

State of Alaska
Department of Natural Resources
Alaska North Slope Royalty Gas Sale
Offer

Name of Offeror Chevron U.S.A. Inc.

Address P.O. Box 36366, Houston, TX 77236

Contact Person Mr. George Michie Phone No 713-754-4561

To the Commissioner of Natural Resources:

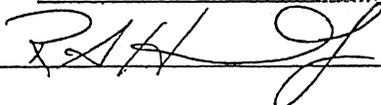
In response to the State's Solicitation for Offers issued December 26, 2001, the undersigned offeror, having been qualified by the Commissioner, makes the attached offer for Alaska North Slope Royalty Gas.

Additional information that the Commissioner may read at the public hearing to be held February 1, 2002 is below:

Offeror has no additional material to provide at this time.

Offeror: Chevron U.S.A. Inc.

Date: January 30, 2002

By: 

Title: Vice President, Alaska SBU

Attach Proposal



January 30, 2002

Alaska Department of Natural Resources
Attention: Director, Division of Oil & Gas
550 West 7th Avenue, Suite 800
Anchorage, AK 99501-3501

RE: Solicitation for Offers to Purchase Alaska North Slope Royalty Gas

Gentlemen:

Below please find a proposal by Chevron U.S.A. Inc. ("Buyer") of terms and conditions under which it would purchase Alaska North Slope Royalty in Kind gas ("RIK gas"). The following has been prepared based on the information provided by the State of Alaska in its Final Finding and Determination for a Solicitation of Offers to Purchase Alaska North Slope Royalty Gas dated December 26, 2001. As an owner in the Point Thomson Unit, Buyer has an interest in obtaining capacity on any pipeline built to carry gas away from Alaska's North Slope ("North Slope Pipeline" or "Pipeline"), however, without a significant interest in Prudhoe Bay, and without knowing when and how Point Thomson might be connected to a North Slope Pipeline, Buyer desires to enhance its ability to obtain pipeline capacity in any open season that might be held for the Pipeline. In addition, the uncertainties around the terms and conditions for service on the Pipeline, and the location, design and length of the Pipeline, cause Buyer to require as a condition precedent in its final gas sales agreement that Buyer be permitted to terminate the agreement in the event that Buyer is unable or unwilling to obtain capacity on the Pipeline in an open season, or otherwise. Whether to obtain any capacity on the Pipeline must be in Buyer's sole discretion.

In addition, this proposal is subject to the execution and final ratification of a detailed gas sales agreement between the State and Buyer, with the understanding that mutual consent is required for any such agreement, and Buyer's Cash Bonus will be refunded without interest if the State and Buyer fail to enter into a definitive agreement for any reason. With these understandings, and the anticipation that the State of Alaska will carefully consider its bid, Chevron proposes the following terms as part of the agreement:

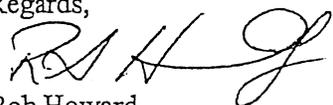
1. **Minimum Cash Bonus.** Buyer is prepared to offer a one time Minimum Cash Bonus of \$1.00 per Mcf per day for the Maximum desired quantities of 375 MMCF (three hundred seventy five million standard cubic feet) per day. A check for \$375,000 (three hundred and seventy five thousand dollars) is enclosed with this bid.
2. **Base Price.** Buyer proposes to pay for each mcf of RIK gas delivered to Buyer, the volume weighted Royalty In Value price determined at the delivery point as defined in the relevant Point Thomson Unit Lease Agreement and Prudhoe Bay Lease Agreement, provided that certain provisions for price re-openers are included in the final gas sales contract. These re-openers would contemplate material adverse changes in market conditions or prices or changes in the existing Royalty in Value formula set forth in the leases.
3. **Option Price.** Buyer desires the right to reduce its Maximum Desired Quantity by up to 100%. As consideration for the right to reduce the Maximum Quantities at any time during the term of the Agreement, by an amount in excess of 50% of the Maximum Quantity, Buyer

will commit that to the extent the Maximum Quantity is reduced by an amount in excess of 50% of the Maximum Quantity during the contract period, Buyer will transport gas produced from State-leased acreage for which the State is entitled to a royalty benefit using Buyer's capacity in the Pipeline.

4. Quantity of Gas. Buyer proposes to purchase a Maximum Quantity of gas in the amount of 375 MMCF (three hundred seventy five million standard cubic feet) per day. In the event Transportation is paid by Buyer for gas not received, Buyer proposes to establish an accrual account for the transportation fees paid for gas not transported. It is Buyer's proposal that these accrued costs be used in the calculation of net sales price per a mutually agreeable drawdown mechanism for the accrual account that is yet to be determined.
5. Term. The contract would terminate at the earlier of when Buyer exercised its termination rights or at the end of the transportation contract entered into by Buyer for the transportation on the North Slope Pipeline.
6. Point of Delivery. The point where the RIK gas is delivered to Buyer must be physically connected to a regulated pipeline for which Buyer has the ability to obtain transportation rights on a commercially reasonable basis.
7. Field and Conditioning Costs. To the extent, if any, the Base Price already reflects a reduction for the amount of the field and conditioning costs, Buyer agrees to pay any and all field and conditioning costs chargeable against State's royalty share of gas delivered under the contract. Buyer agrees to pay all other field and conditioning costs applicable to the RIK gas, provided these costs can be deducted from Buyer's purchase price for the gas as calculated in the Base Price formula in Section 2 above.
8. Assignment. Buyer would have the right to assign the gas sale agreement.
9. Prequalification. Please find attached as Exhibit A our completed application for qualification.

ChevronTexaco again wishes to express its appreciation for the State's consideration of our proposal. Please contact George Michie at (713) 754-4561 if you need any clarification or if you have any questions.

Regards,



Bob Howard
Vice President, Alaska Strategic Business Unit
Chevron U.S.A. Inc.

Attachments