

INVITATION FOR OFFER – SMALL REFINER ROYALTY-IN-KIND CRUDE OIL
IFO No: 1435-02-02-RP-40381
Deliveries beginning October 1, 2002

Introduction

The Minerals Management Service (MMS) of the U.S. Department of the Interior is soliciting written offers from pre-qualified small refiners to purchase Royalty Oil and Condensate produced from certain Federal offshore leases in the Gulf of Mexico.

This sale is for either a six-month or one-year term beginning October 1, 2002. Successful offerors will take custody of the Royalty Oil at offshore delivery points and will be responsible for its movement of Royalty Oil downstream of these points.

Offers must be made in writing and submitted via facsimile (fax number 303-231-3846) or email (crystal.tobar@mms.gov) **by 10:00 a.m. Mountain Time on July 9, 2002**. MMS will confirm receipt of all offers. Royalty Oil sales packages will be awarded by 2:00 p.m. Mountain Time on July 11, 2002. Technical questions should be addressed to Crystel Tobar at 303-231-3126. Contracting questions should be addressed to Terry Grush at 303-231-3932.

Offers¹

Exhibit A identifies 34 packages of Royalty Oil offered. Exhibit B provides further detail on properties, operators, pipelines, delivery points, and other information pertinent to this Invitation for Offer (IFO). The royalty volumes shown for each package represent MMS' most recent production data for properties behind the indicated delivery points. These volumes are only estimates of Royalty Oil available to successful offerors and are not warranted volumes. You may call Crystel Tobar for a 1-year production history for royalty volumes associated with the delivery points in Exhibit A. Exhibit C shows the leases comprising all unit agreements identified in Exhibit B.

Exhibit A is the offer sheet to be completed and faxed to the contact indicated above as your offer. Offers must be on the full royalty volume to be delivered by the operators of the properties behind the indicated delivery points. Tiered offers that include different prices based on levels of volumes delivered will not be acceptable. MMS prefers to transact no more than one award of Royalty Oil for each Royalty Oil package. However, consideration may be given to offers on only part of a Royalty Oil package if favorable to the government. By submission of an offer, the offeror agrees to be bound by the terms of its signed MMS base contract "RIK Crude Oil General Terms and Conditions" and this solicitation.

¹ **Offerors must be pre-qualified to submit offers.** The pre-qualification process is described in our website at <http://www.mrm.mms.gov/rikweb/prequal.htm>. Successful offerors must submit Form MMS-4070, and have a signed MMS base contract, "RIK Crude Oil General Terms and Conditions", on file with MMS.

MMS reserves the right to reject any offer received. Packages in this IFO for which all offers are rejected will be included in another MMS RIK crude oil offering, "Strategic Petroleum Reserve Exchange of Royalty Oil IFO", (No. 1435-02-02-RP-40380) open to both eligible, pre-qualified small refiners and other pre-qualified potential exchange partners. Please see the RIK Home Page <http://www.mrm.mms.gov/RIKweb/default.htm> for details regarding this related IFO which is expected to be posted on or about July 11, 2002.

Successful offerors are granted the rights to purchase Royalty Oil delivered by operators at the delivery points indicated in Exhibit A, not the actual entitlement due the Federal government. Imbalances between these two volumes will be resolved between MMS and the producers. Royalty Oil from the properties listed in Exhibit A that originates from new wells added during the term of this IFO will be automatically added to the volumes purchased under this IFO. Royalty Oil from new properties behind the delivery points in Exhibit A that commence production during the term of this IFO will be added to the volumes purchased under this IFO on a case by case basis pursuant to mutual consent of MMS and successful offerors.

Offers for HLS and LLS crude types should include the offerors' estimates of quality bank debit/credit. Please see the "Quality" section of this IFO for more information.

Pricing Mechanism. Offerors must submit offers as an increment or decrement from one of the following pricing formulas:

- (1) **(Koch Posting + Platts P+) – (Platts WTI - Platts Crude Type Price)**
or
(2) **(Calendar NYMEX + Daily Roll) - (Platts WTI - Platts Crude Type Price)**

Where: Koch Posting: Koch Supply and Trading's posting for West Texas/New Mexico Intermediate (WTI), deemed 40 degrees, for the Physical Month of Delivery

Platts P+: Arithmetic average of the daily high and low price quotes for "P-Plus WTI" for the Platts Month of Delivery

Platts WTI: The arithmetic average of the daily high and low price quotes for WTI for the Platts Month of Delivery

Platts Crude Type Price: The arithmetic average of the daily high and low price quotes for the crude type that is the subject of the offer (i.e., HLS, LLS, Mars, Poseidon, or Bonito) for the Platts Month of Delivery

Platts Month of Delivery: Refers to quotes in Platts Oilgram Price Report for the period of time from the twenty-sixth day of the month two months prior to the physical month of delivery through the twenty-fifth day of the month one month prior to the Physical Month of Delivery (excluding weekends and holidays)

Physical Month of Delivery: The calendar month during which delivery of crude oil occurs

Calendar NYMEX: Arithmetic average of the daily settlement price for the "Light Sweet Crude Oil" front month futures contract reported by the New York Mercantile Exchange (NYMEX) during the Physical Month of Delivery (excluding weekends and holidays)

Daily Roll: $(X - Y).6667 + (X - Z).3333$, where:

X = Average of the daily NYMEX settlement price for the prompt month, trading days only, when the Physical Month of Delivery is the prompt month trading on NYMEX

Y = Average of the daily NYMEX settlement price for the second month during the same period, trading days only

Z = Average of the daily NYMEX settlement price for the third month during the same period, trading days only

Term

Deliveries of Royalty Oil to successful offerors will commence October 1, 2002, and will terminate either on March 31, 2003 or September 30, 2003.

Transportation and Scheduling of Royalty Oil

Successful offerors are responsible for transporting all Royalty Oil volumes downstream of the delivery points specified in Exhibit A. Successful offerors must nominate and schedule all volumes purchased through this IFO separately from all other volumes owned or controlled at each of the delivery points where Royalty Oil is received.

Successful offerors, through customary industry practice, will communicate directly with MMS and the operator, and will make arrangements for the movement of Royalty Oil from the identified properties. Successful offerors, at their expense, will make all necessary arrangements to receive Royalty Oil at the delivery point(s). Successful offerors are not responsible for any costs of transportation upstream of the delivery point(s).

Exhibit D identifies transportation rates for purchase and sales (buy/sell) agreements that MMS has arranged with Poseidon Pipeline. For Royalty Oil volumes associated with this pipeline, successful offerors may, at their discretion and upon notification to MMS at the technical point of contact above, be designated as MMS' agents under this exchange agreement for the transportation rates and terms specified in Exhibits D. Offerors must indicate on Exhibit A whether they elect to use the MMS arranged buy/sell rate. In the event that there is an increase or decrease in transportation costs relating to properties awarded during the term of the contract, the successful offeror will enter into negotiations with the MMS which may result in a revised accepted price.

Within 10 days of execution of the "MMS Crude Oil Transaction Confirmation" relative to this IFO, successful offerors must request in writing to all pipeline companies that will move Royalty Oil, that MMS royalty volumes be separately itemized on pipeline statements and/or invoices. In cases where the pipeline companies are unable to

breakout the MMS volumes on the pipeline statement, you must provide MMS with acceptable third-party data that breaks out the MMS volumes delivered or use a measurement facilitator designated by the pipeline.

No later than 5 calendar days before the first day of each month, the MMS will notify successful offerors of the daily Royalty Oil volumes anticipated for the following month of production. Successful offerors understand that any such estimates are not warranties of actual deliveries to be made but are provided to facilitate planning of delivery of Royalty Oil. This process will continue for each month of the term of this IFO.

The operators of properties offered in this IFO will use reasonable efforts, consistent with industry practice, to inform MMS and/or successful offerors regarding significant changes in Royalty Oil production levels and production shut-ins.

Imbalances

Imbalances between volumes delivered to successful offerors by lease operators at the offshore delivery points indicated on Exhibit A and volumes entitled to the United States as Lessor will be monitored jointly by MMS and the operator. Routine imbalances will be resolved by adjustments in the volume of Royalty Oil delivered to successful offerors in subsequent months. These adjustments will be reflected in communications from MMS to the successful offeror regarding the first of month availability of Royalty Oil.

Imbalances not remedied within 90 days of the production month will be resolved by mutual agreement between MMS and the operator. MMS will consult with successful offerors in this process. The contract price under this IFO may form the basis of resolution of certain extraordinary imbalances between MMS and operators. The rights and responsibilities of operators under RIK oil situations are outlined in MMS' "Dear Operator" letter included as Exhibit E.

Quality

For packages identified as belonging to crude types Mars, Poseidon, and Bonito (Auger Pipeline) Package 28, GB 426 A, successful offerors will adjust payments to MMS for the actual first receipt point quality bank(s) debits and credits received from the quality bank administrator. Delivery point quality banks will not be included. Such adjusted payments must be made to MMS the month after the quality bank debits and credits are received, and must be accompanied by supporting documentation.

For Bonito (Bonito Pipeline) Package 29, EI 338 A, successful offerors will not adjust payments to MMS for quality bank debits and credits as they will be passed back to the MMS by the operator. For this package, quality bank credits and/or debits should not be reflected in your offer.

For packages identified as belonging to crude types LLS and HLS, successful offerors will not adjust payments to MMS for quality bank debits and credits received. For these packages, quality bank credits and/or debits should be reflected in their offer. The quality

information in Exhibit A represents MMS' most recent data for the delivery points in the packages offered. Actual sulfur and gravity during the term of this IFO may be different.

Consideration of Offers

MMS may award a contract on the basis of initial offer(s) received without discussions. Accordingly, each initial offer should be submitted on the most favorable terms that the offeror can submit. However, MMS may negotiate with offerors in the event offers of similar or unanticipated values are received. All information about the origin and value of offers received will remain confidential, except as noted above under "Imbalances" with respect to resolution of extraordinary imbalances.

In the event that any offeror is successful for packages whose volumes comprise more than 60% of the capacity of its refineries, MMS reserves the right to negotiate with both that small refiner and other offerors to result in awards most advantageous to the Federal Government.

The MMS shall award a contract resulting from this solicitation to the party whose offer, in MMS' judgement, is most advantageous to the Federal Government. MMS will award to successful offerors by means of the "MMS Crude Oil Transaction Confirmation".

Pre-qualification and Credit Requirements

Offerors are required to pre-qualify by signing the MMS base contract "RIK Crude Oil General Terms and Conditions" and providing detailed financial information. Please visit our web site at <http://www.mrm.mms.gov/RIKweb/Oilprequal.htm> regarding pre-qualification information. Upon pre-qualification, MMS will issue an amount of unsecured credit based on the creditworthiness of the offeror. In most cases where offerors that have previously submitted financial documentation for 2001 or 2002, no additional information will be required. However, MMS reserves the right to request updated financial information in any situation it deems as reasonable and may reissue approved lines of credit. Please be advised that MMS will require a parent guaranty in situations where the company submitting the offer is a different entity than the company that has pre-qualified.

For awards exceeding the amount of unsecured credit issued by MMS, successful offerors will be required to provide secured financial assurance in the form of an Irrevocable Letter of Credit (ILOC), Bond, or other MMS-acceptable surety instrument within 5 business days prior to first delivery of oil under the contract. If additional security is required, successful offerors will be notified, and such notice will be included in the sales transaction confirmation. Failure to provide adequate financial assurance when requested may result in a loss of award, unless the MMS Contracting Officer extends the date.

A sample of the ILOC, MMS Form 4071, may be found on the MMS web site at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4071.pdf>. Use MMS Form 4072 <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4072.pdf> for Bonds. The financial institution issuing the ILOC or Surety Company issuing the Bond must meet MMS requirements under 30 CFR Part 208.11.

The ILOC, Bond, or other MMS-acceptable surety instrument must be effective for a period beginning on the date of first delivery under the contract and ending when receipt of final payment under the contract is verified.

The financial assurance amount shall be sufficient to cover the value of 60 days of deliveries of the estimated production of all Royalty Oil awarded, less the amount of unsecured credit issued by the MMS as previously notified. The value of the financial assurance should be calculated as the price per barrel using the offer amount applied to the monthly calendar mean for the Platts crude type price as published in Platts for August 2002. Multiply this amount by the daily royalty production (estimated in Exhibit A) multiplied by 60 days. Finally, subtract the amount of unsecured credit issued by MMS, available for this offer.

Significant and sustained increases in the value of crude oil during the term of the contract may result in a requirement to increase the amount of financial assurance. Further, should the creditworthiness, financial responsibility or ability to perform become unsatisfactory to the MMS at any time during the term of this agreement, satisfactory assurances may be required as a condition to further performance under the agreement. Such assurances include, but are not limited to, a prepayment or a surety instrument in a form and amount satisfactory to MMS. Failure to provide additional performance assurances when requested may result in early termination of the contract.

Governing Contract

This transaction is governed by the MMS base contract "RIK Crude Oil General Terms and Conditions", signed by the offeror and MMS. Conflicts between the terms of this IFO and the General Terms and Conditions will be resolved in favor of this IFO. Only companies who have pre-qualified and signed the MMS base contract may submit valid offers.

Documentation

As stipulated in the MMS base contract, "MMS RIK Crude Oil General Terms and Conditions", successful offerors must provide pipeline statements, invoices, quality bank data, and any other information necessary to support payments to MMS Crude Oil RIK Accounting by the 20th of the month following the month of production. The "MMS Crude Oil Transaction Confirmation" provides points of contact for submission of this information.

PAPERWORK REDUCTION ACT STATEMENT: The Paperwork Reduction Act of 1995 requires us to inform you that the information being collected under this solicitation is necessary to document fulfillment of royalty obligations and sales of minerals from leases on Federal lands. We will use this information to evaluate offers on sales of royalty production. The estimated burden to report is approximately one hour each for a offer document, letter of credit or bond, or financial statement or pre-qualification document. Suggestions on reducing this burden should be directed to the Information Collection Clearance Officer, MS 4230, MMS, 1849 C Street, N.W., Washington, D.C. 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and the Departmental Regulations (43 CFR 2). Storage of such information and access to it are controlled by strict security measures. An agency may not conduct or sponsor and a person is not required to respond to, a collection of information unless it displays a currently valid OMB number.

5 Exhibits:

Exhibit A – Offer Sheet

Exhibit B – RIK Property Profile Detail

Exhibit C – Listing of Leases within Unit Agreements

Exhibit D – Poseidon Buy/Sell Rates

Exhibit E – Sample Dear Operator Letter

Minerals Management Service
 Small Refiner RIK Crude Oil Sale
 IFO No. 1435-02-02-RP-40381
 Term: Deliveries beginning October 1, 2002

Bid Package	Crude Type	Delivery Point(s)	MMS Royalty Volume (bbls/day)	Gravity	Sulfur	Bid 1/ Koch WTI & P-Plus basis (6 Mo.)	Bid 1/ NYMEX & Daily Roll basis (6 Mo.)	Bid 1/ Koch WTI & P-Plus basis (12 Mo.)	Bid 1/ NYMEX & Daily Roll basis (12 Mo.)	Accept MMS Poseidon Buy/Sell? Yes or No
1	Mars	EW 910 A	430	31.0	1.00%					n/a
2	Mars	GC 205 A	6,770	30.8	1.40%					n/a
3	LLS	ST 300 A	1,550	41.0	n/a					n/a
4	LLS	SS 146 SSTI	1,040	32.6, 34.9	n/a					n/a
5	LLS	SS 208 F	650	33.9	n/a					n/a
6	LLS	SM 268 A	760	36.4	n/a					n/a
7	LLS	SS 207 A	535	31.8	n/a					n/a
8	LLS	SM 130 A	1,100	28.7	0.69%					n/a
9	HLS	MP 283 A	1,175	44.7	n/a					n/a
10	HLS	MP 289	2,875	40.0	n/a					n/a
11	HLS	SP 62	5,300	32.9	n/a					n/a
12	HLS	VK 900 A	330	40.6	n/a					n/a
13	HLS	MP 73 A	315	30.2	n/a					n/a
14	HLS	Grand Bay Receiving Station	290	29.4	n/a					n/a
15	HLS	S.W. Pass 24	815	36.5	n/a					n/a
16	HLS	MP 70	200	32.2	n/a					n/a
17	HLS	MP 311 A, MP 311 B	350	31.2, 24.0	n/a					n/a
18	HLS	MP 313 SSTI	445	30.8	n/a					n/a
19	HLS	SP 62 A	700	35.8	n/a					n/a
20	HLS	MP 310 A	600	32.5	n/a					n/a
21	HLS	SP 65 A	530	30.8	n/a					n/a
22	HLS	MP 289 C	410	25.5	n/a					n/a
23	HLS	MP 69 PS	1,650	37.9	n/a					n/a
24	HLS	WD 109	760	40.3	n/a					n/a
25	HLS	SP 77 A	920	37.6	n/a					n/a
26	HLS	SP 70 C	370	24.3	n/a					n/a
27	HLS	MP 252 B	275	48.1	n/a					n/a
28	Bonito	GB 426 A	7,515	42.4	0.75%					n/a
29	Bonito	EI 338 A	290	29.0	1.58%					n/a
30	Poseidon	EI 346 A	700	31.5	1.20%					
31	Poseidon	GB 260 A	2,950	35.0	1.00%					
32	Poseidon	SS 349 A	435	23.5	2.20%					
33	Poseidon	EW 873 A	5,000	23.8	2.80%					
34	Poseidon	GC 254 A	2,120	35.3	1.11%					

- 1/ See "Pricing Mechanism" from IFO: Increment or Decrement from either or both:
- (Koch Posting + Platts P+) - (Platts WTI - Platts Crude Type Price)
 - (Calendar NYMEX + Daily Roll) - (Platts WTI - Platts Crude Type Price)

 Your Name

 Phone No.

 Company Name

 Fax No.

MMS Contacts:
 Crystel Tobar: 303-231-3126
 Richard Fantel: 303-231-3502
 Fax No.: 303-231-3846

RIK Property Profile Detail

Exhibit B

Minerals Management Service
 Small Refiner RIK Crude Oil Sale
 IFO No. 1435-02-02-RP-40381
 Term: Deliveries beginning October 1, 2002

Bid Package	Crude Type	Delivery Point	MMS Facility Measurement Point	Common Industry Name	Producing MMS Lease or Unit Agre. No. (see note 1)	Area	Block	Operator	MMS Royalty Volume (bbls/day) (see note 2)	Gravity	Sulfur	P/L Information	Common Carrier(s)	Buy/Sell
1	Mars	EW 910 A	20608103650		754-396015-A	EW	910	Kerr McGee	430	31.0	1.00%	Amberjack P/L into Mars Oil P/L	yes	
2	Mars	GC 205 A	20608113651	Genesis	754-388011-A	GC	205	Chevron Texaco	6,770	30.8	1.40%	Amberjack P/L into Mars Oil P/L	yes	
		Mars Total --->>						2 FMP's and 2 Properties	7,200					
3	LLS	ST 300 A	20177162600	Popeye Cougar	754-388025-0 754-391007-0 054-005646-0 054-003594-0 054-004240-0 054-005625-0 054-006779-0 054-016466-0	GC ST ST ST ST ST ST ST	116 295 295 301 300 245 302 270	Shell Offshore Inc. Apache Corp. Apache Corp. Shell Offshore Inc. Shell Offshore Inc. Fairways Offshore Expl. Shell Offshore Inc. Fairways Offshore Expl.	1,550	41.0	n/a	Cougar P/L into Whitecap P/L into Ship Shoal P/L	yes	
4	LLS	SS 146 SSTI (see note 3)	20177112606		055-000419-0 055-000420-0	SS SS	150 154	Century Exploration Century Exploration	415	32.6	n/a	Whitecap P/L into Ship Shoal P/L	yes	
			2017711260Y		054-011983-0 055-000419-0 055-000434-0 055-000453-0 055-000453-0	SS SS SS SS SS	148 150 149 130 130	Phillips Century Exploration Phillips Phillips Phillips	625	34.9	n/a	Whitecap P/L into Ship Shoal P/L	yes	
5	LLS	SS 208 F (see note 4)	2017711260G		054-001228-0 054-001230-0 054-015289-0 054-018013-0 055-000827-0	SS SS SS SS SS	208 215 210 187 209	Unocal Unocal Unocal BP Amoco Unocal	650	33.9	n/a	Whitecap P/L into Ship Shoal P/L	yes	
6	LLS	SM 268 A	20177072602		054-002310-0 054-002311-0 054-002600-0 054-012904-0 054-014456-0	SM SM SM SM SM	268 269 281 282 280	RME Petroleum Co. RME Petroleum Co. RME Petroleum Co. RME Petroleum Co. RME Petroleum Co.	760	36.4	n/a	Seagate P/L into Ship Shoal P/L • Seagate contact: Clay Bruches (832-636-7157)	no yes	Seagate
7	LLS	SS 207 A	2017711260E		054-001522-0 054-001523-0 054-001524-0 054-002923-0 054-003170-0 054-010775-0 054-010779-0 891-020231-0	SS SS SS SS SS SS SS SS	206 207 216 291 290 190 240 207	RME Petroleum Co. RME Petroleum Co. RME Petroleum Co. RME Petroleum Co. RME Petroleum Co. RME Petroleum Co. RME Petroleum Co. RME Petroleum Co.	535	31.8	n/a	Unocal P/L into Whitecap P/L into Ship Shoal P/L	yes	

RIK Property Profile Detail

Exhibit B

Minerals Management Service
 Small Refiner RIK Crude Oil Sale
 IFO No. 1435-02-02-RP-40381
 Term: Deliveries beginning October 1, 2002

Bid Package	Crude Type	Delivery Point	MMS Facility Measurement Point	Common Industry Name	Producing MMS Lease or Unit Agre. No. (see note 1)	Area	Block	Operator	MMS Royalty Volume (bbls/day) (see note 2)	Gravity	Sulfur	P/L Information	Common Carrier(s)	Buy/Sell
8	LLS	SM 130 A	20177082604		054-002280-0	SM	130	Shell Offshore Inc.	1,100	28.7	0.69%	Central Gulf Gathering System	no	Equiva
					054-002281-0	SM	131	Shell Offshore Inc.						
					054-017942-0	SM	122	Seneca Resources						
LLS Total -->>									7 FMP's and 34 Properties	5,635				
9	HLS	MP 283 A	2017724511H	Chinook	054-013662-0	MP	283	ExxonMobil	1,175	44.7	n/a	Petronius P/L into	no	Equiva
					054-013672-0	VK	734	ExxonMobil				Odyssey P/L into	no	Equiva
					054-016516-0	MP	284	ExxonMobil				Delta P/L	yes	
10	HLS	MP 289 (see note 5)	20608165112	Ram-Powell	754-389014-A	VK	912	Shell Offshore Inc.	2,875	40.0	n/a	Odyssey P/L into	no	Equiva
												Delta P/L	yes	
11	HLS	SP 62 (see note 6)	20608165102	Pompano	054-006898-0	VK	989	BP Amoco	5,300	32.9	n/a	Pompano P/L into	no	Equiva
					054-006899-0	VK	990	BP Amoco				Delta P/L	yes	
					054-007923-0	MC	27	BP Amoco						
					054-008483-0	MC	72	BP Amoco						
					054-009771-0	MC	28	BP Amoco						
					054-008801-0	MC	167	BP Amoco						
					054-008803-0	MC	211	BP Amoco						
054-013997-0	MC	29	BP Amoco											
12	HLS	VK 900 A	20608165101		054-002445-0	VK	900	Chevron Texaco	330	40.6	n/a	Pompano P/L into	no	Equiva
					054-008806-0	MC	292	Chevron Texaco				Delta P/L	yes	
					054-014618-0	VK	986	Walter O&G						
13	HLS	MP 73 A	20177255401		891-020233-0	MP	73	ExxonMobil	315	30.2	n/a	Cypress P/L	yes	
14	HLS	Grand Bay Rec. Stn.	20170755600		054-002193-0	MP	140	BP Amoco	290	29.4	n/a	Cypress P/L	yes	
					054-009710-0	MP	141	W&T Offshore						
					054-013653-0	MP	139	Agip Petroleum						
15	HLS	S.W. Pass 24 (see note 7)	20608174850	Cognac	891-016931-0	MC	194	Shell Offshore Inc.	815	36.5	n/a	Delta P/L	yes	
					054-002638-0	MC	194	Shell Offshore Inc.						
					054-002643-0	MC	151	Shell Offshore Inc.						
16	HLS	MP 70 (see note 8)	20177255102		054-004481-0	MP	77	Chevron Texaco	200	32.2	n/a	Pompano P/L into	no	Equiva
												Delta P/L	yes	
17	HLS	MP 311 A MP 311 B	20177245100 20177245101		054-002213-0	MP	311	GOM Shelf	175	31.2	n/a	Pompano P/L into	no	Equiva
					054-002213-0	MP	311	GOM Shelf	175	24.0	n/a	Delta P/L	yes	
18	HLS	MP 313 SSTI (see note 9)	20177245102		054-004127-0	MP	313	Chevron Texaco	445	30.8	n/a	Pompano P/L into	no	Equiva
												Delta P/L	yes	
19	HLS	SP 62 A	20177215100		054-001294-0	SP	62	Apache Corp.	700	35.8	n/a	Pompano P/L into	no	Equiva
					054-016554-0	VK	899	Apache Corp.				Delta P/L	yes	
					054-004127-0	MP	313	Apache Corp.						

RIK Property Profile Detail

Exhibit B

Minerals Management Service
 Small Refiner RIK Crude Oil Sale
 IFO No. 1435-02-02-RP-40381
 Term: Deliveries beginning October 1, 2002

Bid Package	Crude Type	Delivery Point	MMS Facility Measurement Point	Common Industry Name	Producing MMS Lease or Unit Agre. No. (see note 1)	Area	Block	Operator	MMS Royalty Volume (bbls/day) (see note 2)	Gravity	Sulfur	P/L Information	Common Carrier(s)	Buy/Sell	
20	HLS	MP 310 A	20177245115		054-004126-0	MP	310	Shell Offshore Inc.	600	32.5	n/a	Odyssey P/L into	no	Equiva	
					054-008467-0	MP	315	Shell Offshore Inc.				Delta P/L	yes		
					054-008760-0	MP	309	Shell Offshore Inc.							
					054-016520-0	MP	312	Shell Offshore Inc.							
					891-020244-0	MP	310	Shell Offshore Inc.							
21	HLS	SP 65 A	20177215102		054-001610-0	SP	65	Ocean Energy, Inc.	530	30.8	n/a	Pompano P/L into	no	Equiva	
					054-001901-0	SP	64	Ocean Energy, Inc.				Delta P/L	yes		
					054-001966-0	MP	152	Ocean Energy, Inc.							
					054-001967-0	MP	153	Ocean Energy, Inc.							
					891-012327-0	SP	65	Ocean Energy, Inc.							
					891-012330-0	SP	65	Ocean Energy, Inc.							
					891-012332-0	SP	65	Ocean Energy, Inc.							
					891-012333-0	SP	65	Ocean Energy, Inc.							
22	HLS	MP 289 C	20177245118		054-001666-0	MP	289	Apache Corp.	410	25.5	n/a	Odyssey P/L into	no	Equiva	
					054-001667-0	MP	290	Apache Corp.				Delta P/L	yes		
23	HLS	MP 69 PS	20177255111		754-394018-0	SP	60	BP Amoco	1,650	37.9	n/a	Delta P/L	yes		
24	HLS	WD 109	20177194602		054-002937-0	WD	109	Chevron Texaco	760	40.3	n/a	Chevron Texaco P/L	yes		
					891-020245-0	WD	109	Chevron Texaco							
					054-016479-0	WD	108	Chevron Texaco							
25	HLS	SP 77 A	20177224701		054-002184-0	SP	77	Chevron Texaco	920	37.6	n/a	Chevron Texaco P/L	yes		
					054-002940-0	SP	57	Chevron Texaco							
					054-002941-0	SP	58	Chevron Texaco							
26	HLS	SP 70 C	20177215114		054-001609-0	SP	61	Ocean Energy, Inc.	370	24.3	n/a	Pompano P/L into	no	Equiva	
					054-001614-0	SP	70	Ocean Energy, Inc.				Delta P/L	yes		
27	HLS	MP 252 B	2017724511D		054-006886-0	VK	783	Shell Offshore Inc.	275	48.1	n/a	BUD into	no	Equiva	
					054-013060-0	VK	784	Shell Offshore Inc.				Odyssey P/L into	no	Equiva	
														Delta P/L	yes
HLS Total -->>								20 FMP's and 53 Properties	18,310						
28	Bonito	GB 426 A	20608072600	Auger	754-389021-0	GB	426	Shell Offshore Inc.	7,515	42.4	0.75%	Auger P/L into Ship Shoal P/L or;	yes		
					Oregano	754-399009-A	GB	559				Shell Offshore Inc.	Auger P/L into Bonito P/L into Ship Shoal P/L	yes	
					Serrano	054-008252-0	GB	516				Shell Offshore Inc.	Auger P/L into Eugene Island P/L into Ship Shoal P/L	yes	
					Serrano	054-011528-0	GB	472				Shell Offshore Inc.			
						054-011553-0	GB	602				Shell Offshore Inc.			
29	Bonito	EI 338 A	20177102608		054-002118-0	EI	338	Chevron Texaco	290	29.0	1.58%	Bonito P/L into Ship Shoal P/L	yes		
Bonito Total -->>								2 FMP's and 6 Properties	7,805						

RIK Property Profile Detail

Exhibit B

Minerals Management Service
 Small Refiner RIK Crude Oil Sale
 IFO No. 1435-02-02-RP-40381
 Term: Deliveries beginning October 1, 2002

Bid Package	Crude Type	Delivery Point	MMS Facility Measurement Point	Common Industry Name	Producing MMS Lease or Unit Agre. No. (see note 1)	Area	Block	Operator	MMS Royalty Volume (bbls/day) (see note 2)	Gravity	Sulfur	P/L Information	Common Carrier(s)	Buy/Sell
30	Poseidon	EI 346 A	2017710295M	Tanzanite	054-014482-0	EI	346	Anadarko	700	31.5	1.20%	Poseidon P/L	no	see Ex. D
31	Poseidon	GB 260 A	20608072952	Bald Pate	754-391010-A	GB	259	Amerada Hess	2,950	35.0	1.00%	Poseidon P/L	no	see Ex. D
32	Poseidon	SS 349 A	20177122952	Mahogany	754-395006-A	SS	349	Anadarko	435	23.5	2.20%	Poseidon P/L	no	see Ex. D
					054-014514-0	SS	361	Anadarko						
33	Poseidon	EW 873 A	20608102951	Lobster	754-395007-A	EW	873	Marathon	5,000	23.8	2.80%	Poseidon P/L	no	see Ex. D
					054-010968-0	EW	1006	Walter O&G						
					054-013084-0	EW	963	Marathon						
					054-021738-0	EW	871	Walter O&G	(see note 10)					
34	Poseidon	GC 254 A	20608112955	Allegheny	754-395015-A	GC	254	Agip Petroleum	2,120	35.3	1.11%	Manta Ray Gathering System into	no	Manta Ray
				King Kong	754-393007-0	GC	473	Agip Petroleum	(see note 10)			Poseidon P/L	no	see Ex. D
												• Manta Ray contact: Brad Graves (832-676-5633)		
	Poseidon Total -->>							5 FMP's and 8 Properties	11,205					
	Total for All Crude Types -->>							36 FMP's and 103 Properties	50,155					

• Equiva contact for HLS properties, all deliveries at Empire: Brett Jones (713-277-5534)

- note 1: See Exhibit C for listing of leases and blocks within a Unit Agreement.
- note 2: Royalty Volumes based on average of January - March 2002 production or Operator estimates.
- note 3: Volume measured at SS 149 A and SS 154 E but purchaser takes custody at SS 146 SST1, the inlet of Whitecap P/L.
- note 4: Volume measured at SS 209 but purchaser takes custody at SS 208 F, the inlet of Whitecap P/L.
- note 5: Volume measured at VK 912 but purchaser takes custody at MP 289, inlet to Odyssey P/L.
- note 6: Volume measured at VK 989 but purchaser takes custody at SP 62, inlet to Pompano P/L.
- note 7: Volume measured at MC 194 but purchaser takes custody at S.W. Pass 24, the inlet of Delta P/L.
- note 8: Volume measured at MP 77 but purchaser takes custody at MP 70, the inlet of Pompano P/L.
- note 9: Volume measured at MP 313 A but purchaser takes custody at MP 313 SST1.
- note 10: Property in Royalty Relief Status and volume will not be included in deliveries to purchaser.

Listing of Leases within Unit Agreements

Exhibit C

**Minerals Management Service
Small Refiner RIK Crude Oil Sale**

IFO No. 1435-02-02-RP-40381

Term: Deliveries beginning October 1, 2002

Bid Package	Unit Agreement	Leases within Unit Agreement	Area	Block
1	754-396015-A	054-013079-0	EW	910
		054-013081-0	EW	954
2	754-388011-A	054-005909-0	GC	161
		054-005911-0	GC	205
		054-007996-0	GC	160
3	754-388025-0	054-005896-0	GC	72
		054-005904-0	GC	116
3	754-391007-0	054-005646-0	ST	295
		054-007780-0	ST	276
		054-012981-0	ST	296
7	891-020231-0	054-001522-0	SS	206
		054-001523-0	SS	207
10	754-389014-A	054-006892-0	VK	911
		054-006893-0	VK	912
		054-006896-0	VK	956
		054-008475-0	VK	957
13	891-020233-0	054-002947-0	MP	73
		054-003195-0	MP	72
		054-003417-0	MP	72
15	891-016931-0	054-002638-0	MC	194
		054-002639-0	MC	195
		054-002642-0	MC	150
		054-002643-0	MC	151
20	891-020244-0	054-003339-0	MP	304
		054-004126-0	MP	310
		054-004253-0	MP	303
21	891-012327-0	054-001610-0	SP	65
		054-001966-0	MP	152
		054-001967-0	MP	153
21	891-012330-0	054-001610-0	SP	65
		054-001966-0	MP	152
		054-001967-0	MP	153
21	891-012332-0	054-001610-0	SP	65
		054-001901-0	SP	64
		054-001966-0	MP	152
		054-001967-0	MP	153
21	891-012333-0	054-001610-0	SP	65
		054-001901-0	SP	64
		054-001966-0	MP	152
		054-001967-0	MP	153

Listing of Leases within Unit Agreements

Exhibit C

**Minerals Management Service
Small Refiner RIK Crude Oil Sale
IFO No. 1435-02-02-RP-40381**

Term: Deliveries beginning October 1, 2002

Bid Package	Unit Agreement	Leases within Unit Agreement	Area	Block
23	754-394018-0	054-001608-0	SP	59
		054-001609-0	SP	61
		054-001611-0	SP	66
		054-001612-0	SP	67
		054-002137-0	SP	60
		054-002938-0	SP	17
		054-002942-0	SP	59
		054-002943-0	SP	59
		054-003337-0	SP	6
24	891-020245-0	054-002937-0	WD	109
		054-002941-0	SP	58
28	754-389021-0	054-007493-0	GB	427
		054-007498-0	GB	471
		054-008241-0	GB	426
		054-008248-0	GB	470
28	754-399009-A	054-011546-0	GB	559
31	754-391010-A	054-007461-0	GB	259
		054-007462-0	GB	260
		054-009216-0	GB	215
		054-014224-0	GB	216
32	754-395006-A	054-012008-0	SS	349
		054-012010-0	SS	359
33	754-395007-A	054-012136-0	EW	873
		054-012139-0	EW	917
		054-013075-0	EW	874
34	754-395015-A	054-007049-0	GC	254
		054-008010-0	GC	298
		054-008876-0	GC	297
34	754-393007-0	054-005097-0	GC	472
		054-005922-0	GC	473
		054-005923-0	GC	517

Poseidon Oil Pipeline Company
Buy/Sell Rates

Exhibit D

Poseidon contact: James Hostetler (720-956-3054)

Bid Pkg	Delivery Point	Buy/Sell Rate to Houma (see notes 1 & 2)	Maximum Daily Quantity (bbls/day)	Comments
30	EI 346 A	\$0.95	2,500	
31	GB 260 A	\$1.15	10,000	
32	SS 349 A	\$0.87	3,000	
33	EW 873 A	\$1.35	8,000	
34	GC 254 A	\$0.92	2,500	see note 3

note 1: Contact MMS for additional costs per barrel for crude viscosities over 401 SUS at 60 deg. F.

note 2: Pipeline loss costs of 0.05% of volume delivered to Poseidon when deliveries are at Houma, LA

note 3: Buy/Sell from SS 332. GB 254 to SS 332 is on Manta Ray Gathering.

MMS/MRM/RIK
Mail Stop 330B2

(Address)

Dear (Title, Name):

The Minerals Management Service (MMS) has selected one or more offshore Federal leases in the Gulf of Mexico (GOM) that you operate to be included in a Royalty in Kind (RIK) program in which we will take crude oil royalties in kind beginning October 1, 2002.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil royalties in kind. Our authority is the Outer Continental Shelf Lands Act of 1953 (43 U.S.C. § 1353) and the royalty provisions contained in your Federal lease. For the purposes of this letter, Royalty Oil means the Federal lease oil and condensate production multiplied by the lease royalty rate. The volumes of Royalty Oil taken in kind by the Lessor will reflect and be consistent with all grants of royalty relief.

Term

The Lessor will take all Royalty Oil in kind from the properties listed in the enclosure beginning October 1, 2002, and will continue taking royalties in kind until we notify you that in-kind status is terminated. We will provide Lessees and Operators with at least a 45-day prior written notice of termination of in-kind status.

Royalty Oil Delivery

The delivery point(s) for Royalty Oil produced from the properties is at the FMP or first interconnect into a main pipeline, as identified in the enclosure. The Lessor will take custody and responsibility for Royalty Oil at the delivery point. You can be reimbursed for transportation and quality bank debits and credits of Royalty Oil to any delivery points identified in the enclosure that are downstream of the FMP. You will be required to report quality bank debits and credits for properties identified as flowing down the Bonito Pipeline, as allowed in applicable MMS regulations, on the Report of Sales and Royalty Remittance (Form MMS-2014).

Royalty Oil must be placed in marketable condition at no cost to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions on marketable condition should be directed to the Lessor's points of contact identified in this letter.

You must deliver all Royalty Oil from the selected leases, including Royalty Oil from newly producing wells on these leases. During the in-kind period, the Operator will make its best effort to notify the Lessor's designated point of contact of new oil production flowing to the FMP identified in the enclosure.

Royalty Oil from such new properties will be added to the RIK volumes at the existing delivery points only upon mutual consent of the purchaser and the Lessor.

Fulfillment of Royalty Obligations

Delivery of the accurate volume of Royalty Oil (taking into account the effects of normal operational imbalances) in accordance with the terms of this letter will satisfy in full the Lessee's royalty obligation to the Lessor.

For properties where the Lessee has applied for deepwater royalty rate relief, you may use the proposed royalty rate in the interim before MMS/Offshore Minerals Management (OMM) approves the reduction. If OMM does not approve the royalty rate reduction, the resulting imbalance will be resolved in the same manner as described below for imbalances not remedied within 90 days (see "Balancing Account and Imbalances").

All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, the Lessor will issue a bill including information supporting the calculation. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

Lessor's Obligation to Take

We agree to take 100 percent of the Royalty Oil delivered to the delivery point for the account of the Lessor. Using reasonable and customary industry practices, we will try to minimize imbalances with Operators and Lessees.

To facilitate timely and accurate custody transfer of Royalty Oil, we will communicate with you regarding arrangements for the transfer of Royalty Oil from the delivery point. The Lessee will not incur royalty-related penalties because of the Lessor's failure to take delivery of oil volumes as communicated by the Operator.

Communication with Lessor

No later than 10 calendar days before the first day of each month, you must notify the Lessor in writing via facsimile (303-231-3846) or e-mail addressed to our mailbox (rik.project@mms.gov) of the daily Royalty Oil volumes (Avails) anticipated for the following month of production for each of the delivery points identified in the enclosure. On this same schedule, for each of the delivery points, you will also provide any anticipated volume adjustments to resolve previous months' imbalances. The total volumes to be delivered to our purchaser at each of the delivery points must be indicated on the same schedule as a **volume net** of anticipated production plus or minus any adjustments. The Lessor understands that any such estimates are not warranties of actual deliveries but are provided to facilitate planning.

You must also use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes to the information listed in the enclosure; e.g., oil production levels, oil type, and/or royalty rates for the RIK contract properties.

Volume Reconciliation

You must send all volume allocation schedules provided to pipeline companies that address crude oil volumes at the delivery points in the enclosure to MMS within 5 days of their submittal to the pipeline companies.

You, as the Operator, must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submission of the statement. We will monitor and reconcile royalty entitlements with the Royalty Oil deliveries you make. Reconciliation will involve communication between you and the Lessor. Upon project termination, you must issue a final oil imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances." Volume allocation schedules and lease imbalance statements should be submitted to the rik.project@mms.gov mailbox.

Balancing Account and Imbalances

You and MMS will jointly monitor imbalances between delivered and entitled volumes of Royalty Oil. You will take timely action to remedy such imbalances through adjustments to Royalty Oil volumes delivered to MMS. Such volume adjustments will be identified in your communication of Royalty Oil volumes anticipated before the month of production (see above under "Communication with Lessor").

Imbalances will be remedied in the production month following the month that the imbalance is identified. Imbalances not remedied within 90 days of the end of the production month will be resolved as follows:

- Mutually agreed upon make-up delivery schedule, or
- Cash out payment based on the contract price (at the delivery point) that MMS actually received (or would have received) from its Purchaser during the month or months that the imbalance occurred. Interest will accrue from 60 days after notification that cash out payment is due.

When the lease is no longer taken in-kind or after cessation of production from a lease, imbalances will be cashed out based on the MMS contract price (at the delivery point) for the last month the lease is taken in kind. Interest will accrue from 60 days after the final month of delivery. Imbalances remaining at the time of any sale/assignment of properties identified in the enclosure will be settled in compliance with your Purchase and Sale Agreement assignments. Imbalance provisions will be reviewed 6 months from initial contract date.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR) under requirements specified in MMS regulations and the MMS *Minerals Revenue Reporter Handbook* at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf>. You will not be required to report Royalty Oil for the RIK properties listed in the enclosure on the Form MMS-2014 for the term during which the Lessor takes royalty in kind. Reporting does not change for non-RIK leases.

Lessor's Designee

The Lessor may act by or through a duly authorized designee. In such event, we will provide prior written notification of a designee, including the person to contact. Notification will include specific duties that will be handled by the designee on our behalf. The Lessor also will provide written notification when the designee is no longer authorized to act on our behalf for the purposes of this letter. You are authorized to communicate with the designee as specified in the notification. You will not be required to direct communications to both the Lessor and our designee.

For purposes of this letter, if we notify you that we will use a designee in the contract, references to the Lessor shall refer to such designee. The designee will agree in writing to comply with all provisions of this letter that are applicable to the Lessor when the designee acts on our behalf.

Audit

The Lessor may audit your records regarding all information relevant to volumes and qualities of Royalty Oil produced, measured, delivered, and, if applicable, transported. We reserve the right to examine your financial records for the subject properties related to any transportation allowances and quality banks prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph in accordance with the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (Public Law 104-185 Section 115(f)).

Lessor's Point of Contact

Copies of all correspondence between the Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are listed below:

- **Volume Avails (Anticipated Volumes), Volume Allocation Schedules, and Operator Imbalance Statements:**

Ms. Faye Stewart

Telephone: 281-987-6825; Fax: 281-987-6808

E-mail: Berlinda.Stewart@mms.gov or;

Ms. Carol Smothers

Telephone: 281-987-6856; Fax: 281-987-6808

E-mail: Carol.Smothers@mms.gov

- **New Lease Production:**

Ms. Crystel Tobar

Telephone: 303-231-3126; Fax: 303-231-3846

E-mail: Crystel.Tobar@mms.gov or;

Mr. Richard Fantel

Telephone: 303-231-3502; Fax: 303-231-3846

E-mail: Richard.Fantel@mms.gov

- **Reporting Issues:**

Mr. Andy Sandoval

Telephone: 303-231-3777; Fax: 303-231-3700

E-mail: Alfonso.Sandoval@mms.gov

• **Electronic Funds Transfer:**

Mr. Joe Romero

Telephone: 303-231-3123; Fax: 303-231-3501

E-mail: Joseph.Romero@mms.gov

We acknowledge that Operators and Lessees have given proper notice when using the telephone number or fax number provided to communicate with the Lessor. Any telephone communication regarding volumes must be confirmed by fax or e-mail no later than 1 business day after telephone communication occurs. The Lessor further agrees to make arrangements to receive such communications regarding oil scheduling issues during normal business hours. Operators and Lessees should communicate with one of the points of contact to answer any further questions.

The Paperwork Reduction Act

The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by MMS to document fulfillment of royalty obligations on minerals removed from Federal lands and that we will use this information to maintain and audit lease accounts. We estimate the burden for reporting is 10 minutes per property per month. Comments on the accuracy of this estimate or suggestions for reducing this burden should be directed to the Information Collection Clearance Officer, Minerals Management Service, 1849 C Street, NW, MS 4230, Washington, DC 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1,) (4)), and the Departmental Regulations (43 CFR 2). An agency may not conduct or sponsor and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.

Sincerely,

Milton K. Dial
Assistant Program Director
for Royalty In Kind

Enclosure