilcorp is the performing party, sell the untaken gas or, in Hilcorp’s sole discretion, inject some or all of the untaken gas into Hilcorp’s storage facilities and thereafter seek to sell the untaken gas injected into storage. The price or cost of the elected alternative must be reasonable for the Cook Inlet Area consistent with the amount of notice provided by the nonperforming party, the immediacy of ENSTAR’s gas consumption needs or Hilcorp’s gas sales requirements, as applicable, the quantities involved, the availability of storage and stored gas considering the amount of gas in storage and the time of year, and the anticipated length of failure by the nonperforming party.²⁵

Delivery Shortfall

If Hilcorp fails to sell and deliver (or make available for delivery) the applicable daily contract quantity, as provided for in Sections 2.3(D)(1) and 2.5, for such day (nominated volume) and such failure is not permitted by the GSA, the difference between the nominated value and the amount of gas actually delivered (or made

²¹Consent Decree at 11.

²²TA242-8 at 6, n.8.

²³APL-12 GSA at §7.1(A).

²⁴APL-12 GSA at §2.4.

²⁵APL-12 GSA at 3.

available for delivery) is called the delivery shortfall volume.²⁶

If Hilcorp fails to deliver gas, ENSTAR is entitled to cover for the shortfall amount by either: (1) purchasing the gas from a third party; (2) withdrawing additional gas from CINGSA and then later replacing that storage gas through purchases from a third party (if such gas is available); or (3) invoking the Gas Emergency Agreement which permits ENSTAR to ask electric generators to alter their generation strategy to make additional gas available to ENSTAR.²⁷

If ENSTAR purchases the gas from a third party, Hilcorp will reimburse ENSTAR the positive difference, if any, between the weighted average cost of the purchased gas and the sales price for the base load gas price for that year, times the volumes of cover gas purchased. The positive difference is limited to the base load gas price for the applicable year.

If ENSTAR withdraws the gas from storage, Hilcorp will reimburse ENSTAR the positive difference, if any, between the cost of gas withdrawn from storage and the sales price for the base load gas price for that year, times the volumes of cover gas purchased. If ENSTAR purchases gas from a third party to replace the gas it withdrew from storage, Hilcorp will reimburse ENSTAR the positive difference, if any, between the storage replacement gas and the sales price for the base load gas price for that year, times the volumes of cover gas purchased. The positive difference is limited to the base load gas price for the applicable year.

If ENSTAR calls on electric utilities for gas, Hilcorp will reimburse ENSTAR the positive difference, if any, between the costs of the interruption gas itself plus any interruption expenses, and the sales price for the base load gas price for that year, times the volumes of cover gas purchased. The positive difference is limited to the base load gas price for the applicable year.

If ENSTAR is not able to replace the delivery shortfall volumes within two months, Hilcorp will pay ENSTAR the base load gas sales price times the volumes of delivery shortfall gas that was not replaced through cover.²⁸

²⁶APL-12 GSA at §2.4(C).

²⁷TA242-4 at 5-6.

²⁸APL-12 GSA at §2.4(C); Supplemental Filing, filed August 2, 2013.

Exhibit F of the PL-12 GSA provides several examples, in narrative format, of cover gas if a delivery shortfall occurs.

Receipt Shortfall

If ENSTAR fails to purchase and take the applicable daily contract quantity, as provided for in Sections 2.3(D)(1) and 2.5, for such day (nominated volume) and such failure is not excused or permitted by the GSA, the difference between the nominated value and the amount of gas actually taken is called the receipt shortfall volume.²⁹

Should ENSTAR fail to purchase gas, Hilcorp's cover remedy is to make commercially reasonable efforts to sell the untaken gas, either by selling it immediately or by injecting it into its proprietary storage facilities, and trying to sell the gas later. Hilcorp may recover from ENSTAR the positive difference, if any, between the weighted average sales price received by Hilcorp for such gas and the sales price for base load gas applicable that year, multiplied by the volume of replacement gas sold, up to the price for base gas applicable that year. If Hilcorp is not able to sell the receipt shortfall volumes within two months, ENSTAR will reimburse Hilcorp the base load gas sales price times the amount volumes of receipt shortfall not delivered through cover.³⁰ Exhibit G of the APL-12 GSA provides several examples, in narrative format, of cover gas if a receipt shortfall occurs.

Transportation

ENSTAR is responsible for transportation to, at, from, and after delivery to a delivery point, including reimbursement for transportation costs initially paid by Hilcorp.³¹

Public Interest

ENSTAR³² asserts that the Alaska Legislature articulated the standard for review of gas supply contracts in AS 42.05.141(d), which is as follows:

When considering whether the approval of a rate or a gas supply contract proposed by a utility to provide a reliable supply of gas for a reasonable price is in the public interest, the commission shall:

(1) recognize the public benefits of allowing a utility to negotiate different pricing mechanisms with different gas suppliers and to maintain a diversified portfolio of gas supply contracts to protect customers from the risks of inadequate supply or excessive cost that may arise from a single pricing mechanism; and

(2) consider whether a utility could meet its responsibility to the public in a timely manner and without undue risk to the public if the commission fails to approve a rate or a gas supply contract proposed by the utility.

ENSTAR argues that approval of the GSA is in the public interest for a number of reasons. First, approval would allow ENSTAR to purchase a reliable supply of gas. Second, it would that gas purchased by ENSTAR is at a reasonable price. Third, it would satisfy the remaining unmet need of ENSTAR's customers over four years. And

²⁹APL-12 GSA at §2.4(D).

³⁰TA 242-4 at 6 and APL-12 GSA at §2.4(D).

³¹APL-12 GSA at §7.3(A).

³²TA242-4 at 8.

fourth, the pricing terms of the GSA meets the diversified portfolio with different pricing mechanisms. ENSTAR presented each of these arguments as follows:

- 1) *Afford ENSTAR the opportunity to purchase a newly discovered supply of gas at a reasonable price.* While Hilcorp is a relatively recent entrant in the Cook Inlet market, it has proven to be a reasonable and reliable supplier of natural gas to ENSTAR. ENSTAR has purchased natural gas supplied by Hilcorp under several contracts (APL-4, APL-8, APL-9, APL-10, and the Union contract) since Hilcorp first began its Cook Inlet operations in December 2011. ENSTAR's customers have benefited from reliable deliveries by Hilcorp under those contracts. Hilcorp is the third-largest privately held exploration and production company in the United States and is an established producer with a history of performance in the Inlet that indicates it is qualified to undertake and meet the obligations contained in the GSA.
- 2) *Ensures that ENSTAR's customers will enjoy a reasonable price.* The Superior Court approved the Consent Decree in January 2013. The Consent Decree includes price caps on "Base Load," "Swing Load," and "Emergency Load" Gas. The proposed GSA pricing strictly adheres to the terms of the Consent Decree and as a result, ENSTAR argues that these prices are reasonable.
- 3) *Satisfies the unmet needs of ENSTAR's customers.* The proposed GSA is intended to meet all of ENSTAR's outstanding gas requirements through the first quarter of 2018, and to do so in a way that ensures the flexibility to adapt to changes in ENSTAR's customers' demand due to weather or any Market Out volumes. If the Commission approves the APL-12 GSA, as well as the other two multi-year contracts currently under review in TA239-4 and 241-4, ENSTAR will have contracted for all of its gas supply needs through the first quarter of 2018. In the intervening years, ENSTAR will closely monitor Cook Inlet production and seek appropriate sources for gas supply beyond 2018.
- 4) *The pricing terms of the GSA meets the diversified portfolio with different pricing mechanisms.* As noted in several places in the TA Letter, the GSA's pricing is governed by the Consent Decree, which sets prices for Base Load Gas, Swing Load Gas and Emergency Gas and uses a four percent per year escalator over five years. The majority of ENSTAR's other gas is priced using energy-based indices. APL-4, which makes up approximately 15 percent of ENSTAR's projected purchases during the term of APL-12, is priced using an oil-based index. The "legacy" Hilcorp (Unocal) contract, which makes up approximately 25 percent of ENSTAR's projected purchases during the term of APL-12, is priced using a Henry Hub natural gas-based index. Further, as noted on page 3 of the TA Letter, ENSTAR issued a Request for Proposals ("RFP") to ten local producers, potential producers, and potential manufacturers soliciting their interest in and ability to meet ENSTAR's near-term gas supply needs. The three other supply contracts with two different gas suppliers that ENSTAR has recently submitted to the RCA for approval demonstrate ENSTAR's attempt to further diversify its gas portfolio. In the case of APL-12, no other supplier was able to provide the proven reserves³³ behind pipe and the deliverability ENSTAR required in these years to meet the needs of its customers.³⁴

The Consent Decree provides that Hilcorp will use commercially reasonable efforts to increase the production and development of natural gas from Hilcorp's Cook Inlet Basin

³³Supplemental Filing, filed August 8, 2013.

³⁴TA242-4 at 9-10; Supplemental Filing, filed August 12, 2013.

Properties. As such, approval of the GSA allows for what appears to be a reliable source of gas from a well-established credible producer. The GSA also satisfies ENSTAR's unmet needs through the first quarter of 2018. The addition of the APL-12 GSA allows ENSTAR to maintain a somewhat diversified portfolio of gas supply contracts, as it currently has long term GSAs with other producers (Anchor Point Energy, Buccaneer, and ConocoPhillips) which also contain different pricing mechanisms. Most important to our consideration, without our approval of the APL-12 GSA ENSTAR's customers could potentially be at risk of inadequate supply. For these reasons we believe that it is in the public interest to approve the APL-12 GSA. Also important to us, the GSA allows ENSTAR to reduce the quantity it is required to buy from Hilcorp by the amount ENSTAR's demand is reduced if some commercial customers cease to buy gas from ENSTAR. Our review and approval of the GSA rests in part on our understanding that a reduction in contract quantities due to loss of commercial gas sales customers is not restricted by the percent limitations on contract quantities specified in sections 2.3(A) and (B) of the GSA. On the point, ENSTAR observed in its TA Letter (pg.4), that it can reduce its annual and daily quantities if market out considerations develop. Hilcorp did not comment on ENSTAR's TA letter.

Tariff Sheets

ENSTAR filed revised Tariff Sheet Nos. 89 and 221, adding a line for the APL-12 GSA. We approve Tariff Sheet Nos. 89 and 221, both with an effective date of September 9, 2013.

Conclusion

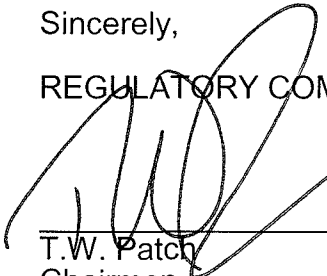
We grant the motion to accept reply comments. We find that approval of the APL-12 GSA is in the public interest. We approve the APL-12 GSA, approve the inclusion of the cost of gas purchased under the APL-12 GSA in the calculation of ENSTAR's gas cost adjustment, and approve Tariff Sheet Nos. 89 and 221 filed in TA242-4. In the event the parties to this contract agree to an amendment, the contract as amended shall be submitted to the commission for review and approval not later than 30 days after execution of any amendment. Enclosed is a validated copy of the APL-12 GSA. Also enclosed are validated copies of Tariff Sheet Nos. 89 and 221, filed in TA242-4 on July 24, 2013.

BY DIRECTION THE COMMISSION

(Commissioner Norman Rokeberg separate concurrence on the approval of the gas supply contract and dissenting on the form and content of the order in a separate statement.)

Sincerely,

REGULATORY COMMISSION OF ALASKA



T.W. Patch
Chairman



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Sean Parnell, Governor
Susan K. Bell, Commissioner
T.W. Patch, Chairman

Regulatory Commission of Alaska

Date: September 9, 2013

File: TA242-4
LO # L1300428

Concurring Statement of Commissioner Norman Rokeberg

I concur in the Regulatory Commission of Alaska's (Commission) approval of the Gas Sale and Purchase Agreement¹ between Hilcorp Alaska, LLC (Hilcorp) and Alaska Pipeline Company (APC).² ENSTAR and other public utilities must procure natural gas to meet the fuel supply needs of Railbelt consumers. In light of the long-range forecasts, recent studies,³ emergency planning,⁴ and the expectations of supply shortages only a few months ago,^{5, 6} it is understandable that ENSTAR and other utilities⁷ sought and entered into gas sales agreements (GSAs) through March 31, 2018, which provide for their unmet requirements.⁸ In approving APL-12, the Commission finds that the contract provisions for deliverability and a reliable supply of gas⁹ are necessary and serve the public interest.

¹Gas Sale Purchase Agreement Between Hilcorp Alaska, LLC and Alaska Pipeline Company APL-12, filed on July 24, 2013, (APL-12). APL-12 was filed with Correspondence from Daniel Dieckgraef as TA242-4.

²The Commission has historically regulated APC and ENSTAR as a single entity. APC, not ENSTAR, is the party to the proposed GSA. The use of the name "ENSTAR" is intended to include both APC and ENSTAR, unless the context clearly requires otherwise.

³Peter Stokes, PE, *Cook Inlet Gas Study 2012* Petrotechnical Resources of Alaska, October 2012.

⁴City, *Utilities Continue Emergency Watch Campaign, Public Awareness for Energy Awareness*, Press Release, October 30, 2012, available at http://www.muni.org/Departments/Mayor/PressReleases/Pages/CITY_UTILITIESCONTINUEENERGYWATCH.aspx

⁵For example, correspondence dated April 4 and 5th, 2013, from Railbelt Utilities to Governor Parnell requesting 12.3 million in State Funding to study Cook Inlet LNG importation.

⁶Tim Bradner, *Cook Inlet Gas Shortage May Just Turn Into Surplus*, Anchorage Daily News, August 25, 2013.

⁷Correspondence from E. J. Griffith, filed August 16, 2013, at 4.

⁸Chugach Electric Association (see TA377-8) and Matanuska Electric Association (see U-13-160).

⁹Kristen Nelson, *No LNG Needed*, Petroleum News, June 9, 2013.

However, I am concerned about some of the terms and conditions of APL-12. Those terms and conditions, taken together with the volumes of gas also associated with the GSAs between Hilcorp and both Chugach Electric Association (Chugach) and Matanuska Electric Association (MEA)¹⁰ from a single supplier for such a lengthy period of time work to impede investment in the Cook Inlet, particularly by smaller, less-well capitalized independent exploration and production (E&P) companies.¹¹ Alaskan's health safety and economic vitality are dependent on a reliable, diverse supply of affordable natural gas in the long-term. The Legislature has long been concerned about the issues associated with a diminution of Cook Inlet natural gas supply and the number of exploration companies that would become gas suppliers.

Commencing in 1993, the Legislature has enacted some twenty-one laws to create incentives and encourage exploration and production of natural gas in the Cook Inlet Sedimentary Basin. A list of this some of this legislation is attached as Appendix A,¹² which lists bills on Royalty modification; Income and Production Tax Credits; Production Tax Ceiling; gas storage incentives; discovery credits, as well as, the jack up rig investment of \$24 million by AIDEA, all of which cost the State untold millions of dollars in direct appropriations or forgone revenue. The totals are difficult to calculate due to the lack of data because of confidentiality concerns.¹³

This entire body of enacted law constitutes the public policy of the State of Alaska which is to incent exploration and production in Cook Inlet to meet the energy needs of Alaska. Among the laws is AS 42.05.141(d), refining the powers and duties of this Commission when considering gas supply contracts.¹⁴ This statute establishes guidelines for action on GSAs by the Commission and provides for "protect[ing] customers from the risks of inadequate supply or excess cost that may arise from a single price mechanism;" but does not adequately reflect the emphasis the legislature has consistently placed on encouraging the discovery and development of new natural gas resources. Consequently, while the utilities seek to establish AS 42.05.141(d) as a touchstone for GSA approval. I believe our actions must encompass the totality of public policy as listed in Appendix A.

¹⁰ See n.8.

¹¹ See Correspondence from M. Landt; Correspondence from J.R. Wilcox; and Correspondence from Damon Kade, all filed August 22, 2013.

¹² See Appendix A.

¹³ As an example, a recent press release by Buccaneer Energy Limited stated they had received a total of \$30.5 million since 2010 with an additional \$11.2 million accrued under the ACES program for \$41.7 million total for a single operator. U.S. \$14.2 MILLION ACES REBATE RECEIVED, published August 23, 2013, available at <http://www.buccaneerenergy.com/investor-relations>

¹⁴ HB 280 16 SLA 2010, Sponsored by Rep Hawker and Chenault (Gas Storage Facility; the RCA, RAPA, etc.).

The Consent Decree enabling the consolidation of Marathon Oil Company's Cook Inlet Assets with those of Chevron, and Unocal under Hilcorp ownership, resulting from the State of Alaska's anti-trust investigation and complaint established price caps for all of Hilcorp's available uncommitted gas sold through 2017, effective January 1, 2013.¹⁵ This enabled Hilcorp to invest \$300 million in 2013 on top of the \$238 million 2012 CAPEX investment on the previously acquired assets of Chevron and Unocal in Cook Inlet.¹⁶ Hilcorp's extraordinary efforts and success has allowed multiple contracts to be executed and reduced the anxiety of South Central utilities and their customers.

It is my opinion that the combination of the Chugach, ENSTAR and MEA GSAs (Combined GSAs) may have the unintended consequence of halting progress made by decades of legislative action. South Central Alaska is on the threshold of witnessing the beginning of a truly competitive market for natural gas. For the first time since the earliest creation of natural gas production in the Cook Inlet when the "red sky"¹⁷ of gas flaring ceased, when industrial uses commenced and long term utility contracts were the norm, a number of oil and gas companies have recently made substantial investments in natural gas exploration with the assistance of state incentives.

By my count, ten companies¹⁸ are currently engaged in Cook Inlet E & P. With two jack-up rigs working and a number of other wells being drilled and worked over, the beginning of a competitive market is forming. The three E&P companies¹⁹ that offered comments on APL-12 believe the Combined GSAs have "effectively locked up the utility market."²⁰ Buccaneer, in its comments, observed that the Combined GSAs "will ultimately accelerate the reduction in the number of active explorers and producers in

¹⁵Both the Complaint and Consent Decree are filed as part of *State of Alaska vs. Hilcorp Alaska, LLC*, et al. 3AN-12-10858CI.

¹⁶Kristen Nelson, *No LNG Needed*, Petroleum News, June 9, 2013.

¹⁷The term "red sky" refers to the reddish orange color reflecting off low-ceiling overcast night skies in northern Cook Inlet in the 1960's.

¹⁸Apache Corporation, Armstrong Oil & Gas, Aurora Gas, LLC, Buccaneer, Conoco Phillips, Cook Inlet Energy, Furie Operating Alaska, LLC, Hilcorp, Municipality of Anchorage, d/b/a, Municipal Light and Power, Nordaq Energy, and XTO Energy.

¹⁹Buccaneer, Cook Inlet Energy, and Furie Operating Alaska, LLC, See n. 12.

²⁰Correspondence from Mark Landt, filed August 22, 2013.

the inlet, negating the efforts by the State of Alaska and the Legislature to having a robust and revitalized Cook Inlet gas market.

Moreover, the Consent Decree has assisted in the concentration of gas suppliers into an oligopoly of fewer sellers who produce an identical (or almost identical) product.²¹ For example by 2017, Hilcorp will supply 87% of ENSTAR's requirements and 91% of the three combined GSA's.²² In addition TA331-121 filed on 9/3/2013, includes an informational filing by Municipal Light & Power (ML&P) of a new GSA with Conoco Phillips Alaska Natural Gas Corporation et.al., to provide all of ML&P's unmet requirements through 12/31/2019.

These GSA's constitute a barrier to entry in an imbalanced market place swinging from a lack of supply to a substantially diminished demand. Thereby further constraining market access to the smaller independents impairing the Cook Inlet market Equilibrium.

W.C. Barron, Director of the Department of Natural Resource's Division of Oil & Gas, stated:

"The DNR is an agency within the executive branch of the State responsible for the administration of state lands which includes promoting the maximization of competition in the oil and gas industry (see AS 35.05.180(a)(1))."

"For an exploration and production company, market access is key to developing additional resource accumulations and extending pipeline infrastructure. Having more companies engaged in market activity helps foster competition, which generally promotes additional development and further deliverability, all of which helps to meet market demand. We applaud efforts of Buccaneer, Cook Inlet Energy and Aurora to explore for, develop, and market natural gas in Cook Inlet; we are pleased Enstar continues to try to secure gas supply from an increased number of Cook Inlet producers."²³

Given the number of reported finds of new or unproduced gas, albeit much unproven, it is unfortunate that the combined GSA's did not accommodate the potential for future delivery in the contract provisions, for example, staggered terms for a small percentage

²¹Paul Samuelson, *Economics, an Introductory Analysis*, 518 (Fifth Edition)(1961).

²²45.74 BCF divided by 50.44 = 90.7%. Note: a calculation including Fairbanks Natural Gas, Homer Electric Association, Golden Valley Electric Association/Chugach and the ML&P/ConocoPhillips. BRU gas would be slightly lower.

²³Correspondence from W.C. Barron filed September 12, 2011, re TA211-4 and TA 212-4.

carve out; a buyer's option similar to the BUC-III/Enstar GSA right to purchase an additional volume up to a maximum of 31.5 Bcf or purchase of non-firm gas by agreement or a gas bid system.²⁴

Among the solutions to the looming problem of the explorers' ability to sell their gas are an expanded market place, such as restart of the LNG export facility or the Agrium Corporation fertilizer plant which closed in 2007 due to gas shortages²⁵ or other industrial uses made feasible by an ANS gas pipeline.

Another alternative is the creation of third party commercial sales directly from the producer to the buyer of gas transported by ENSTAR.²⁶ This occurred in the first decade of this century when Aurora Gas, LLC conducted this type of sales activity attracting a number of clients and during a period of 2008-2009 made a disorderly withdrawal from the market causing significant problems to customers and Enstar. The Commission has concerns regarding the history of this type of activity. ENSTAR has stated that the "market out" provisions of APL-12 are adequate to meet this type of volumetric impact.²⁷ I trust that is correct due to the potential negative impact to residential ratepayers if GSA's condition were otherwise. The market dynamic may spawn new gas supplies individually or collectively.

The price caps set forth in the Consent Decree have become a benchmark and de facto "price mechanism" for all the GSA's filed with the Commission this year. The primary variable has been transportation and receiving points. Assistant Attorney General Ed Sniffen explained at a public meeting of the RCA on December 12, 2012, that the price caps started at \$6.60 Mcf and escalated four percent a year beginning in 2014 which represents an average of all currently existing contracts in Cook Inlet, excluding "the outliers, the contracts indexed to oil prices [and then some] indexed to Henry Hub."²⁸

The ConocoPhillips/ML&P GSA uses the consent Decree prices from 2014 through 2017 (\$7.72) and increases it to \$8.78 Mcf or 13.73 percent in 2018 and \$9.25 Mcf or 5.35 percent in 2019.²⁹

ML&P believes the prices for 2018 and 2019 "are reasonable in light of ML&P's expectation of market prices that will exist in those two years." One could make the case that the result of the Consent Decree and subsequent GSA's is the scraping of

²⁴Correspondence from Daniel Dieckgraeff filed July 24, 2013 re TA39-4 at 10.

²⁵Tim Bradner, *Cook Inlet Gas Shortage May Just Turn Into Surplus*, Anchorage Daily News, August 25, 2013

²⁶See Correspondence from M. Landt; Correspondence from J.R. Wilcox; and Correspondence from Damon Kade, all filed August 22, 2013.

²⁷Correspondence from Daniel Dieckgraeff filed July 24, 2013 re TA242-4 at 10.

²⁸Tr. 4-45.

²⁹Correspondence from Dean Thompson filed September 3, 2013 re TA331-121.

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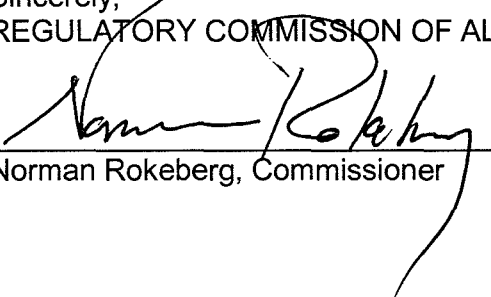
Website: www.rca.alaska.gov

“different pricing mechanisms” required by .141(d). If use of pricing indexes are “outliers” and arm’s length bargaining yields 40.2% increase in base rates in 6 years (or 6.7% nominal) ³⁰ we may have a dysfunctional market which is imbalanced due to lack of competition in danger of creeping inflation. Moreover, the Consent Decree price caps create a “stair-step” pricing pattern that has been continued and significantly raised by the ConocoPhillips/ML&P GSA. This is inconsistent with the intent of AS 42.05.141(d) as it discounts other pricing mechanisms and encourages adoption of the Consent Decree benchmark as the default pricing mechanism. But, I was not at the bargaining table and do not know the nuances or dynamic of the negotiation, in spite of my experience of negotiating hundred of contracts, many with petroleum companies..

Railbelt consumers pay the highest price for natural gas in North America. They are represented by legislators who have worked for years to encourage development in Cook Inlet natural gas and invested substantial amounts of the state treasury to keep the “drill bit turning to the right.” Railbelt consumers are now confronted with the possibility of escalating prices when several explorers have found natural gas but will be hindered in bringing it to the market.

I congratulate Hilcorp for its rapid success in reinvigorating the large number of legacy fields in Cook Inlet. Hilcorp is justified in seeking to maximize its return on investment. The commission does not regulate producers. I remain concerned about the chilling effects on competition, the lack of diversity of the utility portfolios and the ultimate cost to the citizens of Alaska.

Sincerely,
REGULATORY COMMISSION OF ALASKA


Norman Rokeberg, Commissioner

³⁰ \$9.25 less \$6.60 = \$2.65 divided by \$6.60 = 40.2% divided by 6 years = 6.7% nominal

Appendix A

Legislation enacted enhancing Oil & Gas Development in the Cook Inlet since 1994

28th Legislature (2013-2014)

SB 21 Chapter 10 SLA 13 (Governor) "More Alaskan Production Act"
Oil & Gas Production Tax modifications

HB 198 Chapter 20 SLA 13 (L & C)
Oil & Gas lease extensions

HB 129 Chapter 13 SLA 13 (Governor)
Area Wide leasing modification

27th Legislature (2011-2012) -None

26th Legislature (2009-2010)

HB 280 Chapter 16 SLA 10 (Rep. Hawker and Chenault) Gas Storage facility
credit/RCA/AG/production tax credit

SB 309 Chapter 15 SLA 10 (RLS by Request)
Increases exploration and development of incentive tax credits

25th Legislature (2007-2008)

HB 229 Chapter 65 SLA 07 (Rep Chenault)
Kenai gasification project

24th Legislature (2005-2006)

HB 286 Chapter 81 SLA 05 (Rep. Samuels)
Amend Cook Inlet royalty and severance tax credits

HCR 7 Legislative Resolve 12 (Rep. Olsen)
Review of Cook Inlet platform abandonment regulations

HB 3001 Chapter 2 TSSLA 06 (Governor)
"The PPT" – Oil & Gas severance credits (Rep. Rokeberg drafted the Cook Inlet
provisions capping severance taxes and granting credits).

23rd Legislature (2004-2005)

HB 69 Chapter 45 SLA 03 (Rep. Kohring)
Shallow natural gas leasing

HB 57 Chapter 58 SLA 03 (Rep. Chenault)
Gas royalty on certain value added products

SB 185 Chapter 59 SLA 03 (Sen. Wagoner)
Royalty reduction on oil from submerged Cook Inlet land and production taxes

HB 61 Chapter 61 SLA 03 (Rep. Chenault)
Exploration and development tax credits

HB 28 Chapter 72 SLA 03 (Rep. Rokeberg & Kohring)
Royalty reductions for marginal oil and gas fields (“180 (j)”)

22nd Legislature (2001-2002)

SB 319 Chapter 49 SLA 02 (Sen. Torgerson)
Shallow natural gas

HB 307 Chapter 139 SLA 02 (Rep. Fate)
Extension of Exploration tax credit

21st Legislature (1999-2000) None

20th Legislature (1997-1998) - None

19th Legislature (1995-1996)

HB 207 Chapter 85 SLA 95 (Governor)
Adjustment to oil & gas royalties
(Modified by Chapter 72 SLA 03)

SB 112 Chapter 53 SLA 96 (Resources)
Discovery well royalty credit in Cook Inlet

HB 388 Chapter 138 SLA 96 (Rep. Rokeberg)
Area wide leasing – annually

HB 394 Chapter 140 SLA 96 (Rep. Ogan & Rokeberg)
Shallow gas leasing

18th Legislature (1993 – 1995)

SB 151 39 SLA 94 (Governor)
Oil & gas exploration credits

Note: See the Division of Oil & Gas State of Alaska Department of Natural Resources, homepage for statutory citations and description of incentives.

http://dog.dnr.alaska.gov/Commercial/Incentives_grid.htm

<http://dog.dnr.alaska.gov/Commercial/Description.htm>

Compiled by Commissioner Norman Rokeberg, September 9, 2013

RCA No. 4 Nineteenth RevisionSheet No. 89CancellingEighteenth RevisionSheet No. 89**RECEIVED**

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STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA**ENSTAR Natural Gas Company**§708e Determination of Gas Cost Adjustment(1) Current Cost of System Base Gas Supply:

	<u>Approved Base Supply Contracts</u>	<u>Estimated Purchases*</u>	<u>Effective Rate on (date)</u>	<u>Total (A x B)</u>	
		(A)	(B)	(C)	
a)	Hilcorp APL-4	Mcf	\$/Mcf	\$	
b)	Hilcorp Alaska	Mcf	\$/Mcf	\$	
c)	Anchor Point Energy	Mcf	\$/Mcf	\$	
d)	Buccaneer Alaska BUC-1	Mcf	\$/Mcf	\$	
e)	Buccaneer Alaska BUC-3	Mcf	\$/Mcf	\$	
f)	ConocoPhillips CPAI-5	Mcf	\$/Mcf	\$	
g)	Hilcorp APL-12	Mcf	\$/Mcf	\$	
h)	System Base Gas Supply	Mcf		\$	N
i)	Current Average Cost of System Base Gas Supply (C/A)		\$/Mcf		T

(2) Additional Gas Supply:

a)	Short Term Supply Contracts	Mcf	\$/Mcf	\$	
b)	ConocoPhillips Boil-Off Gas	Mcf	\$/Mcf	\$	
c)	Undetermined Supply	Mcf	\$/Mcf	\$	
d)	Total Additional Gas Supply	Mcf		\$	

(3)	Gas Withdrawn From Storage	Mcf	\$/Mcf	\$	
(4)	Transportation Fees			\$	

(5)	Total Current Cost of System Gas Supply (1h plus 2d,3 & 4)	Mcf		\$	T
-----	--	-----	--	----	---

(6) Current Average Cost of System Gas Supply (C/A) \$/Mcf

(7) Estimated Balance of Gas Cost Balance Account at _____, _____.
 (December 31st for the annual revision, otherwise the quarter end
 balance for the quarter immediately preceding the effective date
 (negative if credit balance)

(8)	Other Adjustments			\$	
(9)	Estimated Stored Gas Carrying Costs Pursuant to 708c(5)			\$	
(10)	Total of (5), (7), (8) and (9) above			\$	
(11)	Mcf Sales *				
(12)	Weighted Average Unit Cost of Gas and Gas Cost Adjustment (10 divided by 11)			\$	/Mcf

* For a __ month period beginning _____, _____.

Tariff Advice No. 242-4

Effective September 9, 2013Issued By: **ENSTAR Natural Gas Company**, A Division of SEMCO ENERGY, Inc.

By:

Daniel M. Dieckgraeff

Title: Director of Rates and Regulatory Affairs

RCA No. 4 31th Revision
Cancelling
30th Revision

Sheet No. 221

Sheet No. 221

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**STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA**



ENSTAR Natural Gas Company

§2301 Determination of Gas Cost Adjustment

(1) Current Cost of System Base Gas Supply:

<u>Approved Base Supply Contracts</u>	<u>Estimated Purchases*</u> (A)	<u>Effective Rate on 7/1/2013</u> (B)	<u>Total (A x B)</u> (C)	
a) Hilcorp APL-4	550,000 Mcf	\$ 7.5420/Mcf	\$ 4,148,000	
b) Hilcorp Alaska	1,815,000 Mcf	\$ 4.2223/Mcf	\$ 7,663,000	
c) Anchor Point Energy	605,000 Mcf	\$ 8.0810/Mcf	\$ 4,889,000	
d) Buccaneer Alaska BUC-1	198,000 Mcf	\$ 5.8030/Mcf	\$ 1,149,000	
e) Buccaneer Alaska BUC-3	0 Mcf	\$ 0.0000 /Mcf	\$ 0	
f) ConocoPhillips CPAI-5	0 Mcf	\$ /Mcf	\$ 0	
g) Hilcorp APL-12	0 Mcf	\$ /Mcf	\$ 0	N
h) System Base Gas Supply	3,168,000 Mcf		\$ 17,849,000	T
i) Current Average Cost of System Base Gas Supply (C/A)		\$ 5.6342/Mcf		T

(2) Additional Gas Supply:

a) Short Term Supply Contracts	408,000 Mcf	\$ 6.6887/Mcf	\$ 2,729,000
b) ConocoPhillips Boil-Off Gas	0 Mcf	\$ 0.0000 /Mcf	\$ 0
c) Undetermined Supply	0 Mcf	\$ 0.0000 /Mcf	\$ 0
d) Total Additional Gas Supply	408,000 Mcf		\$ 2,729,000

(3) Gas Withdrawn From Storage	0 Mcf	\$ 0.0000/Mcf	\$ 0
(4) Transportation Fees			\$ 551,000

(5) Total Current Cost of System Gas Supply (1h plus 2d,3 & 4)	3,576,000 Mcf		\$ 21,129,000	T
--	---------------	--	---------------	---

(6) Current Average Cost of System Gas Supply (C/A)	\$ 5.9086/Mcf		
---	---------------	--	--

(7) Estimated Balance of Gas Cost Balance Account at June 30, 2013. (negative if credit balance)	-\$ 3,153,000
---	---------------

(8) Other Adjustments	\$ 0
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(9) Estimated Stored Gas Carrying Costs Pursuant to 708c(5)	\$ 573,000
---	------------

(10) Total of (5), (7), (8) and (9) above	\$ 18,549,000
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(11) Mcf Sales *	3,570,000
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(12) Weighted Average Unit Cost of Gas and Gas Cost Adjustment (10 divided by 11)	\$ 5.19580/Mcf
--	----------------

* For a 3 month period beginning July 1, 2013.

Tariff Advice No. 242-4

Effective September 9, 2013

Issued By: **ENSTAR Natural Gas Company**, A Division of SEMCO ENERGY, Inc

By:
Daniel M. Dieckgraeff

Title: Director of Rates and Regulatory Affairs

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**STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA**

GAS SALE AND PURCHASE AGREEMENT

BETWEEN

HILCORP ALASKA, LLC

AND

ALASKA PIPELINE COMPANY

APL-12

Effective Date: July 1, 2013

Delivery Commencement Date: April 1, 2014

Termination Date: March 31, 2018

JUL 24 2013

STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA

GAS SALE AND PURCHASE AGREEMENT

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JUL 24 2013

STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA**GAS SALE AND PURCHASE AGREEMENT**

This GAS SALE AND PURCHASE AGREEMENT ("Agreement") is made by Hilcorp Alaska, LLC ("Seller"), a Delaware limited liability company, with offices located at 3800 Centerpoint Drive, Suite 100, Anchorage, Alaska 99503, and Alaska Pipeline Company ("Buyer"), an Alaska corporation and wholly owned subsidiary of SEMCO Energy, Inc., with offices located at 3000 Spenard Road, Anchorage, AK 99503, collectively referred to as "Parties" and individually as "Party," dated as of July 1, 2013 (the "Effective Date").

RECITALS

- A. Seller owns, controls, or has the right to dispose of Natural Gas produced from lands located in the Cook Inlet Area of Alaska.
- B. Seller has acquired substantially all of Marathon's assets in the Cook Inlet Area. In connection with this transaction, the State of Alaska and Seller entered into a Consent Decree dated November 7, 2012, which was approved by the Superior Court on January 17, 2013, in Case No. 3AN-12-10858 CIV ("Consent Decree"). The Consent Decree imposes certain terms under which Seller must market its gas produced in the Cook Inlet Area through December 31, 2017.
- C. Buyer is a public utility that holds Certificate No. 141 from the Regulatory Commission of Alaska ("RCA"). Buyer, and its public utility affiliate ENSTAR Natural Gas Company, provide natural gas service to the Municipality of Anchorage and portions of the Matanuska-Susitna and Kenai Peninsula Boroughs. Buyer desires to purchase Gas to meet the needs of ENSTAR's customers.
- D. Seller wishes to sell Gas to Buyer on a Firm basis for four Contract Years.
- E. In addition to Firm Gas, Buyer may desire to purchase Gas for the purpose of handling short-term extraordinary or emergency Gas supply needs of Buyer. Any such purchase of Gas must comply with the Consent Decree and this Agreement.
- F. Seller and Buyer adopt the terms and conditions set forth herein to govern this transaction.

AGREEMENT**1. DEFINITIONS; INTERPRETATION; EXHIBITS.****1.1 Definitions.** The following definitions apply to this Agreement:

"1988 Marathon – APL GSA" means the Gas Purchase Agreement between Marathon Oil Company and Alaska Pipeline Company dated May 1, 1988, and approved by the RCA in Docket No. U-88-49, as amended.

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“2000 Union Oil – APL GSA” means the Gas Sales Agreement between Union Oil Company of California and Alaska Pipeline Company, dated November 17, 2000, and approved by the RCA in Docket No. U-01-7, as amended.

“ACH” has the meaning set forth in Section 8.2.

“Additional Summer Storage Gas” has the meaning set forth in Section 2.3(B)(5).

“Agreement” has the meaning set forth in the Preamble.

“Alaska Clock Time” or “ACT” means Alaska Daylight Savings Time when Daylight Savings Time is in effect and Alaska Standard Time when Daylight Saving Time is not in effect.

“Alaska Pipeline Company” has the meaning set forth in the Preamble.

“Annual Contract Quantity” means the volume of Gas required to be delivered and sold by Seller and received and purchased by Buyer during a Contract Year during the Term of this Agreement as set forth in Section 2.3.

“Arbitration Act” has the meaning set forth in Section 14.1.

“Average Daily Contract Quantity” means the average volume of Gas which would be sold and purchased on any given Day during a Contract Year if the applicable Annual Contract Quantity were delivered evenly on each Day throughout the Contract Year. The Average Daily Contract Quantity is reduced by 4.2% for the Day on which local time changes from Standard Time to Daylight Savings Time and increased by 4.2% for the Day on which local time changes from Daylight Savings Time to Standard Time.

“Base Load Gas” means the volume of Gas delivered on a Day of the Contract Year which is equal to or less than Average Daily Contract Quantity.

“Base Load Gas Charge” means the Monthly charge for Base Load Gas calculated pursuant to Section 7.1(C).

“Base Load Gas Volume” has the meaning set forth in Section 7.1(B).

“BTU” means British Thermal Unit, which is the amount of energy needed to heat one pound of water by one degree Fahrenheit.

“Business Day” means a Day on which Buyer’s offices at 3000 Spenard Road, Anchorage, Alaska, are open for retail business.

“Buyer” has the meaning set forth in the Preamble.

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“Buyer’s Tariff” means the tariff of Buyer’s affiliate, ENSTAR Natural Gas Company, on file with and approved by the RCA, as periodically revised or amended.

“Category” means the nature of the Gas sold and purchased under this Agreement. The Categories are Base Load Gas, Swing Load Gas, and Emergency Load Gas.

“CINGSA” means the Natural Gas storage facility owned by Cook Inlet Natural Gas Storage Alaska, LLC.

“CINGSA Gas Substitution” has the meaning set forth in Section 2.4(C)(1).

“Claim” means a claim, suit, liability, loss, demand, damages or cause of action by a third party for physical damage to property, bodily injury or death (including recoverable legal counsel fees and costs of litigation of the party asserting the Claim) arising from the physical operations of a Party, whether based in contract, tort, strict liability or otherwise. “Claim” does not include a claim based upon, arising from or related to the failure or refusal of Seller to deliver Gas or the failure or refusal of Buyer to receive Gas under this Agreement, for which the sole recourse and remedy is set forth in Section 2.4.

“Consent Decree” has the meaning set forth in Recital B.

“Continuous Rate” means a continuous rate of Gas delivery without significant deviation, which rate shall be calculated by dividing the volume per Day by 24 hours. For example, a rate of 3 MMcfpd will be delivered at a Continuous Rate of approximately 125 Mcf per hour without significant deviation.

“Contract Year” means a period beginning on April 1 at 00:00 and ending on the following March 31 at 24:00.

“Cook Inlet Area” means that region of Alaska bordered in red on the map which comprises Exhibit A.

“Cook Inlet Gas Distribution System” means the system of Gas transmission and distribution pipelines located in and around the Cook Inlet Area including pipelines owned by Alaska Pipeline Company and Hilcorp Alaska, LLC.

“Cover,” as referred to in Section 2.4, means that if there is failure to deliver or take any quantity of Gas pursuant to this Agreement (other than as excused or permitted by this Agreement), then the performing Party shall use commercially reasonable efforts as follows: (i) If Buyer is the performing Party, obtain replacement Gas (including Gas from its contracted storage inventory in CINGSA or, if Gas is not available from storage, Gas obtained by calling on electric

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utilities to alter their generation to allow Buyer access to additional Gas), or (ii) If Seller is the performing party, sell the untaken Gas or, in Seller's sole discretion, inject some or all of the untaken Gas into Seller's storage facilities and thereafter seek to sell the untaken Gas injected into storage. The price or cost of the elected alternative must be reasonable for the Cook Inlet Area consistent with the amount of notice provided by the nonperforming Party, the immediacy of the Buyer's Gas consumption needs or Seller's Gas sales requirements, as applicable, the quantities involved, the availability of storage and stored Gas considering the amount of Gas in storage and the time of year, and the anticipated length of failure by the nonperforming Party.

"CPR" and "CPR Rules" have the meanings set forth in Section 14.5.

"Daily Contract Quantity" means the volume of Gas required to be delivered by Seller and received by Buyer on a Day during the Term of this Agreement as set forth in Section 2.3. "Daily Contract Quantity" does not include Emergency Load Gas.

"Day" means a 24-hour calendar day beginning at 00:00 hours and ending at 24:00 hours ACT. "Day" includes the 23-hour calendar day when local time changes from Alaska Standard Time to Alaska Daylight Savings Time and the 25-hour calendar day when local time changes from Alaska Daylight Savings Time to Alaska Standard Time.

"Daylight Savings Time" means the advancement of timekeeping clocks forward one hour from Standard Time near the start of spring pursuant to the Uniform Time Act of 1966, Pub.L. 89-387, 80 Stat. 107, 15 U.S.C. §§ 260-64, as amended, as administered by the US Department of Transportation.

"Delivery Period" means a continuous period during which Gas is delivered at the Daily Contract Quantity.

"Delivery Points" has the meaning set forth in Section 3.1.

"Delivery Ratio" means the resolved fraction composed of (i) the highest Daily Contract Quantity on any Day of a Contract Year as the numerator, and (ii) the lowest Daily Contract Quantity applicable in that Contract Year as the denominator, expressed as a rational number in decimal notation. For example, in a year in which the lowest Daily Contract Quantity is 27 MMcfpd and the highest Daily Contract Quantity on any Day of that Contract Year is 47 MMcfpd, the Delivery Ratio is 1.74 ($47/27 = 1.74$).

"Delivery Shortfall Volume" has the meaning set forth in Section 2.4(C).

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“Discretionary Gas” means Gas (other than Emergency Gas) which Buyer may request to purchase from Seller in Buyer’s sole discretion and which Seller may sell to Buyer in Seller’s sole discretion, as provided in Section 2.3(B)(6).

“Dispute” means any dispute or controversy between the Parties arising out of this Agreement and any dispute or controversy regarding the existence, construction, validity, interpretation, enforceability, or breach of this Agreement.

“Effective Date” has the meaning set forth in the Preamble.

“Emergency Gas Transaction” means an individual agreement to sell and purchase Emergency Load Gas reached by the Parties pursuant to Section 2.3(F).

“Emergency Load Gas” means Gas sold to Buyer in excess of the Base Load Gas and Swing Load Gas sold by Seller to Buyer to meet the short-term (one-Month or less) extraordinary or emergency gas supply needs of Buyer.

“Emergency Load Gas Charge” means the Monthly charge for Emergency Load Gas calculated pursuant to Section 7.1(C).

“Excess Royalties” means royalties (including interest and penalties thereon) in excess of those payable on the sale of the gas at the Sales Price due to a value attributed to the Gas under the applicable oil and gas lease which is higher than the contract price. “Excess Royalties” do not include royalties, interest or penalties thereon which are determined after audit to be due on the sale of the Gas at the Sales Price.

“Excess Taxes” means taxes (including interest and penalties thereon) in excess of those payable under tax law as of December 31, 2012, on the production or severance of the Gas or the sale of Gas at the Sales Price. “Excess Taxes” do not include taxes, interest or penalties thereon which are determined after audit to be due under tax law as of December 31, 2012, on the production or severance of the Gas or the sale of the Gas at the Sales Price.

“Field Operations Gas” means Gas Seller determines, in its sole and unfettered discretion, is necessary or desirable for Seller’s use for field operations and maintenance, gas dehydration, gas treatment and other field use.

“Final Estimated Annual Contract Quantities” means Buyer’s final projections of its Gas requirements under this Agreement for Contract Years 3 through 4 as set forth in Section 2.3(B).

“Firm” means that a Party may interrupt its performance without liability only to the extent that such interruption is excused or permitted by the terms of this Agreement.

JUL 24 2013

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“Firm Annual Contract Quantity” means the volume of Gas that unless otherwise excused in this Agreement, Seller is obligated to sell, and Buyer is obligated to purchase, in a given Contract Year. For Contract Year 1, the Firm Annual Contract Quantity is set forth in Section 2.3(A). For Contract Years 2, 3, and 4, Buyer shall provide Firm Annual Contract Quantities as set forth in Section 2.3(B).

“Force Majeure Event” has the meaning set forth in Section 10.2.

“Gas” or “Natural Gas” means any mixture of hydrocarbons or of hydrocarbons and noncombustible gases, in a gaseous state consisting primarily of methane and meeting the quality specifications of Section 6 and Exhibit C.

“Gas Sale and Purchase Commitment” means the quantity of Gas that will be sold and delivered and purchased and received under this Agreement in accord with Sections 2.3 and 2.4.

“Hilcorp Alaska, LLC” has the meaning set forth in the Preamble.

“Imbalance Volume” means the adjustment of the volume of Gas to be delivered by Seller and received by Buyer hereunder to correct for Incidental Deviations.

“Incidental Deviations” means the unintended differences between the Daily Contract Quantity for a Day delivered at a Continuous Rate and the actual deliveries and receipts made on that Day which arise from the ordinary operations of the Cook Inlet Gas Distribution System. Unless otherwise agreed, deviations greater than three percent (3%) of the Daily Contract Quantity are not Incidental Deviations.

“LNG” means Natural Gas which has been condensed into a liquid by cooling it to approximately -260°F.

“Market Out” has the meaning set forth in Section 2.8(A).

“Market Return” has the meaning set forth in Section 2.8(C).

“Mcf,” “MMcf,” and “Bcf” mean thousand Standard Cubic Feet, Million Standard Cubic Feet, and Billion Standard Cubic Feet, respectively.

“MMcfpd” means MMcf delivered at a Continuous Rate for 24 hours during a Day.

“Month” means a period beginning at 00:00 hours ACT on the first Day of a calendar month and ending at 24:00 hours ACT on the last Day of that calendar month.

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“Monthly Contract Quantity” has the meaning set forth in Section 2.3(D)(2).

“Monthly Average Contract Quantity” has the meaning set forth in Section 7.1(B).

“Monthly Delivered Quantity” means the actual volume of Gas Seller delivered and Buyer received during the applicable Month (not including Emergency Load Gas).

“Nominated Volume” has the meaning set forth in Section 2.4(C) and (D).

“Operational Notice” means a notice given as provided in Section 13.2.

“Party” and “Parties” have the meanings set forth in the Preamble.

“Preliminary Estimated Annual Contract Quantities” means Buyer’s initial projections of its Gas requirements under this Agreement for Contract Years 2 through 4 as set forth in Section 2.3(B).

“RCA” means the Regulatory Commission of Alaska or its predecessor the Alaska Public Utilities Commission, as the context requires.

“RCA Approval” has the meaning set forth in Section 11.3.

“Receipt Shortfall Volume” has the meaning set forth in Section 2.4(D).

“Regular Notice” means a notice given as provided in Section 13.1.

“Sales Price” has the meaning set forth in Section 7.1(A).

“Seller” has the meaning set forth in the Preamble.

“Standard Cubic Foot” means the amount of Gas that would occupy a volume of one cubic foot at a temperature of sixty degrees Fahrenheit (60° F.) and at a pressure of fourteen and sixty five hundredths (14.65) pounds per square inch absolute.

“Standard Time” means the time of Day without the offset for Daylight Savings Time.

“Storage Gas Alternative” has the meaning set forth in Section 2.4(D)(1).

“Swing Load Gas” means Gas sold to Buyer on any given Day in excess of the Base Load Gas sold to Buyer on such Day. “Swing Load Gas” does not include “Emergency Load Gas.”

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“Swing Load Gas Charge” means the Monthly charge for Swing Load Gas calculated pursuant to Section 7.1(C).

“Tariffs” means the tariffs of a utility or pipeline regulated by the RCA which tariffs have been approved by the RCA and are currently in effect.

“Term” has the meaning set forth in Section 4.1.

“Termination Date” means March 31, 2018.

“Termination Event” has the meaning set forth in Section 4.2.

“Transportation Costs” means charges imposed to move Gas sold under this Agreement on pipeline carrier or public utility pipelines pursuant to RCA-approved tariff rates and conditions.

“Year” means a calendar year.

1.2 Principles of Construction. In this Agreement, unless the context otherwise requires:

- (A) This Agreement is the entire agreement between the Parties respecting the subject matter thereof.
- (B) Headings and the rendering of text in bold and/or italics are for convenience only and do not affect the interpretation of this Agreement.
- (C) Words importing the singular include the plural and vice versa and the masculine, feminine and neuter genders include all genders.
- (D) The words “hereof”, “herein”, “hereunder,” and words of similar import shall refer to this Agreement as a whole and not to any particular provision of this Agreement.
- (E) A reference to a Section, paragraph, clause, Party, Exhibit, or Schedule is a reference to that Section, paragraph, or clause of, or that Party, Exhibit or Schedule to, this Agreement unless otherwise specified, and in the event of a conflict, the provisions of the main body of this Agreement shall prevail over the provisions of any Exhibit or Schedule.
- (F) A reference to this Agreement shall mean this Agreement including any amendment or supplement to, or replacement, novation, or modification of this Agreement, but disregarding any amendment, supplement, replacement, novation, or modification made in breach of this Agreement.

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- (G) A reference to a Person includes that Person's successors and permitted assigns.
- (H) The term "including" means "including without limitation" and any list of examples following such term shall in no way restrict or limit the generality of the word or provision in respect of which such examples are provided.
- (I) References to any statute, code, or statutory provision are to be construed as a reference to the same as it may have been, or may from time to time be, amended, modified or reenacted, and include references to all bylaws, instruments, orders and regulations for the time being made thereunder or deriving validity therefrom.
- (J) Each Party acknowledges and agrees that it has participated in the drafting of this Agreement and has had the opportunity to consult with legal counsel and any other advisors of its choice to its satisfaction regarding the terms and provisions of this Agreement and the results thereof. As a result, the rule of construction that an agreement be construed against the drafter will not be asserted or applied to this Agreement.
- (K) All accounting terms not specifically defined herein shall be construed in accordance with GAAP.
- (L) In the event of a conflict, a mathematical formula describing a concept or defining a term shall prevail over words describing a concept or defining a term.
- (M) References to any amount of money shall mean a reference to the amount in US Dollars.
- (N) The expression "and/or" when used as a conjunction shall connote "any or all of."
- (O) Words, phrases or expressions which are not defined herein and which have a generally accepted meaning in the industry which is the subject of this Agreement shall have that meaning in this Agreement.
- (P) A waiver by either Party of any breach of the covenants and conditions to be performed under this Agreement by the other Party shall not be construed as a waiver of any succeeding breach of the same or any other covenant or condition.
- (Q) Except as otherwise expressly provided in this Agreement, no amendments to or modifications of this Agreement shall be valid unless they are in writing and signed by the Parties.

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- (R) Calculations of Preliminary Estimated Annual Contract Quantities, Final Estimated Contract Quantities and Firm Annual Contract Quantities shall be made to the nearest MMcf (with 500 Mcf being rounded upward). All other calculations of Gas volumes provided for in this Agreement shall be made to the nearest Mcf (with 0.5 Mcf being rounded upward). All calculations of money provided for in this Agreement shall be made to the nearest dollar (with \$0.50 being rounded upward). These conventions likewise apply to intermediate calculations, except for calculations involving prices and costs per Mcf, which shall be made to the nearest cent (with \$0.005 being rounded upward).

1.3 Exhibits.

- (A) All of the Exhibits that are attached to the body of this Agreement are an integral part of this Agreement and are incorporated by reference into this Agreement, including:
- (1) Exhibit A – Map of the Cook Inlet Area
 - (2) Exhibit B – Delivery Points
 - (3) Exhibit C – Gas Quality Specifications
 - (4) Exhibit D – Section 2.3(A) and (B) Timeline
 - (5) Exhibit E – Section 2.3(B)(1) Examples
 - (6) Exhibit F – Section 2.4(C) Examples
 - (7) Exhibit G – Section 2.4(D) Examples
 - (8) Exhibit H –Section 7.1(B) and (C) Examples
- (B) If a conflict exists between the body of this Agreement and the Exhibits, the body prevails to the extent of the conflict.

2. GAS SALES.

2.1 Gas Sales Commitment; Limitation on Gas Use or Resale.

- (A) Subject to all of the terms and conditions of this Agreement, Seller commits to deliver and sell to Buyer, and Buyer commits to receive and purchase from Seller, the Natural Gas volumes and rates set forth in this Section 2.

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- (B) Buyer may not resell Gas purchased under this Agreement for LNG export to foreign nations, nor may Buyer resell Gas purchased under this Agreement to a third party for resale for LNG export to foreign nations.

2.2 Commitment Priorities. Seller may cease or curtail deliveries under this Agreement without liability to Buyer to assure a sufficient supply of Field Operations Gas or to meet Seller's commitments as follows:

- (A) Pursuant to the 1988 Marathon-APL GSA, if it is at any time determined that Seller's Available Gas Reserves are insufficient to permit it to make deliveries under this Agreement and meet its obligations to Alaska Pipeline Company under the 1988 Marathon-APL GSA, Gas deliveries under this Agreement may be ceased or curtailed by Seller in its sole discretion. Seller's Available Gas Reserves will be determined in accordance with the provisions of the 1988 Marathon-APL GSA.
- (B) Pursuant to the 2000 Union Oil – APL GSA, APL has first call on Seller's Gas delivered into the Cook Inlet Area necessary to meet Seller's commitments in that agreement.

2.3 Gas Sale and Purchase Commitment. Unless Seller and Buyer otherwise agree in a writing signed by both Parties, the Gas Sale and Purchase Commitment under this Agreement shall be as set forth below.

- (A) Firm Annual Contract Quantity for Contract Year 1: The Firm Annual Contract Quantity for Contract Year 1 (2014-2015) is as follows:

Contract Year	Dates	Annual Contract Quantity (MMcf)
1	04/01/14 through 03/31/15	10,000

- (B) Annual Contract Quantities for Later Contract Years:

- (1) Preliminary Estimated Annual Contract Quantities:

- (a) The Preliminary Estimated Annual Contract Quantities for Contract Years 2, 3, and 4 are as follows:

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Contract Year	Dates	Preliminary Estimated Annual Contract Quantity (MMcf)
2	04/01/15 through 03/31/16	15,000
3	04/01/16 through 03/31/17	17,000
4	04/01/17 through 03/31/18	21,500

- (b) On March 1, 2014, Buyer will submit to Seller an updated Preliminary Estimated Annual Contract Quantity for Contract Year 4 which must be no less than 95% and no more than 110% of the 21,500 MMcf set forth above.
- (2) Final Estimated Annual Contract Quantities:
- (a) The Final Estimated Annual Contract Quantity for Contract Year 2 (2015-2016) is as follows:

Contract Year	Dates	Final Estimated Annual Contract Quantity (MMcf)
2	04/01/15 through 03/31/16	15,000

- (b) On March 1, 2014, Buyer will submit to Seller the Final Estimated Annual Contract Quantity for Contract Year 3 which must be no less than 96% and no more than 107.5% of the 17,000 MMcf set forth above.
- (c) On March 1, 2015, Buyer will submit to Seller a Final Estimated Annual Contract Quantity for Contract Year 4 which must be no less than 96% and no more than 107.5% of the updated Preliminary Estimated Contract Quantity for Contract Year 4 submitted on March 1, 2014.
- (3) Firm Annual Contract Quantities:
- (a) Buyer will submit to Seller the Firm Annual Contract Quantity for Contract Year 2 by March 1, 2014, for Contract Year 3 by March 1, 2015, and for Contract Year 4 by March 1, 2016.

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- (b) Buyer's Firm Annual Contract Quantities for Contract Years 2, 3, and 4 must be no less than 97% and no more than 105% of the Final Estimated Annual Contract Quantity for that Contract Year established pursuant to subsections (B)(1) and (2).
- (4) Allowable Variances: The permitted percentage variances set forth in subsections (2) and (3) must arise solely from changes in anticipated customer demand due to weather and other factors outside of Buyer's control, such as fluctuations in use by Buyer's customers and changes in Buyer's customer portfolio. Buyer may not reduce the Annual Contract Quantities in order to purchase the differential volume from a third party unless otherwise permitted by this Agreement.
- (5) Additional Summer Storage Gas: On or before March 1 of each Contract Year, Buyer may submit to Seller a call for a specified volume of additional Gas (not to exceed 1,000 MMcf) to be placed into storage in CINGSA between April 1 and September 30 of the upcoming Contract Year and Seller will be obligated to provide this Gas ("Additional Summer Storage Gas"). For example, Buyer may request Additional Summer Storage Gas on or before March 1, 2014, for the Contract Year 1 beginning April 1, 2014, to be delivered between April 1, 2014, and September 30, 2014. The Additional Summer Storage Gas will be added to the Firm Annual Contract Quantity for the upcoming Contract Year and will be delivered at Seller's discretion between April 1, 2014, and September 30, 2014, working in good faith with Buyer to ensure such deliveries do not cause operational disruption. Seller will make reasonable efforts to deliver Additional Summer Storage Gas in such a way that it will be priced as Base Load Gas.
- (6) Discretionary Gas: Should Buyer at any time require Gas (other than Emergency Load Gas) in addition to the Firm Annual Contract Quantity, Buyer in its sole discretion may submit a request to Seller for Discretionary Gas and Seller may provide it at Seller's sole discretion. The volume of any such Discretionary Gas shall be added to the Daily Contract Quantity for the Day on which it is delivered and the total volume delivered on that Day shall be sold at the Sales Price(s) in effect during the Month in which the Gas is delivered.
- (C) Permissible Changes to Annual Contract Quantities: If as permitted in Sections 2.4, 2.8, and 10.5, the Annual Contract Quantity for a Contract Year is revised during that Contract Year, the Parties will make appropriate adjustments to the Average Daily Contract Quantity and to the

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Daily Contract Quantities as set forth in 2.3(D)(1)(a), and all such changes will be prospective only.

(D) Daily and Monthly Obligations:

(1) Daily Contract Quantity.

- (a) For Contract Year 1, Seller will sell and deliver, and Buyer will buy and receive, Gas on each Day according to the following delivery profile (the "Daily Contract Quantity"):

Contract Year	Delivery Period	Dates	Daily Contract Quantity (MMcfd)
1	A	04/01/2014 – 04/30/2014	24
	B	05/01/2014 – 09/30/2014	19
	C	10/01/2014 – 12/31/2014	34
	D	01/01/2015 – 03/31/2015	38

- (b) Buyer will submit to Seller the Daily Contract Quantity for each Delivery Period in Contract Years 2, 3, and 4 on or before the following dates:

- [1] Contract Year 2 (2015-2016): March 1, 2014
- [2] Contract Year 3 (2016-2017): March 1, 2015
- [3] Contract Year 4 (2017-2018): March 1, 2016

- (c) Buyer will observe the following rules in preparing and submitting to Seller the Daily Contract Quantity:

- [1] There shall be no more than four Delivery Periods in any given Contract Year which shall be identified by letter, as in "Delivery Period A," "Delivery Period B," and so on as needed.
- [2] The Daily Contract Quantity shall be the same for each Day in a Delivery Period.

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- [3] The total of the Daily Contract Quantities for the applicable Contract Year shall be the same as the Annual Contract Quantity for that Year.
- [4] In no event will the Daily Contract Quantities exceed a Delivery Ratio of three (3).
- (2) Monthly Contract Quantity: The Monthly Contract Quantity is the sum of the Daily Contract Quantities for the applicable Month. Buyer will purchase and receive from Seller the Monthly Contract Quantity on a Firm basis unless otherwise excused or permitted by this Agreement.
- (E) Timeline and Sample Calculations:
- (1) Exhibit D sets forth a timeline for the steps which Buyer will take to notify Seller of Preliminary Estimated Annual Contract Quantities, Final Estimated Annual Contract Quantities, Firm Annual Contract Quantities, Delivery Periods and associated Daily Contract Quantities, and Additional Summer Storage Gas.
- (2) Exhibit E sets forth sample calculations of the process for revising and finalizing the Preliminary Estimated Annual Contract Quantities, Final Estimated Annual Contract Quantities, and Firm Annual Contract Quantities within the permitted percentage variances set forth in this Section and includes a sample Additional Summer Storage Gas transaction.
- (F) Emergency Load Gas:
- (1) The purpose of this Section 2.3(F) is to facilitate the delivery of Gas from Seller to Buyer on relatively short notice when such Gas is required to meet the short-term extraordinary or emergency gas needs of the Buyer. No single Emergency Gas Transaction shall be for a period in excess of thirty (30) Days. All notices made pursuant to this Section 2.3(F) will be given as Operational Notices.
- (2) At any time during the term, Buyer may notify Seller that it has an extraordinary or emergency Gas supply need and request a specific volume or volumes of Emergency Load Gas to be delivered. In the notice, the Buyer must specify the nature and anticipated duration of the extraordinary or emergency situation which forms the basis of the request for additional Gas. Seller shall promptly respond to the request indicating what Emergency Load Gas, if any, it will

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make available to Buyer. The Parties will then negotiate toward an Emergency Gas Transaction, but neither Party is obligated to agree to an Emergency Gas Transaction and either Party may refuse to do so for any reason or no reason.

- (3) If the Parties agree to an Emergency Gas Transaction, they shall memorialize the agreement by an exchange of emails. The Parties will also confirm the commencement and termination of all sales and purchases of Gas, the Continuous Rate, the Delivery Point, and any modifications of the Continuous Rate by email exchange within a reasonable time after the applicable Operational Notice. The transactional summaries will be tabulated by the Seller in a spreadsheet that will be provided to Buyer periodically or in response to a request. Delays in updating the spreadsheet shall not negate or otherwise affect a sale of Emergency Load Gas under this Agreement. Buyer shall promptly inform Seller when the extraordinary or emergency situation has been resolved. Sales of Emergency Load Gas shall cease as soon as practical after the resolution of the extraordinary or emergency situation.
- (4) Volumes of Gas sold pursuant to Emergency Gas Transactions shall not be included in the Annual Contract Quantity or Daily Contract Quantity and shall not be included in the calculations of Base Load Gas and Swing Load Gas.

2.4 Nature of Gas Sale and Purchase Commitment and Remedies.

- (A) Each Day, except as otherwise provided in this Agreement, Seller will sell and deliver, and Buyer will buy and receive, the Daily Contract Quantity on a Firm basis.
- (B) If Seller for any reason, including a Force Majeure Event or quality issues, does not deliver all of the applicable Daily Contract Quantity, or if Buyer because of Force Majeure Event, cannot take from Seller all of the applicable Daily Contract Quantity, Buyer may make whatever purchases are necessary to replace the shortage. Buyer will in good faith attempt to purchase only the amount of Gas necessary to replace the shortage. Should any provision of this Agreement constrain Buyer in such a way that Buyer cannot replace the shortage on reasonable terms and conditions, that provision (or provisions) shall be relaxed or waived but only to the extent necessary to permit Buyer to purchase its requirements on reasonable terms and conditions. Buyer's purchase obligations under this Agreement shall be reduced by the volumes Seller does not deliver or Buyer cannot take under this subsection.

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- (C) On any given Day, if Seller fails to sell and deliver (or make available for delivery) the applicable Daily Contract Quantity as scheduled as provided in Sections 2.3(D)(1) and 2.5 for such Day ("Nominated Volume") and such failure is not excused or permitted under this Agreement, the difference between such Nominated Volume and the amount of Gas actually delivered (or made available for delivery) that Day is called the "Delivery Shortfall Volume." Buyer's sole remedy with respect to such failure by Seller shall be Cover as provided below.
- (1) Upon receiving notice or otherwise having actual knowledge of Seller's delivery failure, Buyer shall make reasonable commercial efforts to replace the Delivery Shortfall Volume via Cover. For the avoidance of doubt, Buyer, in its sole discretion, may choose to withdraw Gas stored by it or on its behalf in CINGSA (or any other storage facility), up to the Delivery Shortfall Volume ("CINGSA Gas Substitution"), and in such circumstance Buyer may attempt to replace the Gas representing such CINGSA Gas Substitution via Cover.
 - (2) With respect to the replacement of the Delivery Shortfall Volume, Seller shall be responsible for, and shall pay Buyer, the positive difference, if any, between the weighted average purchase price paid by Buyer for such replacement Gas and the Sales Price for Base Load Gas applicable that Year, multiplied by the volume of such replacement Gas. If Buyer implements the CINGSA Gas Substitution, the price of that replacement Gas shall be the Cost of Gas Withdrawn from Storage as defined in Buyer's Tariff at § 708c(1)(c) or the actual cost of replacement Gas obtained through Cover. If Buyer is unable to obtain replacement Gas and must call on electric utilities to alter their generation to allow Buyer access to additional Gas, Buyer will incur Interruption Expenses as defined by § 1205 of Buyer's Tariff, and this shall represent the purchase price of Buyer's replacement Gas.
 - (3) To the extent the Delivery Shortfall Volume cannot be fully replaced through Cover within two (2) months, then Seller shall be responsible for, and shall pay Buyer, the Sales Price for Base Load Gas times such portion of the Delivery Shortfall Volume not replaced through Cover.
 - (4) In no event shall Seller be liable to Buyer for the payment (as Cover or otherwise) of more than an amount equal to the Delivery Shortfall Volume multiplied by the Sales Price for Base Load Gas applicable that Year. Exhibit F includes, for illustration purposes only, examples of amounts that might be due under this Section 2.4(C).

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- (D) On any given Day, if Buyer fails to purchase and take the applicable Daily Contract Quantity made available by Seller as scheduled as provided in Section 2.3(D)(1) and 2.5 for such Day ("Nominated Volume") and such failure is not excused or permitted under this Agreement, the difference between such Nominated Volume and the amount of Gas actually taken by Buyer that Day is called the "Receipt Shortfall Volume." Seller's sole remedy with respect to such failure by Buyer shall be Cover as provided below.
- (1) Upon receiving notice or otherwise having actual knowledge of Buyer's receipt failure, Seller shall make reasonable commercial efforts to sell the Receipt Shortfall Volume via Cover. For the avoidance of doubt, Seller, in its sole discretion, may choose to inject Gas in Seller's Gas storage facility, up to the Receipt Shortfall Volume ("Storage Gas Alternative"), and in such circumstance Seller shall attempt to sell the Gas representing such Storage Gas Substitution via Cover.
 - (2) With respect to the sale of the Receipt Shortfall Volume, Buyer shall be responsible for, and shall pay Seller, the positive difference, if any, between the Sales Price for Base Load Gas applicable that Year and the weighted average sales price received by Seller for such sales Gas multiplied by the volume of such sales Gas. If Seller implements the Storage Gas Alternative, the price of that sales Gas shall include the costs associated with the injection and withdrawal of the sales Gas from storage.
 - (3) To the extent the Receipt Shortfall Volume cannot be fully sold through Cover within two (2) months, then Buyer shall be responsible for, and shall pay Seller, the Sales Price for Base Load Gas times such portion of the Receipt Shortfall Volume not sold through Cover.
 - (4) In no event shall Buyer be liable to Seller for the payment (as Cover or otherwise) of more than an amount equal to the Receipt Shortfall Volume multiplied by the Sales Price for Base Load Gas applicable that Year. Exhibit G includes, for illustration purposes only, examples of amounts that might be due under this Section 2.4(D).
- (E) Each Party shall provide to the other Party all information, including price and volume information, as soon as practicable after purchase or selling Gas under Section 2.4(C) or (D).

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- (F) The remedy of Cover does not apply to Incidental Deviations, the sole remedy for which is adjustment through Imbalance Volumes.
- (G) Neither Party shall be entitled to an award of, and hereby waives the right to recover, incidental, consequential, punitive, exemplary, or other non-direct damages or any other damages from the other Party arising from or related to this Agreement, whether asserted by or awarded to such Party or any third party and whether based on contract, tort, strict liability, or other claim or theory of liability. The remedies listed in this Section 2.4 are the sole and exclusive remedies for Buyer's failure or refusal to receive Gas, or Seller's failure or refusal to deliver Gas, where such failures or refusals are not excused or permitted under this Agreement.
- (H) If necessary, Buyer and Seller will work together in good faith to revise the Annual Contract Quantity and Average Daily Contract Quantity in the applicable Contract Year, on a prospective basis, to reflect the Delivery Shortfall Volume or the Receipt Shortfall Volume, should such volumes be material.

2.5 Delivery Rate and Scheduling.

- (A) Seller shall deliver and Buyer shall receive Gas at a Continuous Rate.
- (B) By 4:00 p.m. ACT, the Day before Buyer is to receive Gas from Seller, Buyer shall send Seller's Gas Control Group an estimate of its Gas needs for the next Day within the quantity provisions set forth in Section 2.3.
- (C) Daily scheduling of Gas by gas controllers shall incorporate an Imbalance Volume.

2.6 Communication and Rescheduling Undelivered Gas.

- (A) Buyer and Seller understand that this Agreement will require frequent communication and cooperation for proper scheduling and delivery of Gas. The acting Party will provide timely notice to the other Party when (i) Buyer changes its receipt rate, (ii) Seller ceases or curtails deliveries or Buyer ceases or curtails receipts, or (iii) either Buyer or Seller incurs a Force Majeure Event.
- (B) Buyer and Seller will communicate and work in good faith to coordinate Gas deliveries and receipts with the other Party regarding anticipated shut-downs or curtailments, facility outages, maintenance, and other scheduled or irregular events which do not constitute Force Majeure Events.
- (C) By mutual agreement of the Parties confirmed by email or other writing, the Parties may reschedule Gas which will not be or has not been

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delivered and received as provided in Section 2.3, whether due to shut-downs or curtailments, facility outages, maintenance, and other scheduled or irregular events, or due to Force Majeure Events.

2.7 Notices.

- (A) All regularly scheduled submissions by Buyer to Seller set forth in Section 2.3 shall be given as Regular Notices. All other requests and notices made pursuant to this Section 2 will be given as Operational Notices.
- (B) The Parties will document the commencement and termination of all sales and purchases of Gas, the Continuous Rate, the Delivery Point, and any modifications of the Continuous Rate within a reasonable time after the applicable Operational Notice. The transactional summaries will be tabulated by the Seller in a spreadsheet that will be provided to Buyer periodically or in response to a request. Delays in updating the spreadsheet shall not negate or otherwise affect a sale of Natural Gas under this Agreement.

2.8 Market Out.

- (A) From time to time, Buyer has experienced a loss of its customer base due to one or more large volume customers initiating service with a third party for reasons beyond Buyer's reasonable control (a "Market Out" of certain volumes).
- (B) If a Market Out occurs, Buyer will provide notice and verification of such Market Out to Seller. Buyer may reduce its Annual Contract Quantity and the Daily Contract Quantities in the affected Contract Years and related Delivery Periods in proportion to the Market Out volumes, and will incorporate such reductions in Buyer's future submissions to Seller pursuant to Section 2.3(B) and (D).
- (C) If some or all of the Market Out returns to Buyer's customer base ("Market Return"), Buyer will provide notice and verification of such Market Return to Seller. Should Buyer need to purchase additional Gas to meet demand associated with Market Return, Buyer will first contact Seller to purchase these volumes under this Agreement. Upon Seller's agreement, Buyer will increase its Annual Contract Quantity and the Daily Contract Quantity in the affected Contract Years and related Delivery Periods in proportion to the Market Return volumes, and will incorporate such increases in Buyer's future submissions to Seller pursuant to Section 2.3(B) and (D).
- (D) Buyer and Seller will work together in good faith to make the necessary adjustments to the volumes and delivery schedules to minimize the

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disruption to both Parties in the Contract Year that a Market Out or Market Return first appears, as well as in later applicable Contract Years.

3. DELIVERY POINTS; TITLE; LIABILITY AND RISK OF LOSS; PIPELINES.

3.1 Delivery Points.

- (A) Unless otherwise agreed between the Parties, the authorized delivery points are set forth in Exhibit B ("Delivery Points").
- (B) Buyer may request Gas to be delivered at specific Delivery Points and to otherwise minimize the costs payable by Buyer pursuant to Section 7.3, and Seller will work in good faith to honor such requests, in each case within the limitations of Seller's Gas production facilities, the requirements of Seller's other Gas sales agreements and Seller's ability to economically administer its business.

3.2 Title. Title to all Gas delivered by Seller and received by Buyer will pass at the Delivery Points. All liability and risk associated with the Gas will follow title.

4. TERM.

4.1 Term. The term of this Agreement shall commence on the Effective Date, and unless sooner terminated under Section 4.2, end on the Termination Date ("Term").

4.2 Termination Event Defined. Each of the following events is a "Termination Event": (a) any Party makes an assignment for the benefit of creditors; (b) any Party defaults in its payment obligations under this Agreement and does not resolve the default, as provided in Section 8; (c) any Party commences, authorizes, or acquiesces in the commencement of a proceeding under any bankruptcy, insolvency, or similar law, or has such a proceeding commenced against it; or (d) any Party or any Party's parent company becomes bankrupt or insolvent, or is unable to pay its debts when due.

4.3 Termination. If a Termination Event described in Section 4.2 occurs, the non-defaulting Party shall have the right to immediately withhold or suspend deliveries or payment, or terminate this Agreement.

4.4 Reservations. If a Termination Event described in Section 4.2 occurs, each Party reserves all claims, rights, setoffs, counterclaims, and other defenses to which it is entitled under this Agreement.

5. MEASUREMENT.

5.1 Measurement. Unless agreed otherwise, each Delivery Point measurement

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station shall consist of (a) measuring equipment conforming to the requirements of American Gas Association Gas Measurement Committee Reports in effect as of the Effective Date, or as amended or supplemented during the term of this Agreement, unless otherwise agreed by the Parties, (b) appurtenant facilities, (c) hydrometers, and (d) data telemetry equipment. Seller shall have access to each Delivery Point measurement station(s) at which Seller tenders Gas at reasonable hours and upon reasonable notice to Buyer, but Buyer will make all calibrations, measurements and adjustments. Buyer will make available to Seller, and will not charge Seller for access to, telemetry signals (pressure and flow rates) on Buyer's and Buyer's Affiliates' systems, that Seller requires to manage its Gas supply and demand systems. Any new costs of acquiring or using the telemetry signals by Seller shall be paid by Seller. Seller shall, at its expense, provide continuous data showing Gas delivery rates for each Delivery Point, if so requested by Buyer when such Delivery Point is owned, maintained and operated by Seller. Seller shall have the right to refuse to tender Gas for delivery to Buyer at any Delivery Point that is not operating properly or measuring volumes of Gas accurately; provided, that such refusal shall not alter Seller's obligations to make available and deliver Gas to Buyer under Section 2. For all Gas delivered at a Delivery Point that is not owned or operated by Buyer or Seller, the measurement standards in the tariff of the applicable delivery pipeline of the Cook Inlet Gas Distribution System on the date of delivery will apply.

5.2 Inaccurate Meters. If a meter is out of service or registering inaccurately by a variation greater than one percent (1%), the volumes of Gas delivered shall be estimated:

- (A) by using the volumes registered by the check meter or meters of Seller, if installed and accurately registering, or
- (B) in the absence of estimation pursuant to clause (A), by correcting the error if the percentage of error is ascertainable by calibration, test or mathematical calculations, or
- (C) in the absence of estimation pursuant to both clause (A) and clause (B), then by estimating the quantity of deliveries based on deliveries during comparable periods under similar conditions when the meter was registering accurately.

5.3 Testing. Buyer will test the accuracy of the measuring equipment at least once each Month. Buyer will give Seller reasonable advance notice so that Seller (or its designee) may conveniently witness the tests. If Seller notifies Buyer that it desires to test the accuracy of any measuring equipment, Buyer will test the accuracy of the measuring equipment promptly after such notification. Seller shall have the right to witness the calibrating, adjusting and testing of the measuring equipment. Buyer shall, on reasonable request of Seller, give its physical test and meter proving reports to Seller. If there is a dispute about any

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measurement, the Parties shall conduct a joint test that shall be dispositive. If the joint test reveals there is an error, Buyer shall pay all costs associated with the joint test. If the joint test reveals there was no error Seller shall pay all costs associated with the joint test.

- 5.4 Correction.** If any measuring equipment is found to be inaccurate by less than one percent (1%), previous records of the equipment shall be considered accurate. If any measuring equipment is found to be inaccurate by more than one percent (1%), any previous records of that equipment will be corrected to zero error for any period known definitely or agreed upon. If a period of inaccuracy is not definitely known or agreed upon by the Parties, the correction shall be made for a period of one half ($\frac{1}{2}$) of the time elapsed since the date of the last test. The correction shall fully settle all claims based on the inaccuracy. Any measuring equipment found by test to be inaccurate, even if such error is less than one percent (1%), will immediately be adjusted or replaced, as appropriate, to measure accurately.
- 5.5 Records.** Each Party shall preserve for a period of at least six (6) Years all test data, charts and other similar records for amounts of Gas made available and purchased under this Agreement.
- 5.6 Standards.** Buyer shall determine, or shall rely on the information provided by others to determine, the volumes of Gas received and purchased hereunder as follows:
- (A) The unit of volume measurement shall be one Standard Cubic Foot of Gas with correction for temperature and pressure deviation from the Ideal Gas Laws according to ANSI/API 2530 or AGA Report No.8, as amended and as applicable.
 - (B) The average absolute atmospheric pressure shall be assumed to be fourteen and sixty-five hundredths (14.65) pounds per square inch for all measurement purposes, irrespective of actual elevation or location of any Receipt Point above sea level or variations in actual atmospheric pressure.
 - (C) The specific gravity of Gas shall be determined by the use of a spot test method or, if the Parties later agree in writing, by the use of a recording gravitometer generally accepted in the industry. If a recording gravitometer is used, the arithmetic average of the specific gravity of Gas flowing through the meters shall be used in computing Gas volumes. If a spot test method is used, the specific gravity of the Gas shall be determined at quarterly intervals, or more often if changes in specific gravity indicate that such determination is necessary. Any such test shall determine the specific gravity to be used in determining the volumes of Gas delivered and purchased hereunder effective the first Day of the

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Month following the date of such test and shall be used until the results of a subsequent test become effective.

(D) The temperature of Gas shall be determined by a recording thermometer so installed that it will record the temperature of the Gas flowing through the meters. The average of the recorded temperatures to the nearest one degree Fahrenheit (1°F) obtained while Gas is being delivered on any Day shall be used in computing the volumes of Gas made available to Buyer by Seller on such Day.

(E) Seller shall have the right to audit Buyer's records of the volumes of Gas made available and taken hereunder for up to two (2) Years following delivery of such Gas to Buyer.

5.7 Check Meters. Seller and Buyer shall have the right to operate and maintain check meters and other test equipment and devices at or near any Delivery Point at the sole expense of the Party who installs the check meters.

6. QUALITY.

Seller warrants all Natural Gas delivered to the Delivery Point will be of a pressure, condition, and quality set forth in Exhibit C. Buyer may cease or curtail receipt of Gas delivered by Seller which does not meet the Gas Quality Specifications set forth in Exhibit C.

7. SALES PRICE; COST ALLOCATION; STATE'S ROYALTY SHARE.

7.1 Sales Price and Monthly Calculation. The Sales Price for Gas purchased and sold hereunder shall be as follows:

(A) Yearly Pricing: The Sales Price for Gas purchased and sold in each Contract Year will be as set forth in the following table:

Contract Year	Pricing Periods	Base Load Gas Price (Dollars per Mcf)	Swing Load Gas Price (Dollars per Mcf)	Emergency Load Gas Price (Dollars per Mcf)
1	04/01/2014 through 12/31/2014	6.86	8.58	10.29
	01/01/2015 through 03/31/2015	7.13	8.91	10.70
2	04/01/2015 through 12/31/2015	7.13	8.91	10.70
	01/01/2016 through 03/31/2016	7.42	9.28	11.13

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Contract Year	Pricing Periods	Base Load Gas Price (Dollars per Mcf)	Swing Load Gas Price (Dollars per Mcf)	Emergency Load Gas Price (Dollars per Mcf)
3	04/01/2016 through 12/31/2016	7.42	9.28	11.13
	01/01/2017 through 03/31/2017	7.72	9.65	11.58
4	04/01/2017 through 12/31/2017	7.72	9.65	11.58
	01/01/2018 through 03/31/2018	8.03	10.04	12.05

(B) Identifying Base Load and Swing Load Gas: Excepting Emergency Load Gas, on any Day of the Term, the volume of Gas delivered up to the Average Daily Contract Quantity is Base Load Gas, and volumes above that level are Swing Load Gas. For any Month of the Term, the volume of Gas that Seller delivers and Buyer receives (the “Monthly Delivered Quantity”) up to the sum of the Average Daily Contract Quantities for that Month (the “Monthly Average Contract Quantity”) will constitute the “Base Load Gas Volume.”

(C) Monthly Calculation: The amount due from Buyer to Seller for Gas sales shall be calculated on a Monthly basis as follows:

- (1) Base Load Gas Charge: The Base Load Gas Charge shall be the Base Load Gas Volume times the applicable Base Load Gas Price.
- (2) Swing Load Gas Charge: The Swing Load Gas Charge shall be the Monthly Delivered Quantity in excess of the Base Load Gas Volume, times the applicable Swing Load Gas Price.
- (3) Emergency Load Gas Charge: The Emergency Load Gas Charge shall be the Emergency Load Gas volume Seller sold and delivered and Buyer purchased and received during the Month times the applicable Emergency Load Gas Price.

Exhibit H sets forth examples of Base Load Gas Charge and Swing Load Gas Charge calculations which conform to the provisions of this subsection 7.1(C)(1) and (2).

7.2 Costs Allocated to Seller. Seller is responsible for the following costs relating to Gas sold or moved under this Agreement:

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- (A) Gas development, production, separation, dehydration, and other processing;
- (B) Facility construction, operation, and maintenance;
- (C) Gas gathering, treatment, and compression necessary to meet pipeline specifications and pressures;
- (D) Costs other than Transportation Costs to move Gas to a Delivery Point;
- (E) Lessor royalties, overriding royalties, production payments, and other payments of any kind (other than taxes) due to third parties upon the production and sale of the Gas at the Sales Price, but not including Excess Royalties; and
- (F) Severance and/or production taxes at the tax rates and under the laws and rules in place on the Effective Date, but not including Excess Taxes.

7.3 Costs Allocated to Buyer: Buyer is responsible for the following costs relating to Gas sold under this Agreement:

- (A) Transportation Costs to, at, from, and after delivery at a Delivery Point, including reimbursement of Transportation Costs paid initially by Seller;
- (B) Storage, facilities, equipment, operations, and maintenance costs after delivery at a Delivery Point;
- (C) Taxes imposed on the Gas or Buyer's operations after a Delivery Point;
- (D) Excess Royalties; and
- (E) Excess Taxes.

7.4 Valuation of State's Royalty Share. Pursuant to AS 38.05.180(aa) and (bb), within thirty (30) Days after the execution of this Agreement and before any deliveries of Gas are made under this Agreement, Seller shall submit a written request to the Department of Natural Resources to enter into an agreement with Seller to accept the price for the Gas established in this Agreement as the value of the State of Alaska's royalty share of Gas production sold by Seller under this Agreement. The Parties shall use reasonable efforts and shall cooperate with one another and the State in seeking the State's approval of the request.

8. INVOICING; ASSURANCES.

8.1 Billing. By the fifteenth (15th) Day of each Month, Seller shall give Buyer an invoice showing the following for the previous Month:

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- (A) the charge for the Gas showing the volumes of each Category of Gas sold times the applicable Sales Price for each Category;
- (B) the charge or credit for any Delivery Shortfall Volume or Receipt Shortfall Volume as provided and calculated in accordance with Section 2.4;
- (C) the costs allocated to Buyer;
- (D) any corrections for the previous or prior Months; and
- (E) the total amount due from Buyer to Seller.

8.2 Payment.

- (A) Buyer shall make payment to Seller within ten (10) Business Days of when the Buyer receives an invoice by Automated Clearing House ("ACH") or wire transfer to the account of Seller set out below. Upon thirty (30) Days' written notice, Seller may designate a different financial institution or account to which Buyer will thereafter make payments.

Bank Name: Amegy Bank
Bank ABA #: 113011258
Account Name: Hilcorp Alaska, LLC
Account Number: 53484238

- (B) Buyer may set-off against and withhold from amounts payable by Buyer to Seller any and all amounts that are due Buyer by Seller under this Agreement where such amounts have not been credited to Buyer in Seller's invoice.
- (C) Buyer may, without prejudice to any claim or right, pay any disputed amount and must pay any undisputed amount. The Parties shall cooperate to resolve any disputed amount in a timely manner.

8.3 Remedies for Non-Payment. If Buyer fails to pay undisputed amounts to Seller for Gas within thirty (30) Days after the invoice is received, in addition to any other remedy available, Seller will have the right to cease or curtail deliveries under this Agreement after notice to Buyer until payment (and interest under Subsection 8.4 below) is received, which right will not prejudice Seller's rights to collect any sums due Seller (including interest under Subsection 8.4 below) for Gas previously delivered to Buyer hereunder.

8.4 Interest. Pending resolution of a billing dispute, if payment is not made within thirty (30) Days of invoice receipt, the unpaid balance shall bear interest, compounded Monthly, at the prime rate in effect at JPMorgan Chase Bank, NA,

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plus 1% on the first Day of each Month, or the maximum contract rate permitted by law, whichever is less, plus attorney's fee, court costs, and other costs in connection with the collection of unpaid amounts.

- 8.5 Assurances.** Except as described in this Section 8.5, Buyer shall not be required to provide any assurance of payment to the other Party hereunder. If at any time during the Term, Buyer's credit rating (corporate or long-term senior unsecured debt) is below BBB- by Standard & Poor's or Baa3 by Moody's, upon Seller's request Buyer shall provide to Seller, within ten (10) Business Days of any such request, a letter of credit, a bond, a guaranty, or such other security in a form and in a sufficient amount as shall be satisfactory to Seller in its reasonable discretion, and Buyer shall maintain such security at its sole cost and expense for so long as the Buyer's credit rating is below BBB- by Standard & Poor's or Baa3 by Moody's. If and when Buyer's credit rating is equal to or above BBB- by Standard & Poor's and Baa3 by Moody's, Buyer may rescind, and Seller shall promptly release and (if applicable) deliver to Buyer, any such security.

9. WARRANTY OF TITLE.

Seller warrants title at the Delivery Point to all Gas delivered to Buyer hereunder and Seller's right to deliver the same, and agrees to hold Buyer harmless from, and indemnify it against, any and all loss, damage, cost, expense, or liability of whatsoever kind arising out of claims of third persons with respect to the title to such Gas, including costs, expenses, and reasonable attorney's fees incurred by Buyer in defending against any such claims.

10. FORCE MAJEURE.

- 10.1 Force Majeure Event.** In the event either Party is rendered unable wholly or in part by the occurrence of a Force Majeure Event to perform its obligations under this Agreement, the obligation of such Party (other than payment of money), insofar as fulfillment of the obligation is affected by such Force Majeure Event, will be suspended during the continuance of any inability so caused, but for no longer period, and such cause will, insofar as possible, be remedied with reasonable dispatch.

- 10.2 Force Majeure Defined.** "Force Majeure Event" means any event that directly or indirectly renders a Party unable, wholly or in part, to perform or comply with any obligation, covenant or condition in this Agreement if the event, or the adverse effects of the event, is outside of the control of, and could not have been prevented by, the affected Party with reasonable foresight, at reasonable cost, and by the exercise of reasonable diligence in good faith, and is not attributable to the negligence or willful misconduct of the affected Party. Force Majeure Events include without limitation the following events (to the extent they otherwise satisfy the definition): (i) act of God, fire, lightning, landslide, earthquake, volcano activity, storm, hurricane, hurricane warning, flood, high water, washout,

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explosion, or well blowout; (ii) strike, lockout, or other industrial disturbance, act of the public enemy, war, military operation, blockade, insurrection, riot, epidemic, arrest or restraint by government of people, terrorist act, civil disturbance, or national emergency; (iii) the inability of the affected Party to acquire, or the delay on the part of the affected Party in acquiring materials, supplies, machinery, equipment, servitudes, right of way grants, pipeline shipping capacity, easements, permits or licenses, approvals, or authorizations by regulatory bodies or oil and gas lessors needed to enable the Party to perform; (iv) breakage of or accident to machinery, equipment, facilities, or lines of pipe, and the repair, maintenance, improvement, replacement, test, or alteration to the machinery, equipment, facilities, or lines of pipe, and the freezing of a well or line of pipe, well blowout, or the partial or entire failure of a Gas well; or (v) act, order, or requisition of any governmental agency or acting governmental authority, or any governmental law, proration, regulation, or priority.

- 10.3 Notices.** A Party experiencing a Force Majeure Event will notify the other Party by Operational Notice of the nature, extent, and estimated duration of the Force Majeure Event as soon as reasonably possible but in no event more than twenty-four (24) hours after becoming aware of the occurrence of the event. The Party experiencing the Force Majeure Event will update the other Party on a reasonably frequent basis but in no event less than once every five (5) Days thereafter by Operational Notice.
- 10.4 Diligence.** The Party experiencing a Force Majeure Event shall exercise diligence in good faith to remedy the Force Majeure Event and resume full performance under this Agreement as soon as reasonably practicable (except that the settlement of strikes, lockouts, or other labor disputes or the restoration of a failed natural gas well shall be entirely within the discretion of the affected Party).
- 10.5 Extended Force Majeure Events.** If the Party claiming the Force Majeure Event estimates that the Force Majeure Event will not be remedied for a period of more than ninety (90) Days, the Parties shall meet within thirty (30) Days to agree upon a commercially reasonable course of action during the period of the Force Majeure Event that is consistent with the intent of this Agreement. If the Parties are unable to agree upon a commercially reasonable course of action, either Party, upon sixty (60) Days' notice, may reduce Seller's and Buyer's obligations with respect to the affected portion of the Gas to be made available and taken hereunder; provided however, that the remaining provisions of this Agreement shall apply with respect to the portion of Seller's and Buyer's obligations that are not so reduced.

11. REGULATORY COMMISSION OF ALASKA.

- 11.1 Submission.** This Agreement must be approved by the RCA before Buyer purchases Gas hereunder. Buyer will submit this Agreement to the RCA for its consideration on or before July 31, 2013.

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11.2 Buyer's Efforts. Buyer will use commercially reasonable efforts to obtain regulatory approval of this Agreement. Seller shall have no responsibility to take any action or incur any cost to obtain regulatory approval of this Agreement. If the RCA issues an order that approves (conditionally or otherwise) this Agreement and imposes terms and conditions or modifications unacceptable to Buyer or Seller, each as determined in its sole and absolute discretion, Buyer or Seller may terminate this Agreement upon written notice to the other Party, such termination to take effect on the date outlined in any such written notice of termination. If RCA Approval has not been obtained by March 31, 2014, either Party may terminate this Agreement upon notice to the other Party, such termination to take effect on the date outlined in any such written notice of termination.

11.3 Approval. "RCA Approval" will be deemed to have occurred on the date that an RCA order approving the Agreement, including approval of recovering all costs resulting from this Agreement in the rates of Buyer's affiliate ENSTAR Natural Gas Company, without conditions or modifications unacceptable to the Parties becomes final and is not subject to further reconsideration by the RCA.

12. INDEMNIFICATION.

12.1 Indemnification. Each Party will protect, defend, indemnify, and hold harmless the other from any and all liability and expense on account of all Claims arising from any act or accident including a failure to act, as to which and to the extent that the indemnifying Party was at fault in connection with the installation, presence, maintenance, and operation of property, equipment, and facilities of the indemnifying Party used in connection with or associated with the Gas delivered hereunder. This duty to protect, defend, indemnify, and hold harmless will survive the expiration or termination of this Agreement.

12.2 No Alteration of Cover Provisions. Nothing in this Section 12 shall add to, detract from or otherwise modify the provisions of this Agreement concerning the failure or refusal of Seller to deliver Gas or the failure or refusal of Buyer to receive Gas under this Agreement, for which the sole recourse and remedy is set forth in Section 2.4.

13. NOTICES

13.1 Regular Notices. Except as specifically provided otherwise in Sections 2.5 and 10.3 of this Agreement, all notices and communications under this Agreement (other than Operational Notices) will be made in writing by certified mail (return receipt requested), facsimile (with confirmation by one of the other means described herein received within two (2) Business Days of receipt of such facsimile), email, or by nationally recognized overnight courier. All such notices will be deemed effective (a) if mailed, on the date indicated on the returned

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receipt, (b) if delivered personally, when delivered, (c) if sent by email or by facsimile during the normal business hours of the recipient, on the same Business Day as sent, and (d) if sent by email or facsimile after the normal business hours of the recipient, on the next Business Day following the date of transmission.

Seller

Hilcorp Alaska, LLC
Attn: Senior Vice President
Physical: 3800 Centerpoint Drive, Suite 100
Anchorage, AK 99503
Mailing: PO Box 244027
Anchorage, AK 99524-4027
Fax: (907) 777-8350
Email: jbarnes@hilcorp.com

Buyer

Alaska Pipeline Company
Attn: Colleen Starring, President
Physical: 3000 Spenard Road
Anchorage, AK 99503
Mailing: P.O. Box 190288
Anchorage, AK 99519
Fax: (907) 334-7671
Email: Colleen.Starring@enstarnaturalgas.com

- 13.2 Operational Notices.** Any Operational Notice required or permitted to be given to either Party will be given by telephone and confirmed by email, at the telephone numbers and email addresses set forth below (or such other telephone numbers and email addresses as the Parties may designate from time to time by written notice under Section 13.3). Notices given by telephone will be effective immediately and the confirmation by email will be effective as provided in Section 13.1. The Party providing an Operational Notice will attempt to contact the primary contact first. If the primary contact is unavailable to receive notice in a timely manner, the Party providing an Operational Notice will contact the alternate contact.

Seller

Hilcorp Alaska, LLC
3800 Centerpoint Drive, Suite 100
Anchorage, AK 99503

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Rich Novcaski
Commercial Manager
Telephone: (907) 777-8336
Mobile: (907) 301-1357
Fax: (907) 777-8351
Email: rnovcaski@hilcorp.com

Alternate Contact:

Tami Ertz
Commercial Marketing Technician
Telephone: (907) 777-8411
Mobile: (907) 351-8283
Fax: (907) 777-8351
Email: tertz@hilcorp.com

Buyer

Alaska Pipeline Company
3000 Spenard Road
Anchorage, AK 99503

Primary Contact:

ENSTAR Gas Control
Telephone: (907) 334-7788
Fax: (907) 334-7779
Email: ENSTAR.GasControl@enstarnaturalgas.com

Alternate Contact:

Travis Renk
Gas Operations Manager
Telephone: (907) 334-7751
Mobile: (907) 441-0371
Fax: (907) 334-7779
Email: travis.renk@enstarnaturalgas.com

- 13.3 Changes in Contact Information.** Either Party may designate address changes by formal written notice as provided in this section.

14. GOVERNING LAW; RESOLUTION OF DISPUTES.

- 14.1 Governing Law.** This Agreement is governed by and interpreted under the laws of the State of Alaska, without regard to its choice of law rules. Arbitration shall be governed by the Revised Uniform Arbitration Act as adopted by the State of Alaska, AS 09.43.300 - .595 ("Arbitration Act"), except as modified in this Agreement.

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- 14.2 Resolution of Disputes.** Before initiating litigation, the Parties shall work together in good faith to resolve any Dispute between them using direct negotiations and mediation as set out in this Section 14. While the procedures in this Section 14 are pending, each Party shall continue to perform its obligations under this Agreement, unless to do so would be impossible or impracticable under the circumstances.
- 14.3 Direct Negotiations.** If a Dispute arises, a Party shall initiate the resolution process by giving notice setting out in writing and in detail the issues in Dispute and the value of the claim to the other Party. A meeting between the Parties, attended by individuals with decision-making authority, must take place within thirty (30) Days from the date the notice was sent in an attempt to resolve the Dispute through direct negotiations.
- 14.4 Mediation.** If the Dispute cannot be settled by direct negotiations within thirty (30) Days of initiation of the resolution process, either Party may initiate non-binding mediation by giving notice to the other Party. The place of mediation shall be Anchorage, Alaska. The Parties shall select a mutually acceptable mediator within five (5) Business Days of the notice initiating mediation.
- 14.5 Arbitration.** If the Dispute is not resolved by mediation within thirty (30) Days from the date of the notice requiring mediation, or if the Dispute is unresolved within sixty (60) Days from the date of the notice requiring direct negotiations, then the Dispute shall be finally settled by binding arbitration and either Party may initiate such arbitration by giving notice to the other Party. The arbitration shall be conducted in accordance with The International Institute for Conflict Prevention & Resolution ("CPR") Rules for Non-Administered Arbitration ("CPR Rules"), except to the extent of conflicts between the CPR Rules at present in force and the provisions of this Agreement, in which event the provisions of this Agreement prevail. The CPR is the appointing authority. The place of arbitration shall be Anchorage, Alaska.
- 14.6 Procedure.** The following provisions shall apply to any arbitration proceedings commenced pursuant to Section 14.5:
- (A) The number of arbitrators shall be one if the monetary value of the Dispute is US \$5,000,000 or less. The number of arbitrators shall be three if the monetary value is greater than US \$5,000,000.
 - (B) The arbitrator or arbitrators must remain neutral, impartial and independent regarding the Dispute and the Parties. If the number of arbitrators to be appointed is one, that arbitrator, or the presiding arbitrator if the arbitrators are three, must be a lawyer experienced in the resolution of disputes with experience relating to the issues in dispute.

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- (C) The Parties waive any claim or right to recover for, and the arbitrator has or arbitrators have no power to award, incidental, consequential, punitive or exemplary damages. The arbitrator has or arbitrators have no authority to appoint or retain expert witnesses for any purpose unless agreed to by the Parties. The arbitrator has or arbitrators have the power to rule on objections concerning jurisdiction, including the existence or validity of this arbitration clause and existence or the validity of this Agreement.
- (D) All arbitration fees and costs shall be borne equally regardless of which Party prevails. Each Party shall bear its own costs of legal representation and witness expenses.
- (E) The arbitrator is or arbitrators are authorized to take any interim measures as the arbitrator considers or arbitrators consider necessary, including the making of interim orders or awards or partial final awards. An interim order or award may be enforced in the same manner as a final award using the procedures specified below. Further, the arbitrator is or arbitrators are authorized to make pre- or post-award interest at the interest rate specified in Subsection 8.4.
- (F) The arbitrator or arbitrators must render a reasoned award in writing. This award shall be based upon a decision which must detail the findings of fact and conclusions of law on which it rests.
- (G) The Dispute will be resolved as quickly as possible. The arbitrator's or arbitrators' award must be issued within three (3) Months from completion of the hearing, or as soon as possible thereafter.

14.7 Enforceability.

- (A) All disputes arising under this Agreement not resolved by the Parties via mediation and/or arbitration will be resolved in the state or federal courts of Alaska in Anchorage, Alaska. Each party, to the extent permitted by law, knowingly, voluntarily, and intentionally waives its right to a trial by jury in any action or other legal proceeding arising out of or relating to this Agreement and the transactions it contemplates. This waiver applies to any action or legal proceeding, whether sounding in contract, tort, or otherwise.
- (B) Except for proceedings to preserve property pending determination by the arbitrator or arbitrators or to enforce an award, the mandatory exclusive venue for any judicial proceeding permitted in this Agreement is Anchorage, Alaska. The Parties consent to the jurisdiction of the state and federal courts in Anchorage, Alaska, and waive any defenses they have regarding jurisdiction.

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- (C) Proceedings to enforce judgment entered on an award may be brought in any court having jurisdiction over the person or assets of the non-prevailing Party. The prevailing Party may seek, in any court having jurisdiction, judicial recognition of the award, or order of enforcement or any other order or decree that is necessary to give full effect to the award.

14.8 Confidentiality.

- (A) The Parties agree that any Dispute and any negotiations, mediation and arbitration proceedings between the Parties in relation to any Dispute shall be confidential and will not be disclosed to any third party.
- (B) The Parties further agree that any information, documents or materials produced for the purposes of, or used in, negotiations, mediation or arbitration of any Dispute shall be confidential and will not be disclosed to any third party.
- (C) Without prejudice to the foregoing, the Parties agree that disclosure may be made:
 - (1) In order to enforce any of the provisions of this Agreement including without limitation, the agreement to arbitrate, any arbitration order or award and any court judgment.
 - (2) To the auditors, legal advisers, insurers and affiliates of that Party to whom the confidentiality obligations set out in this Agreement shall extend.
 - (3) Where that Party is under a legal or regulatory obligation to make such disclosure, but limited to the extent of that legal obligation.
 - (4) With the prior written consent of the other Party.
- (D) The Parties agree to submit to the jurisdiction of the state and federal courts in Anchorage, Alaska, for the purposes of any proceedings to enforce this Section 14.8.

15. MISCELLANEOUS

15.1 Authority. Each Party covenants to each other Party that it has the legal authority to enter into and perform this Agreement and each obligation assumed by such Party under this Agreement.

15.2 Further Assurances. The Parties shall at their own cost and expense execute and deliver such further documents and instruments and shall take such other actions as may be reasonably required or appropriate to evidence or perform the intent

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and purposes of this Agreement or to show the ability to perform the intent and purposes of this Agreement.

- 15.3 No Duty to Third Parties.** This Agreement is made for the sole benefit of the Parties and their respective successors and assigns. The Parties do not intend to create, and this Agreement will not be construed to create, by implication or otherwise, any rights in any other person or entity not a Party to this Agreement, and no such person or entity will have any rights or remedies under or by reason of this Agreement, or any right to the exercise of any right or power hereunder or arising from any default hereunder.
- 15.4 No Partnership.** The execution and performance of this Agreement is not intended by the Parties to create and will not be construed to create any partnership or business association between the Parties.
- 15.5 Right to Examine Books and Records.** Each Party to this Agreement, at its sole expense, will have the right to audit the books and records of the other Party relating to performance of this Agreement. All audits will be conducted in accordance with professional auditing standards and during normal business hours. The audited Party will fully cooperate with the auditing Party to accomplish the audit as expeditiously as possible. Each Party's right to audit will remain in effect until two (2) years after termination or expiration of this Agreement.
- 15.6 Conflicts of Interest.** Each Party represents and warrants to the other Party that said Party or its subcontractors, and its and their owners, shareholders, partners, directors, offices, employees, or other agents have neither paid, agreed to pay, nor will pay, any sums, kickbacks, or other such consideration to any owners, shareholders, partners, directors, offices, employees, or other agent of the other Party, or to any third party in connection with this Agreement, nor has any such payment or agreement for payment been requested or solicited by any such owners, shareholders, partners, directors, offices, employees, or other agents.
- 15.7 Binding Nature; Successors and Assigns; Assignment.** This Agreement shall be binding upon and inure to the benefit of the successors, assigns, personal representatives, and heirs of the respective Parties hereto, and the covenants, conditions, rights and obligations of this Agreement shall run for the full term of this Agreement. This Agreement is assignable only with the prior written consent of the other Party, which consent will not be unreasonably withheld. No assignment for which written consent has been received will be effective until the assignee agrees in writing to assume and fully perform the terms of this Agreement.
- 15.8 Seller Not A Public Utility.** Seller is not a public utility and nothing contained herein will be deemed as a dedication to the public of the Natural Gas, or any land, wells, pipelines, or other facilities, or any part thereof.

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- 15.9 Counterparts.** This Agreement may be executed by the Parties in any number of counterparts and on separate counterparts, including electronic transmittals, each of which when so executed will be deemed an original, but all such counterparts, when taken together, will constitute but one and the same Agreement. In the event one Party executes the Agreement, and the other Party does not execute the Agreement within ten (10) Days of the first Party's execution, the execution of the Agreement by the first Party will be deemed null and void.

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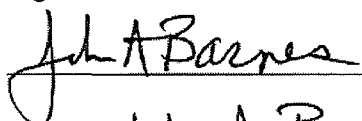
IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date set forth in the preamble.

IMPORTANT NOTICE: THIS AGREEMENT CONTAINS PROVISIONS REGARDING INDEMNITIES AND WARRANTIES THAT EXPRESS THE AGREEMENT OF THE PARTIES CONCERNING CLAIMS ARISING OUT OF THIS AGREEMENT.

HILCORP ALASKA, LLC

ALASKA PIPELINE COMPANY

Signature:

Name: John A BarnesTitle: SR VP HAKDate: July 2, 2013

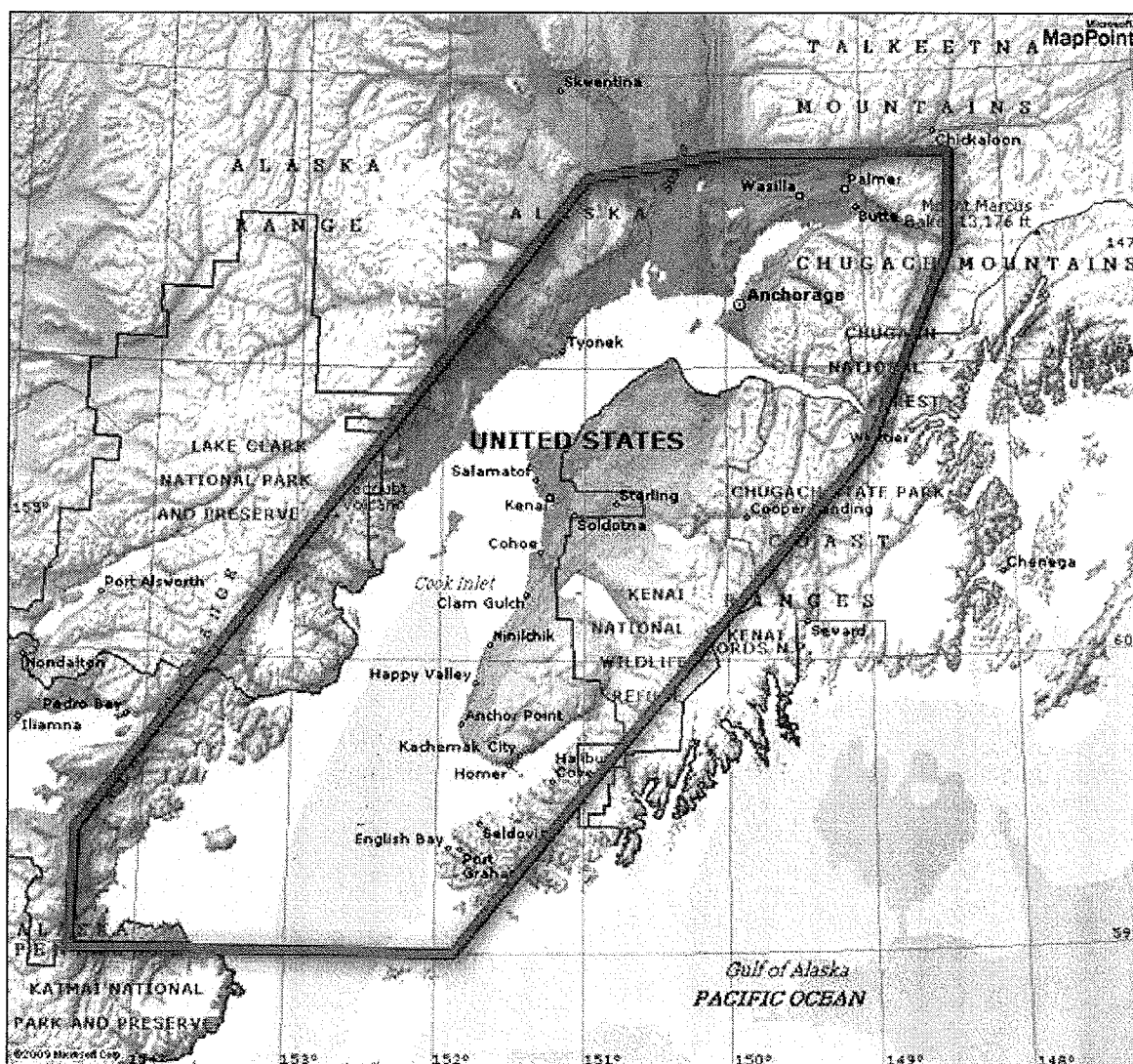
Signature:

Name: M. Colleen StarringTitle: PresidentDate: July 2, 2013

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GAS SALE AND PURCHASE AGREEMENT

Exhibit A
Map of Cook Inlet Area

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GAS SALE AND PURCHASE AGREEMENT

Exhibit B
Delivery Points

The following Delivery Points are authorized under this Agreement. Unless otherwise agreed by the Parties, Seller may deliver Gas sold under this Agreement at any Delivery Point listed herein.

1. **Beluga-Anchorage Pipeline**a. **Beluga Unit Area Connection (ENSTAR/APC Station B601, Meters 170 A & B)**

At the upstream flange of Alaska Pipeline Company's meter at or near the inlet of Alaska Pipeline Company's Beluga-Anchorage pipeline located within the West 1/2, Southwest 1/4, of Section 26, Township 13 North, Range 10 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

b. **Beluga Pipeline Company Connection (ENSTAR/APC Station B605, Meters 700 & 701, BLPC Nos. 8101 & 8102)**

At the upstream flange of Alaska Pipeline Company's meter at or near the connection of Alaska Pipeline Company's Beluga-Anchorage pipeline and Beluga Pipeline Company's Granite Point-Beluga pipeline located within the West 1/2 of the Southwest 1/4 of Section 26, Township 13 North, Range 10 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

c. **Pretty Creek Unit Connection (ENSTAR/APC Station B602, Meters 189 A & B)**

At the upstream flange of Alaska Pipeline Company's meter at or near the connection of the pipeline from the Pretty Creek Unit and Alaska Pipeline Company's Beluga-Anchorage pipeline located in the South 1/2 of Section 28 Township 14 North, Range 9 West, Matanuska-Susitna Borough, Seward Meridian, State of Alaska.

d. **Lewis River Unit Connection (ENSTAR/APC Station B603, Meters 168 A & B)**

At the upstream flange of Alaska Pipeline Company's meter at or near the connection of the pipeline from the Lewis River Unit and Alaska Pipeline Company's Beluga-Anchorage pipeline located in the Northwest 1/4 of Section 2, Township 14 North, Range 9 West, Matanuska-Susitna Borough, Seward Meridian, State of Alaska.

e. **Stump Lake/Ivan River Connection (ENSTAR/APC Station B604, Meters 600 & 601)**

At the upstream flange of Alaska Pipeline Company's meter located at or near the connection of the pipeline from the Stump Lake and Ivan River units and Alaska Pipeline Company's Beluga-Anchorage pipeline the Southeast 1/4 of the

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Northwest 1/4 of the Northeast 1/4 of the Southwest 1/4 of Section 22, Township 14 North, Range 9 West, Seward Meridian, State of Alaska.

2. **Kenai-Anchorage Pipeline**

a. **Kenai Unit Area Connection (ENSTAR/APC Station K670, Meters 500, 502 & 505)**

At the upstream flange of the Alaska Pipeline Company's master meter located at or near the inlet of the Alaska Pipeline Company's Kenai-Anchorage pipeline in Section 30, Township 5 North, Range 11 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

b. **West Fork Connection (ENSTAR/APC Station K676, Meters 924 & 925, Meter 2200)**

At the upstream flange of Alaska Pipeline Company's meter at or near the connection of the pipeline from the West Fork field and Alaska Pipeline Company's Kenai-Anchorage pipeline located in the South 60 feet of the Northwest 1/4 of the Northwest 1/4 of Section 12, Township 5 North, Range 9 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

c. **APC-KNPL Southern Interconnection Point (ENSTAR/APC Station K681, Meter 411)**

At the downstream flange of the meter at APC's metering point located at the Southern terminus of the Kenai Nikiski Pipeline (KNPL) and the lateral to the inlet of the Kenai Anchorage Pipeline (APC) in Southeast 1/4 of Section 30, Township 5 North, Range 11 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

3. **North Kenai Lateral ("Royalty Pipeline")**

a. **Beaver Creek Unit Area Connection (ENSTAR/APC Station K671, Meter 1100 A)**

At the upstream flange of the Alaska Pipeline Company's meter at or near the connection of the pipeline from the Beaver Creek Unit and Alaska Pipeline Company's Royalty Pipeline located in the Northwest 1/4 of the Southwest 1/4 of Section 7, Township 6 North, Range 10 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

b. **Sterling Unit Connection (ENSTAR/APC Station K677, Meter 9100)**

At the upstream flange of the Alaska Pipeline Company's meter at or near the connection of the pipeline from the Sterling Unit and Alaska Pipeline Company's Royalty Pipeline located within the Northeast 1/4 of Section 9, Township 5 North, Range 10 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

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- c. **North Kenai Lateral – ENSTAR Station K276 (Hilcorp Meter 520)**
At the upstream flange of Hilcorp's meter located at or near the inlet of the Company's North Kenai Lateral pipeline in Government Lot 1, Section 21, Township 7 North, Range 12 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.
- d. **CIGGS/KNPL Pipeline Connection (ENSTAR/APC Station K673, Meters 209 & 413)**
At the upstream flange of the Alaska Pipeline Company's meter at or near the connection of the Alaska Pipeline Company's Royalty Pipeline and the CIGGS and KNPL pipelines located in the Northeast 1/4 of the Northeast 1/4 of Section 21, Township 7 North, Range 12 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

3. **Kenai Kachemak Pipeline**

- a. **KKPL-APC Interconnection Point (MSN 601)**
At the downstream weld of the 8-inch electronic isolation fitting located just outside of KKPL's meter building located at the northern terminus of the KKPL and the APL's lateral to the inlet of the APL's Kenai-Anchorage pipeline in Southeast 1/4 of Section 30, Township 5 North, Range 11 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.
- b. **KKPL-KNPL Interconnection Point (MSN 600)**
At the downstream flange of the meter in KKPL's metering building located at the northern terminus of the KKPL and the lateral to the inlet of the Kenai Nikiski Pipeline in Southeast 1/4 of Section 30, Township 5 North, Range 11 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.
- c. **Kasilof Gate Connection (ENSTAR/APC Station KKPL 301)**
At the upstream flange of ENSTAR Natural Gas Company/Alaska Pipeline Company's meter at or near the connection of the Kenai Kachemak Pipeline located in the South 1/2 of the Southeast 1/4 of the Northwest 1/4 of Section 30, Township 1 North, Range 11 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.
- d. **Ninilchik Gate Connection (ENSTAR/APC Station K685: Hilcorp 614A)**
At the upstream flange of ENSTAR Natural Gas Company/Alaska Pipeline Company's meter at or near the connection of the Kenai Kachemak Pipeline and the Company's Anchor Point Pipeline located in the within Lot 1, Block 1 Spakionaya Visok Subdivision, located within Section 2, Township 2 South, Range 14 West, Seward Meridian, according to the official plat thereof, filed under Plat Number 75-19, Records of the Homer Recording District, Kenai Peninsula Borough, Third Judicial District, State of Alaska.

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At the facility side of the manual isolation valve flange near the intersection of the Cook Inlet Natural Gas Storage Alaska, LLC 20-inch pipeline and the 20-inch KNPL Pipeline located within the Bridge Access Road Right-of-Way, situated adjacent to Lot 4, Block 1, Bridge Road Subdivision Number Two, according to the official plat thereof, filed under Plat Number 84-68, Records of the Kenai Recording District, located in SW1/4 SE1/4 Section 4, Township 5 North, Range 11 West, Seward Meridian, State of Alaska.

5. Cook Inlet Gas Gathering System**a. CIGGS-BPLC Interconnection Point (MSN 8106)**

Cook Inlet Gas Gathering System (CIGGS) to Beluga Pipeline Company interconnection meter 8106 as described in the CIGGS RCA Tariff 711.

b. CIGGS-KNPL (KPL Junction) Interconnection Point (MSN 401A)

At the upstream flange of the Cook Inlet Gas Gathering System (CIGGS) to Kenai Nikiski Pipeline (KNPL) interconnection meter located in the Northeast ¼ of the Northeast ¼ of Section 21, Township 7 North, Range 12 West, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

6. Kenai Nikiski Pipeline**a. Kenai City Gate Connection (ENSTAR/APC Station K674, Meter 404)**

At the upstream flange of the Alaska Pipeline Company's meter at or near the connection of the Kenai-Nikiski pipeline located in the Northeast 1/4 of Section 5, Township 5 North, Range 11 West, City of Kenai, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

b. Wildwood Station Connection (ENSTAR/APC Station K675, Meter 412)

At the upstream flange of the Alaska Pipeline Company's meter at or near the connection of the Kenai-Nikiski pipeline located in the Southeast 1/4 of Section 26, Township 6 North, Range 12 West, City of Kenai, Kenai Peninsula Borough, Seward Meridian, State of Alaska.

c. KNPL-Cannery Loop Gas Field Connection (KNPL Meters 301 & 303)

Cannery Loop gas field to Kenai Nikiski Pipeline (KNPL) interconnection meters 301 and 303 as described in the KNPL RCA Tariff 689.

d. KNPL-Kenai Gas Field (KNPL Meters 301 & 303)

Kenai gas field to Kenai Nikiski Pipeline (KNPL) interconnection meter 400 as described in the KNPL RCA Tariff 689.

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- e. **KNPL-Swanson River Connection (KNPL Meter 420A)**
Swanson River field to Kenai Nikiski Pipeline (KNPL) interconnection meter
420A as described in the KNPL RCA Tariff 689.

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Gas Quality Specifications

The following are the Gas Quality Specifications for Gas sold and purchased under this Agreement:

Quality	Specification
Gross Heating Value	≥ 950 BTUs per Standard Cubic Foot; and $\leq 1,050$ BTUs per Standard Cubic Foot.
Deleterious Matter	
General	Commercially free of dust, gum, gum forming constituents, or other liquid or solid matter that may separate from the Gas in transportation
Temperature	$\leq 120^{\circ}$ Fahrenheit
Water	≤ 4 pounds per MMcf
Hydrogen Sulfide	≤ 1 grain per 100 Standard Cubic Feet
Sulphur	≤ 20 grains of sulphur per 100 Standard Cubic Feet
Carbon Dioxide	$\leq 3\%$ by volume
Oxygen	$\leq 1\%$ by volume
Filtration	Passed through a .3 micron coalescing filter prior to delivery
Pressure	Gas shall be delivered at sufficient pressure to enter the pipeline for delivery at the Delivery Point

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GAS SALE AND PURCHASE AGREEMENT

Exhibit D
Section 2.3(A) and (B) Timeline

DATE	EVENT
March 1, 2014	<ol style="list-style-type: none"> 1. PEACQ for CY4 (95-110% of 21,500) 2. FEACQ for CY3 (96-107.5% of 17,500) 3. FACQ for CY2 (97-105% of FEACQ [15,000]) <p>A. Delivery Periods and Associated DCQs for CY2</p> <ul style="list-style-type: none"> • Buyer may request up to 1,000 MMcf of Additional Summer Storage Gas
April 1, 2014	Contract Year 1 Begins
March 1, 2015	<ol style="list-style-type: none"> 1. FEACQ for CY4 (96-107.5% of PEACQ) 2. FACQ for CY3 (97-105% of FEACQ) <p>A. Delivery Periods and Associated DCQs for CY3</p> <ul style="list-style-type: none"> • Buyer may request up to 1,000 MMcf of Additional Summer Storage Gas
April 1, 2015	Contract Year 2 Begins
March 1, 2016	<ol style="list-style-type: none"> 1. FACQ for CY4 (97-105% of FEACQ) 2. Delivery Periods and Associated DCQs for CY4 <ul style="list-style-type: none"> • Buyer may request up to 1,000 MMcf of Additional Summer Storage Gas
April 1, 2016	Contract Year 3 Begins
March 1, 2017	<ul style="list-style-type: none"> • Buyer may request up to 1,000 MMcf of Additional Summer Storage Gas
April 1, 2017	Contract Year 4 Begins

PEACQ	=	Preliminary Estimated Annual Contract Quantity
FEACQ	=	Final Estimated Annual Contract Quantity
FACQ	=	Firm Annual Contract Quantity
DCQ	=	DCQ = Daily Contract Quantity
CY	=	CY = Contract Year (April 1 – March 31)

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GAS SALE AND PURCHASE AGREEMENT

Exhibit E
Section 2.3(B)(1) Examples

FIGURE A: Allowable Variances in Preliminary and Final Estimated and Firm Annual Contract Quantities

Final Estimated Contract Quantities Maximum and Minimum Allowable Adjustments (MMcf)

			Firm Annual Contract quantities commitment	2014-2015	2015-2016	2016-2017	2017-2018	
<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> + 5% 7.5% 10% </div> <div style="text-align: center;"> 3% 4% 5% - </div> </div>	03/01/16						26,695	
	03/01/15					19,189	25,424	
	03/01/14				15,750	18,275	23,650	↑
	10/01/13			10,000	15,000	17,000	21,500	
	03/01/14				14,550	16,320	20,425	↓
	03/01/15					15,830	19,608	
	03/01/16						19,020	
				Year 1	Year 2	Year 3	Year 4	

FIGURE B: Example Applications of Allowable Variances

Example 1:

- On March 1, 2014, Buyer: (1) submits a Firm Annual Contract Quantity for Contract Year 2 of 15,750 MMcf (+ 5% of 15,000 MMcf); (2) increases the Final Estimated Annual Contract Quantity for Contract Year 3 to 18,275 MMcf (+7.5% of 17,000 MMcf); and (3) increases the Preliminary Estimated Annual Contract Quantity for Contract Year 4 to 22,898 MMcf (+6.5% of 21,500 MMcf).
- On March 1, 2015 Buyer: (1) submits a Firm Annual Contract Quantity for Contract Year 3 of 17,727 MMcf (-3% of 18,275 MMcf); and (2) decreases the Final Estimated Annual Contract Quantity for year 4 to 22,440 MMcf (-2% of 22,898 MMcf).
- On March 1, 2016 Buyer submits a Firm Annual Contract Quantity for Contract Year 4 of 23,562 MMcf (+5 % 22,440 MMcf).

Example 2:

- On March 1, 2014, Buyer has depleted storage volumes and notifies Seller that it requires 1,000 MMcf of Additional Summer Storage Gas to be injected into CINGSA between the months of April 1 and September 30, 2014. The Firm Annual Contract Quantity for Contract Year 1 is increased by 1,000 MMcf to 11,000 MMcf, and the

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Additional Summer Storage Gas is priced based on the Day it is delivered by Seller.

Buyer also: (1) submits a Firm Annual Contract Quantity for Contract Year 2 of 14,550 MMcf (-3% of 15000 MMcf); (2) decreases the Final Estimated Annual Contract Quantity for Contract Year 3 to 16,320 MMcf (-4% of 17,000 MMcf); and (3) decreases the Preliminary Estimated Annual Contract Quantity for Contract Year 4 to 20,425 MMcf (-5% of 21,500 MMcf).

- On March 1, 2015, Buyer notifies Seller that it requires 500 MMcf to be injected into CINGSA between the months of April 1 and September 30, 2015. The Firm Annual Contract Quantity for Contract Year 2 is increased by 500 MMcf to 15,050 MMcf, and the Additional Summer Storage Gas is priced based on the Day it is delivered by Seller. Buyer also: (1) submits a Firm Annual Contract Quantity for Contract Year 3 of 15,830 MMcf (-3% of 16,320 MMcf); and (2) decreases the Final Estimated Annual Contract Quantity for Contract Year 4 to 19,608 MMcf (-4% of 20,425 MMcf)
- On March 1, 2016 Buyer notifies Seller that no Additional Summer Storage Gas is necessary and submits a Firm Annual Contract Quantity for Contract Year 4 of 19,608 MMcf (no deviation from the March 1, 2015 updated Final Estimated Annual Contract Quantity).

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GAS SALE AND PURCHASE AGREEMENT

Exhibit F
Section 2.4(C) Examples

Note: Per Section 2.4(D)(4)(F), the following examples do not include Incidental Deviations.

Example 1: Seller fails to deliver 50,000 Mcf of Base Load Gas when the applicable Base Load Gas Price was \$6.86 per Mcf. Buyer purchases 50,000 Mcf of Cover Gas to replace the Delivery Shortfall Volume at a price of \$9.86 per Mcf. Seller is liable to Buyer for, and Buyer's sole remedy is the purchase price paid by Buyer for such replacement Gas (\$9.86 per Mcf) less the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) subject to a cap equal to the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf). Because the difference of \$3.00 per Mcf is less than the \$6.86 per Mcf cap, the \$3.00 Mcf is multiplied by the volume of the Cover Gas purchased (50,000 Mcf) or a total of \$150,000.00.

Example 2: Seller fails to deliver 50,000 Mcf of Base Load Gas when the applicable Base Load Gas Price was \$6.86 per Mcf. Buyer purchases 50 MMcf of Cover Gas to replace the Delivery Shortfall Volume at a price of \$15.10 per Mcf. Seller is liable to Buyer for, and Buyer's sole remedy is the purchase price paid by Buyer for such replacement Gas (\$15.10 per Mcf) less the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) subject to a cap equal to the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf). Because the difference of \$8.24 per Mcf is greater than the \$6.86 per Mcf cap, Cover is limited to the \$6.86 Mcf multiplied by the volume of the Cover Gas purchased (50,000 Mcf) or a total of \$343,000.00.

Example 3: Seller fails to deliver 50,000 Mcf of Base Load Gas when the applicable Sales Price was \$6.86 per Mcf. Buyer is unable to purchase Cover Gas but called on electric utilities to alter their generation to allow Buyer access to additional Gas. As a result Buyer incurred Interruption Expense for the use of an alternative fuel at the energy equivalent price of \$19.50 per Mcf for the 50,000 Mcf of Gas to replace the Delivery Shortfall Volume. Seller is liable to Buyer for, and Buyer's sole remedy is, the alternative fuel at the energy equivalent price paid by Buyer for such replacement Gas (\$19.50 per Mcf) less the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) subject to a cap equal to the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf). Because the difference of \$12.64 per Mcf is greater than the \$6.86 per Mcf cap, Cover is limited to the \$6.86 Mcf multiplied by the volume of the Cover Gas purchased (50,000 Mcf) or a total of \$343,000.00.

Example 4: Seller fails to deliver 25,000 Mcf of Base Load Gas and 25,000 Mcf of Swing Load Gas when the applicable Sales Price was \$6.86 per Mcf for Base Load Gas and \$8.58 for Swing Load Gas. Buyer purchases 50,000 Mcf of Cover Gas at a price of \$15.10 per Mcf to replace the Delivery Shortfall Volume. Seller is liable to Buyer for, and Buyer's sole remedy is, the purchase price paid by Buyer for such replacement Gas (\$15.10 per Mcf) less the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) subject to a cap equal to the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf). Because the difference of \$8.24 per Mcf is greater than the \$6.86 per Mcf cap, Cover is limited to the \$6.86 Mcf multiplied by the volume of the Cover Gas purchased (50,000 Mcf) or a total of \$343,000.00.

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Example 5: Seller fails to deliver 25,000 Mcf of Base Load Gas and 25,000 Mcf of Swing Load Gas when the applicable Sales Price was \$6.86 per Mcf for Base Load Gas and \$8.58 for Swing Load Gas. Buyer purchases 50,000 Mcf of Cover Gas at a price of \$19.50 per Mcf to replace the Delivery Shortfall Volume. Seller is liable to Buyer for, and Buyer's sole remedy is, the purchase price paid by Buyer for such replacement Gas (\$19.50 per Mcf) less the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) subject to a cap equal to the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf). Because the difference of \$12.64 per Mcf is greater than the \$6.86 per Mcf cap, Cover is limited to the \$6.86 Mcf multiplied by the volume of the Cover Gas purchased (50,000 Mcf) or a total of \$343,000.00.

Example 6: Seller fails to deliver 20,000 Mcf of Base Load Gas and 30,000 Mcf of Swing Load Gas when the applicable Sales Price was \$6.86 per Mcf for Base Load Gas and \$8.58 for Swing Load Gas. Buyer purchases 25,000 Mcf of Cover Gas at a price of \$19.50 per Mcf to replace half of the Delivery Shortfall Volume but cannot through commercially reasonable efforts buy the remaining 25,000 Mcf. Seller is liable to Buyer for, and Buyer's sole remedy for the 25,000 Mcf of Delivery Shortfall Volume it was able to purchase is, the purchase price paid by Buyer for such replacement Gas (\$19.50 per Mcf) less the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) subject to a cap equal to the amount of the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf). Since the difference of \$12.64 per Mcf is greater than \$6.86 per Mcf cap, Cover is limited to the \$6.86 Mcf multiplied by the volume of the Cover Gas purchased (25,000) Mcf or a total of \$171,500.00. For the remaining 25,000 Mcf that Buyer could not be replaced through Cover, Seller shall be responsible for, and shall pay Buyer, the Sales Price for Base Load Gas (\$6.86 per Mcf) times such portion of the Delivery Shortfall Volume not be replaced through Cover (25,000 Mcf) or \$171,500.00. Thus, Seller is liable to Buyer for a total of \$343,000.00.

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GAS SALE AND PURCHASE AGREEMENT

Exhibit G
Section 2.4(D) Examples

Note: Per Section 2.4(D)(4)(F), the following examples do not include Incidental Deviations.

Example 1: Buyer fails to purchase and take 50,000 Mcf of Base Load Gas when the applicable Base Load Gas Price was \$6.86 per Mcf. Seller sells the entire 50,000 Mcf Receipt Shortfall Volume via Cover at a weighted average sales price of \$5.86 per Mcf. Buyer is liable to Seller for, and Seller's sole remedy is the positive difference between the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) and the weighted average sales price received by Seller for such sales Gas (\$5.86 per Mcf), or \$1.00 per Mcf multiplied by the volume of such sales Gas (50,000 Mcf) or a total of \$50,000.00.

Example 2: Buyer fails to purchase and take 50,000 Mcf of Base Load Gas when the applicable Base Load Gas Price was \$6.86 per Mcf. Seller sells 25,000 Mcf of the Receipt Shortfall Volume via Cover at a weighted average sales price of \$5.86 per Mcf and the remaining 25,000 Mcf of the Receipt Shortfall Volume via Cover at a weighted average sales price of \$4.86 per Mcf. Buyer is liable to Seller for, and Seller's sole remedy is, the positive difference between the Sales Price for Base Load Gas applicable that Year and the weighted average sales price received by Seller for such sales Gas multiplied by the volume of such sales Gas [(\$6.86 per Mcf less \$5.86 (or \$1.00 per Mcf) multiplied by 25,000 Mcf, or \$25,000) plus (\$6.86 per Mcf less \$4.86 (or \$2.00 per Mcf) multiplied by the remaining 25,000, or \$50,000)], or a total of \$75,000.00.

Example 3: Buyer fails to purchase and take 50,000 Mcf of Base Load Gas when the applicable Base Load Gas Price was \$6.86 per Mcf. Seller sells 25,000 Mcf of the Receipt Shortfall Volume via Cover at a weighted average sales price of \$5.86 but is unable to sell the remaining volume of 25,000 Mcf. Buyer is liable to Seller for, and Seller's sole remedy is: (1) for the 25,000 Mcf of the Receipt Shortfall sold, the positive difference between the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) and the weighted average sales price received by Seller for such sales Gas (\$5.86 per Mcf), or \$1.00 per Mcf multiplied by the volume of such sales Gas (25,000 Mcf), or \$25,000, plus (2) for the remaining 25,000 Mcf that was unsold, Buyer shall be responsible for, and shall pay Seller, the Sales Price for Base Load Gas (\$6.86 per Mcf) times such portion of the Receipt Shortfall Volume not sold through Cover (25,000 Mcf) or \$171,500, for a total of \$196,500.00.

Example 4: Buyer fails to purchase and take 25,000 Mcf of Base Load Gas and 25,000 Mcf of Swing Load Gas when the applicable Sales Price was \$6.86 per Mcf for Base Load Gas and \$8.58 for Swing Load Gas. Seller sells 50,000 Mcf of Cover Gas at a weighted average sales price of \$6.86 per Mcf. Buyer is liable to Seller for, and Seller's sole remedy is, the positive difference between the Sales Price for Base Load Gas applicable that Year (\$6.86 per Mcf) and the average weighted sales price received by Seller for such sales Gas (\$6.86 per Mcf), or \$0.00 per Mcf multiplied by the volume of such sales Gas (50,000 Mcf), for a total of \$0.00 (*Cover damages are based upon the Base Load Gas Price*).

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Example 5: Buyer fails to purchase and take 25,000 Mcf of Base Load Gas and 25,000 Mcf of Swing Load Gas when the applicable Sales Price was \$6.86 per Mcf for Base Load Gas and \$8.58 for Swing Load Gas. Seller is unable to sell any Cover Gas. Buyer is liable to Seller for, and Seller's sole remedy is, the Sales Price for Base Load Gas (\$6.86 per Mcf) times the Receipt Shortfall Volume not sold through Cover (50,000 Mcf), or a total of \$343,000.00.

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**Exhibit H
Section 7.1(B) and (C) Examples**

EXAMPLE 1: October 2014 of Contract Year 1

Assumptions

- Average Daily Contract Quantity for Contract Year 1 = 10,000,000 Mcf/365 days = **27,397 Mcf**
- Monthly Average Contract Quantity for October 2014 = 27,397 Mcf X 31 days = **849,307 Mcf**
- Therefore, all Gas actually delivered in October 2014 up to 849,307 Mcf will be Base Gas Volumes and priced as Base Gas. All Gas delivered in excess of 849,307 Mcf will be priced as Swing Gas.
- Pursuant to Section 2.3(D)(1)(a), the Monthly Delivered Quantity is anticipated to be **1,054,000 Mcf** (Daily Contract Quantity for October 2014 is 34,000 Mcf/day. 34,000 Mcf x 31 days = 1,054,000 Mcf).

Calculations

- If the Monthly Delivered Quantity for October 2014 is 1,054,000 Mcf:
 - o The Base Load Gas Charge is **849,307 Mcf x \$6.86 = \$5,826,246**
 - o The Swing Load Gas Charge is **204,693 Mcf x \$8.58 = \$1,756,266**
- If Buyer takes 100,000 Mcf of Discretionary Gas and the Monthly Delivered Quantity for October 2014 is 1,154,000 Mcf:
 - o The Base Load Gas Charge is **849,307 Mcf x \$6.86 = \$5,826,246**
 - o The Swing Load Gas Charge is **304,693 Mcf x \$8.58 = \$2,614,266**
- If the Monthly Delivered quantity for October 2014 is 1,075,080 Mcf:
 - o The Base Load Gas Charge is **849,307 Mcf x \$6.86 = \$5,826,246**
 - o The Swing Load Gas Charge is **225,773 Mcf x \$8.58 = \$1,937,132**

EXAMPLE 2: August 2014 of Contract Year 1

Assumptions

- Average Daily Contract Quantity for Contract Year 1 = 10,000,000 Mcf/365 days = **27,397 Mcf**
- Monthly Average Contract Quantity for August 2014 = 27,397 Mcf x 31 days = **849,307 Mcf**
- Therefore, all Gas actually delivered in August 2014 up to 849,307 Mcf will be Base Gas Volumes and priced as Base Gas. All Gas delivered in excess of 849,307 Mcf will be priced as Swing Gas.

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STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA

- Pursuant to Section 2.3(D)(1)(a), the Monthly Delivered Quantity is anticipated to be **589,000 Mcf** (Daily Contract Quantity for August 2014 is 19,000 Mcf/day. 19,000 Mcf x 31 days = 589,000 Mcf).

Calculations

- If the Monthly Delivered Quantity for August 2014 is 589,000 Mcf:
 - o The Base Load Gas Charge is **589,000 Mcf x \$6.86 = \$4,040,540**
 - o The Swing Load Gas Charge is **0 Mcf x \$8.58 = \$0**
- If Buyer takes 100,000 Mcf of Discretionary Gas and the Monthly Delivered Quantity for August 2014 is 689,000 Mcf:
 - o The Base Load Gas Charge is **689,000 Mcf x \$6.86 = \$4,726,540**
 - o The Swing Load Gas Charge is **0 Mcf x \$8.58 = \$0**
- If the Monthly Delivered Quantity for August 2014 is 572,508 Mcf:
 - o The Base Load Gas Charge is **572,508 Mcf x \$6.86 = \$3,927,405**
 - o The Swing Load Gas Charge is **0 Mcf x \$8.58 = \$0**