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Mr. Tommy L. Twomey II, CMI  
Director, Property Tax  
Andeavor Companies, Inc.  
19100 Ridgewood Parkway  
San Antonio, Texas 78259

August 2, 2017

Mr. Tom Anderson  
Assessor  
Kenai Peninsula Borough  
144 North Binkley Street  
Soldotna, Alaska 99669

**Re: Engagement Letter to Provide Appraisal Services for the Andeavor Kenai Refinery in Kenai Peninsula Borough, Alaska, as of January 1, 2018**

Dear Messrs. Twomey and Anderson:

This engagement letter (the "Engagement Letter") confirms that we, Duff & Phelps, LLC, ("Duff & Phelps") have been retained by both Andeavor Companies, Inc. (the "Company" or "Andeavor") and Kenai Peninsula Borough Assessing Department (the "Borough" or "Assessor"), to provide the valuation services (the "Services") as set out below the Full and True Value of the Andeavor (formerly, "Tesoro") Kenai Refinery, located near Kenai, Alaska as of January 1, 2018 (the "Valuation Date").

Duff & Phelps understands that the Services are being performed on behalf of Company and the Borough to provide an appraisal report to be used in an attempt to reach a mutually agreeable valuation and that all information gathered, opinions formed and documents generated are to be considered and maintained as confidential and subject to the Attorney Client and Attorney Work Product privileges. All documents generated and opinions developed shall be conveyed only to you or your designee. Duff & Phelps may prepare a report utilizing Andeavor confidential information and including a general overview of aggregated information derived from the Andeavor confidential information. Andeavor and Borough may sign a confidentiality agreement covering information Andeavor deems confidential. Duff & Phelps shall not be responsible for any such determination. Duff and Phelps shall provide any and all preliminary analyses, opinions, draft and final reports to Andeavor and Borough simultaneously.

Andeavor and the Borough each reserve the rights to hire one or more review appraisers to conduct one or more appraisal reviews of the Final Report signed by Duff & Phelps, LLC, whether or not this matter is settled or proceeds to administrative or legal proceedings. Collectively, this arrangement is the "Engagement".

### Scope of Services

The Company and the Borough has expressed a desire and willingness to engage Duff & Phelps for valuation services for the Kenai Refinery. The Services will include estimating the Full and True Value of certain assessed property consisting of real and personal property of the Kenai Refinery located at 54741 Tesoro Road, Kenai, Alaska as of January 1, 2018. Land will be excluded from this analysis as

it is understood that the value of the land has been stipulated to as of the January 1, 2018 appraisal date. However, the legal description of the Kenai Refinery is: T 7N R 12W SEC 22 Seward Meridian KN GOVT LOT 4 & SE1/4 NW1/4.

Full and True Value is defined by the Alaska Statute AS 29.45.110 as:

“...the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer both conversant with the property and with prevailing general price levels.”

For our valuation and appraisal analyses, we will utilize the following procedures:

- Meet with the Company and Borough to discuss the business operations, performance, and projected economics and utilization;
- Prepare valuation schedules and supporting documentation detailing our conclusion for the real and personal property fair market value, exclusive of land;
- Conduct a site inspection of the property to gather specific information such as operation forecast, utilization, equipment specifications, and other pertinent data;
- Conduct a cost approach to derive an estimate of value considering replacement cost new less depreciation of the Kenai Refinery;
- Conduct a market approach based upon the national market to derive an estimate of value considering "sales of similar assets";
- Conduct an "after-tax" discounted cash flow ("DCF") analysis and identify intangible asset values that are inherent within the subject property to derive an estimate of value consideration to the underlying real and personal property; and
- Prepare Appraisal Report including our written opinion and analyses allocating value to real and personal property, excluding land.

It is understood that the valuation services are to be conducted for property tax purposes.

During the course of the Engagement, we may use and rely upon financial and other information, including prospective financial information obtained from the Company and from various public, financial, and industry sources. Any conclusions reached by us will be dependent on such information being complete and accurate in all material respects. However, as is customary in the appraisal profession, the scope of our work will not enable us to accept responsibility for the accuracy and completeness of such provided information.

For the appraisal services, we propose one phase of the overall engagement: to determine what will be a preliminary prospective appraisal of the Andeavor Kenai Refinery as of January 1, 2018.

### **Phase 1 – Prepare Full and True Value Analyses and Appraisal Report**

In Phase 1 Duff & Phelps will perform a valuation analysis for the assets described in the description of the operational subject assets section above and provide the results both verbally and prepare an Appraisal Report.

### Valuation Approaches

Our analysis will consider all three basic approaches to value: income, sales comparison, and cost. While we will give consideration to all three approaches to value, we will rely on and correlate the results of those approaches that are appropriate and most indicative of the value required for assessment purposes.

### Deliverables

Our deliverable will consist of an Appraisal Report in narrative format. The report will summarize the procedures used to arrive at our valuation conclusion. As such, it will provide only summary discussions of the data, and reasoning used in the analysis. The initial report will be presented in a draft format for your review and editorial comments. The final report will only be issued after the Company and Borough has thoroughly reviewed the draft report.

We will work with the Company and Borough to meet your timing requirements. We will plan to start the engagement soon after we receive written approval from both the Company and Borough. We also plan to provide you with a preliminary indication of value verbally, as soon as we are confident of our opinion of value. The preliminary indication of value will be based on limited information and investigation and hence, may not represent our final opinion of value if new and/or additional information requires us to change our opinion. The preliminary indication of value will not be in the form of a written report.

### Timing

Finalization of the Phase 1 valuation is anticipated to occur within 60 days after the execution of this engagement letter and once the required requested data is received from the Company.

### Staffing and Fees

Mark Simzyk will be the Managing Director in charge of the Services on behalf of Duff & Phelps, and will perform the day-to-day aspects of our work program. We will call upon additional experienced staff when required.

Based upon our understanding of the engagement, we estimate fees for Phase 1 of the Engagement to conduct a prospective appraisal and provide a summary Appraisal Report of the tangible real and personal property of the Tesoro Kenai Refinery as of January 1, 2018, to be **\$135,000**, fixed fee, inclusive of out-of-pocket expenses. Andeavor and Borough will be jointly and severally liable for the fee.

The above estimates are based on the expectations and assumptions described in the Scope of Services section of this Engagement Letter.

## Form of Advice

It is anticipated that the written advice Duff and Phelps provides during the course of this engagement will be limited to the scope of the work described herein. One or more additional issues may exist that could affect the Federal tax treatment of the real and personal property that will be the subject of our analysis. Our analysis will not consider or provide a conclusion with respect to any of those issues. With respect to any significant Federal tax issue outside the scope of the report, the report will not be written, and cannot be used, by anyone for the purpose of avoiding Federal tax penalties.

## Acknowledgement and Acceptance

In accordance with Duff & Phelps policy, it is necessary that we receive an executed copy of this Engagement Letter and the attached Terms and Conditions (to which this Engagement is subject) prior to commencement of the Services. If the scope and terms of the Engagement Letter and the attached Terms and Conditions are acceptable, please acknowledge your acceptance by signing the confirmation below and returning this Letter to us at the above address and e-mailing ([mark.simzyk@duffandphelps.com](mailto:mark.simzyk@duffandphelps.com)) or faxing (312) 265-3558 a copy to us.

Please do not hesitate to contact me at (312) 697-4707 if you have any questions or amendments.

Sincerely,



Mark R. Simzyk  
Managing Director  
Property Tax

cc: Robert Herman (Duff & Phelps)  
Shaun Kalscheur (Duff & Phelps)

### Confirmation of Terms of Engagement

Re:      Engagement Letter to Provide Valuation Services

Having read this Letter of Engagement from Duff & Phelps, LLC, dated August 2, 2017, we acknowledge acceptance of and agree to engage Duff & Phelps, LLC upon the terms of the same.

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Date:

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Signed:      John Sherburne  
Title:      VP, Taxes  
Company:      Andeavor Companies, Inc.

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Signed:      Mike Navarre  
Title:      Mayor  
Employer:      Kenai Peninsula Borough

## Attachment to the Engagement Letter

### Terms and Conditions

The following are the terms and conditions (the "Terms and Conditions") on which we will provide the services (the "Services") set forth in the attached engagement letter (the "Engagement Letter"). Together, the Terms and Conditions and the Engagement Letter are referred to as the "Contract," which forms the entire agreement between Duff & Phelps, LLC ("Duff & Phelps") and Andeavor Companies, Inc. and Kenai Peninsula Borough Assessing Department (collectively, "you") relating to the Services.

### Fees

1. Our invoices are payable upon receipt. If we do not receive payment of any invoice within 45 days of the invoice date, we shall be entitled, without prejudice to any other rights that we may have, to suspend provision of the Services until all sums due are paid in full.
2. If any amounts payable hereunder are not paid within thirty (30) days when due, such amounts shall accrue interest at a rate equal to the lesser of two percent (2%) per month or the highest interest rate allowed under the law of New York. In the event that we are required to initiate a lawsuit or hire attorneys to collect any past due amounts, in addition to any other rights and remedies available to us, we shall be entitled to reimbursement of our attorney's fees and other costs of collection.
3. We have no responsibility to update any Report, analysis or any other document relating to this Engagement for any events or circumstances occurring subsequent to the date of such Report, analysis or other document. Any such subsequent consultations or work shall be subject to arrangements at our then standard fees plus expenses.
4. Either party may request changes to the Services. We shall work with you to consider and, if appropriate, to vary any aspect of the Engagement, subject to payment of reasonable additional fees and a reasonable additional period to provide any additional services. Any variation to this Contract, including any variation to fees, services, or time for performance of the Services, shall be set forth in a separate engagement letter executed by both parties which shall form part of this Contract.
5. Our performance of the Services is dependent upon you providing us with accurate and timely information and assistance as we may reasonably require from time to time. You shall use reasonable skill, care and attention to ensure that all information we may reasonably require is provided on a timely basis and is accurate and complete. You shall notify us if you subsequently learn that the information provided is incorrect or inaccurate or otherwise should not be relied upon. *The inability to supply us with the agreed upon information in a useable form within the amount of time reasonably required by us may increase fees and delay completion. Additionally, in the event unforeseen complications are encountered which would significantly increase fees; we would discuss these with you and await your approval before proceeding.*

### Termination

6. Either party may terminate this Contract in the event that the other party has breached any material provision of this contract and such breach has not been cured within ten (10) days after receipt of written notice from the then non-breaching party.
7. Upon termination of this Contract, each party shall, upon written request from the other, return to the other all property and documentation of the other that is in its possession, except that we shall be entitled to retain one copy of such documents in order to maintain a professional record of our involvement in the Engagement, subject to our continuing confidentiality obligations hereunder.

8. The provisions included within "Fees", "Preservation of Confidential Information" and "Other Terms and Provisions" shall survive the termination or expiration of this Contract.

#### **Valuation Work Products and Report**

9. At the conclusion of the Engagement, we will prepare a draft Report detailing our valuation procedures and the results of our work. This Report will include, but will not be limited to, a narrative description of the methodologies used to estimate the Fair and True Value. Once you have read the draft Report and we have received your comments on it, we will issue our final Report bearing the signature of Duff & Phelps, LLC.
10. Prior to the finalization of the Services and the Report, we will confirm facts with you. We may do this by providing you with drafts of the valuation analysis and the Report under the condition that in no circumstances are such drafts to be copied or given to other persons, except that it may be provided to the parties' legal counsel, and the Company's independent auditors. We may also require a letter from you confirming representations made by Company upon which we have relied. In addition, with respect to any information provided by Company, we will require from you a written confirmation that, to the best of your knowledge and belief, such information was accurate and that no significant information essential to the Services or Report has been withheld from us.
11. Our Report will be based upon the information provided by and on behalf of Company and the Borough. We assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of Company and the Borough. There will usually be differences between estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. You acknowledge that no reliance shall be placed on draft Reports, conclusions or advice, whether oral or written, issued by us since the same may be subject to further work, revision and other factors which may mean that such drafts are substantially different from any final Report or advice issued.
12. Any advice given or Report issued by us is provided solely for your use and benefit and only in connection with the Services that are provided hereunder. Except as required by law, you shall not provide such Report to any third party, except that it may be provided to the parties' legal counsel, the Company's independent auditors, the Company, the Kenai Peninsula Borough Board of Equalization and any court which may adjudicate any appeal from any decision of the Kenai Peninsula Borough Board of Supervisors. The Report may also be provided to one or more review appraisers to conduct one or more appraisal reviews, upon each such appraiser's prior acknowledgement and acceptance of reasonable use, disclosure, and hold harmless provisions in a form satisfactory to us. Notwithstanding the foregoing, (i) submission of our report or any portion thereof to, or responding to any comment letter issued by, the Securities and Exchange Commission or its staff, or any written or verbal references to us, our Report or to the Services in such a response is subject to you providing us with prior notice, and allowing us to provide input as to the content of such response, and (ii) our Report, when prepared for a tax reporting/planning purpose as stated in our engagement letter and/or Report, may be submitted to your tax counsel, tax advisors, and/or the IRS/specific tax authority if such Report submission is directly related to the stated tax reporting/planning purpose and, (iv) you agree to provide us with prior notice of, and the opportunity to participate in, any discussion, negotiation or settlement with the IRS or any such tax authority, to the extent that such discussion, negotiation or settlement could have a material effect on us or our estimate of Fair Market Value. In no event, regardless of whether consent or pre-approval has been provided, shall we assume any responsibility to any third party to which any advice or Report is disclosed or otherwise made available.
13. It is understood and agreed that the final Report resulting from this Engagement shall remain your property. To the extent that Duff & Phelps utilizes any of its property (including, without limitation, any hardware or software) in connection with this Engagement, such



- property shall remain the property of Duff & Phelps, and you shall not acquire any right or interest in such property or in any partially completed Report. We shall have ownership (including, without limitation, copyright ownership) and all rights to use and disclose our ideas, concepts, know-how, methods, techniques, processes and skills, and adaptations thereof in conducting our business (collectively, "Know-How") regardless of whether such Know-How is incorporated in any way in the final Report.
14. The scope of the final Report we will provide pursuant to the terms of this Contract will be limited to the scope as described in the Scope of Services section. In compliance with requirements imposed by the Internal Revenue Service, as stated in Circular 230, Duff and Phelps will provide the following disclosure on all communications with the Company: "We inform you that any US federal tax advice contained in this communication including any attachments is not intended or written to be used and cannot be used for the purpose of (i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing, or recommending to any other party any transaction or matter addressed herein."
  15. The Report or any results of our Services shall not constitute a Solvency Opinion or a Fairness Opinion and may not be relied upon by you or any other party as such. Furthermore, any analyses we perform should not be taken to supplant any procedures that you should undertake in your consideration of the transaction contemplated in connection with this engagement or any other past present or future transaction.
  16. By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment.

#### **Preservation of Confidential Information**

17. Neither party will disclose to any third party without the prior written consent of the other party any confidential information which is received from the other party for the purposes of providing or receiving the Services which if disclosed in tangible form is marked confidential or if disclosed otherwise is confirmed in writing as being confidential or, if disclosed in tangible form or otherwise, is manifestly confidential. Both of us agree that any confidential information received from the other party shall only be used for the purposes of providing or receiving the Services under this or any other contract between us.
18. These restrictions will not apply to any information which: (a) is or becomes generally available to the public other than as a result of a breach of an obligation by the receiving party; (b) is acquired from a third party who owes no obligation of confidence with respect to the information; or (c) is or has been independently developed by the recipient.
19. Notwithstanding the foregoing, either party will be entitled to disclose confidential information of the other (i) to our respective insurers or legal advisors, or (ii) to a third party to the extent that this is required, by any court of competent jurisdiction, or by a governmental or regulatory authority or where there is a legal right, duty or requirement to disclose, provided that (and without breaching any legal or regulatory requirement) where reasonably practicable not less than two (2) business days notice in writing is first given to the other party.

#### **Other Terms and Provisions**

20. Except in the event of our willful misconduct or fraud, in no event shall we be liable to either Company or the Borough (or any person claiming through Company or the Borough) under this Contract, under any legal theory, for any amount in excess of the total professional fees paid by the parties to us in the aggregate under this Contract or any addendum to which the claim relates. In no event shall we be liable to Company or the Borough under this Contract under any legal theory for any consequential, indirect, lost profit or similar damages relating to or arising from our Services provided under this Contract.



21. You accept and acknowledge that any legal proceedings arising from or in connection with this Contract (or any variation or addition thereto) must be commenced within one (1) year from the date when you become aware of or ought reasonably to have become aware of the facts, which give rise to our alleged liability. You also agree that no action or claims will be brought against any Duff & Phelps employees personally.
22. Company and the Borough agree, jointly and severally, to indemnify and hold harmless Duff & Phelps, its affiliates and their respective employees from and against any and all third party claims, liabilities, losses, costs, demands and reasonable expenses, including but not limited to reasonable legal fees and expenses, internal management time and administrative costs, relating to Services we render under this Contract or otherwise arising under this Contract. The foregoing indemnification obligations shall not apply in the event that a court of competent jurisdiction finally determines that such claims resulted directly from the gross negligence, willful misconduct or fraudulent acts of Duff & Phelps. The Borough's obligations under this paragraph are subject to the appropriation of available funds as applied to the Borough.
23. You accept and acknowledge that we have not made any warranties or guarantees, whether express or implied, with respect to the Services or the results that you may obtain as a result of the provision of the Services.
24. Except for your payment obligations, neither of us will be liable to the other for any delay or failure to fulfill obligations caused by circumstances outside our reasonable control.
25. This Contract constitutes the entire agreement between the parties hereto regarding the subject matter hereof and supersedes any prior agreements (whether written or oral) between the parties regarding the subject matter hereof. This Contract may be executed in any number of counterparts each of which shall be an original, but all of which together shall constitute one and the same instrument.
26. This Contract shall be governed by and interpreted in accordance with the internal laws of the State of New York and the courts of the State of New York shall have exclusive jurisdiction in relation to any claim arising out of this Contract.