



**INVITATION FOR OFFER – STRATEGIC PETROLEUM RESERVE FILL
EXCHANGE OF ROYALTY IN KIND CRUDE OIL TO MARKET CENTERS
IFO No. 1435-02-05-RP-25849
Deliveries beginning April 1, 2005**

Introduction

The Minerals Management Service (MMS) of the U.S. Department of the Interior is soliciting offers from pre-qualified companies to exchange royalty oil and condensate produced from Federal offshore leases in the Gulf of Mexico for common stream quality crude oil (exchange oil) delivered to six Gulf Coast market centers. This 6-month term begins April 1, 2005.

The publication of this Invitation for Offer (IFO) is in coordination with a separate Department of Energy (DOE) solicitation in a joint, 3-year initiative to fill the remaining capacity of the Strategic Petroleum Reserve (SPR). Exchange oil under this MMS IFO will be delivered to MMS or its designated agent at Gulf Coast market centers until the SPR capacity has been reached.

Through a separate solicitation, DOE will contract for the exchange or direct movement of exchange oil resulting from this MMS IFO for crude oil delivered to the SPR. Please see the DOE website at <http://www.spr.doe.gov>.

Regarding this MMS IFO, successful offerors will take custody of the royalty oil at offshore custody transfer points and are responsible for moving the royalty oil downstream of these points. Deliveries of exchange oil at market centers will be reduced in volume to pay for the net value difference incurred due to location, quality, and other factors.

Offers must be made in writing and submitted to Crystel Edler via facsimile (303-231-3846) or email (crystel.edler@mms.gov) by 2:00 p.m. MST on January 31, 2005. MMS will confirm receipt of all offers by telephone. **Royalty oil packages will be awarded by 2:00 p.m. MST on February 4, 2005.** Contact Crystel Edler for technical questions at 303-231-3126; Maggie Miller for contracting questions at 303-231-3932; and Larry Cobb for credit or pre-qualification questions at 303-231-3307.

Offers

Offerors must be pre-qualified to submit offers. Please see the "Pre-qualification and Credit Requirements" section for more information. MMS reserves the right to reject any offer received.

Exhibit A identifies 67 packages of royalty oil. Exhibit B provides further detail on Facility Measurement Point (FMP) operators, pipelines, and custody transfer points. Data in the exhibits is not warranted and offerors are expected to contact the appropriate parties for the most recent information. The royalty volumes shown for each custody transfer point represent the most recent production data available for properties behind the custody transfer point. The royalty volumes may vary as production resumes in the aftermath of Hurricane Ivan. Other pertinent information such as leases/agreements, property operators, and royalty rates will be provided in an attachment to the "MMS Crude Oil Transaction Confirmation" sent to the successful offeror upon award.

Exhibit A is the offer sheet to be completed and faxed or emailed. Offers must be to the nearest \$0.0001. MMS prefers no more than one award for each package. However, MMS may consider offers on only part of a royalty oil package if favorable to the Government. Tiered offers including different prices are not acceptable.

Offers should represent the difference in value between the applicable Gulf Coast market center and the custody transfer point identified in Exhibit A. Please see the "Quality" section for more information on accounting for gravity and sulfur in your offer.

Offers on package 40b, custody transfer point GB 128 A, may be for crude types Eugene Island and/or Bonito.

For HLS deliveries occurring at the Empire terminal, offerors should not include the outbound terminal fee or the reconsignment fee in their offer. The successful offeror will invoice MMS these charges with appropriate third-party documentation and it may be netted against RIK quality bank credits owed the MMS.

Royalty oil from any new wells on current producing properties supplying custody transfer points during the contract term will be automatically added to the awarded volumes. Royalty oil from any new properties supplying custody transfer points during the contract term will be added to the awarded volumes on a case-by-case basis pursuant to mutual consent of all parties.

Successful offerors must deliver common stream quality crude oil to these Gulf Coast market centers according to royalty oil type:

<u>Royalty Oil Type</u>	<u>Gulf Coast Market Center</u>
Heavy Louisiana Sweet (HLS)	Empire
Light Louisiana Sweet (LLS)	St. James
Bonito	St. James
Eugene Island (EI)	St. James
Mars	Clovelly
Poseidon (POS)	Houma
Texas City Grade (TXG)	Texas City
HOOPS	Jones Creek

Deliveries of exchange oil will occur ratably during the same month as royalty oil receipts.

The following formula will be used to calculate a delivery percentage applied to royalty oil volumes received at the custody transfer point. The result is an exchange oil volume owed to DOE, or its exchange contractor, with a retained volume for successful offerors as described under the "Transporting and Scheduling Royalty Oil" section:

$$\frac{\text{Platts Trade Month Price} - X}{\text{Platts Trade Month Price}} = \# \# \# \# \%$$

Where: Platts Trade Month Price: Average of the daily high and low spot price quotes (to the nearest \$0.0001) as published in Platts Oilgram Price Report for the relevant market center applicable to the crude oil type exchanged. The sales period begins the 26th of the second month prior to the Delivery Month and ends on the **20th of the month prior to the Delivery Month**

Delivery Month: Physical month of delivery

X: Accepted offer for the royalty oil

For crude type designated as "TXG" use Platts crude type "WTI"

For crude type designated as "HOOPS" use Platts crude type "WTS"

If DOE rejects SPR redelivery offers for oil related to successfully awarded packages in this IFO, the award becomes an outright purchase (see Exhibit C) at the custody transfer points specified in Exhibit A.

If the SPR capacity is reached during the term of the contract, the exchange of royalty oil will revert to an outright sale. The successful MMS SPR exchange partners, at the custody transfer points, will use the pricing methodology shown in Exhibit C. The royalty oil deliveries during the last month of the SPR fill initiative may be reduced. MMS will provide the successful offeror(s) 45 days notice of the exchange packages reverting in part or in total to an outright sale.

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 resolving certain extraordinary imbalances.

The MMS shall award a contract resulting from this IFO to the party whose offer, in MMS' judgment, is most advantageous to the Federal Government. MMS will award to successful offerors by means of the "MMS Crude Oil Transaction Confirmation." MMS will attempt to award 100 percent of the volume from a custody transfer point.

Term

Delivery of royalty oil will begin on April 1, 2005 and end September 30, 2005.

Quality

For crude type **HLS**, packages 1-3, 5-9, 11-12, 15-16, 18-19, 21, and 23-25, quality bank debits/credits should be included in your offer. Successful offerors will not pass back to MMS any quality bank debits/credits received.

For crude type **HLS**, packages 4, 10, 13-14, 17, 20, and 22, quality bank debits/credits should not be included in your offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s).

For crude type **Bonito**, packages 34-39, quality bank debits/credits should not be included in your offer for any leg flowing down the Bonito Pipeline System as they will be passed back to MMS by the operator. All other quality banks downstream of the Bonito Pipeline System should be included in your offer. For package 40b (Bonito or EI), quality bank debits/credits should not be included in your offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s).

For crude type **LLS**, packages 40a and 52-64, quality bank debits/credits should be included in your offer. Successful offerors will not pass back to MMS any quality bank debits/credits received.

For crude types **Eugene Island, Mars, Poseidon, and HOOPS**, quality bank debits/credits should not be included in your offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s). Market center custody transfer point quality banks will not be included.

For crude type **TXG**, quality bank debits/credits should not be included in your offer as they will be passed back to the MMS by the operator.

Successful offerors must pay quality bank credits due to MMS by the 20th of the month after receipt. MMS will pay invoices from successful offerors for all quality bank debits received from the quality bank administrator within 30 days of receipt of the invoice. All quality bank data must be accompanied by supporting documentation.

The gravity and sulfur information in the Exhibits represents MMS' most recent data for the custody transfer points in the packages offered. Actual gravity and sulfur during the contract term may vary. MMS provided data is based on the best information available at IFO publication time and is not warranted.

Transporting and Scheduling Royalty Oil

Successful offerors are responsible for transporting all royalty oil volumes downstream of the custody transfer points specified in Exhibit A. Successful offerors must nominate and schedule all volumes awarded through this IFO separately from all other volumes owned or controlled at each of the custody transfer points where royalty oil is received. When nominating to the pipeline, you are required to indicate that the nomination is for MMS-sourced crude oil. 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 moving royalty oil, that MMS royalty volumes be itemized separately from non-MMS volumes. In cases where the pipeline companies are unable to itemize the MMS volumes on the pipeline statement, you must provide MMS with acceptable third-party data itemizing the delivered MMS volumes or use a pipeline assigned measurement facilitator. Any charges associated with obtaining this third-party data are the responsibility of the successful offeror.

Exhibit D identifies a transportation rate agreement that MMS arranged with Marathon Pipeline. For royalty oil volumes associated with packages 7, 8, 9, 10a, and 10b, successful offerors, at their discretion and upon notification to Crystel Edler, may be designated as MMS' agents for the transportation rates and terms specified in Exhibit D. For royalty volumes associated with packages 29, 30, and 32, the successful offeror must be designated as MMS' agent under the specified transportation rates and terms.

In the event there is an increase or decrease in transportation costs relating to this agreement, the successful offeror's contract will be amended.

For package 17, Main Pass Oil Gathering system (MPOG), the Delta Pipeline is the only available option for moving the volumes to Empire from MP 69 at the time of issuance of this IFO. Offers should be made based on using the Delta Pipeline. MMS reserves the right to renegotiate the offer should an alternate, less expensive, route to Empire from MP 69 become available.

Successful offerors will provide MMS with pipeline statements and any third-party documentation within 2 days after the documents are made available to the shipper. Documentation not received by the due date may be purchased by MMS with the successful offeror being billed the associated costs.

Successful offerors, through customary industry practice, will communicate directly with MMS and the FMP operator and will make arrangements to deliver and transfer royalty oil from the identified custody transfer point(s). Successful offerors, at their expense, will make all necessary arrangements to receive the royalty oil at the custody transfer point(s). Successful offerors are not responsible for any transportation costs upstream of the custody transfer point(s).

By noon MST on the 21st day of the month prior to the delivery month, the MMS and successful offerors will jointly communicate and agree on the delivery percentage and the anticipated daily royalty oil volumes. If the 21st is a Saturday, Sunday, or Federal holiday, the delivery percentage and anticipated daily royalty oil volumes will be agreed upon the following business day. At the same time, MMS and successful offerors will apply this mutually agreed upon delivery percentage to the anticipated daily volumes to arrive at an agreed upon volume of exchange oil to be delivered to DOE or its agent. To facilitate resolution of market center imbalances at the end of the contract term, this volume may be reduced by an additional mutually agreed upon percentage to increase the likelihood the successful offeror under-delivered MMS at the end of the contract. This reduced volume will be delivered ratably during the Delivery Month unless force majeure events apply or the applicable pipeline cuts successful offerors' nominations. Successful offerors understand nominations are not warranties of actual anticipated deliveries but are provided to facilitate planning and delivery of royalty oil. This process continues each month of the contract term.

MMS instructs the operators of offered properties to use reasonable efforts, consistent with industry practice, to inform MMS and/or successful offerors of significant changes in royalty oil production levels and production shut-ins.

Upon mutual consent between MMS and its successful offeror, the successful offeror's contract may be amended when there is an increase or decrease in tariff-based transportation costs related to awarded properties. Unless extraordinary circumstances exist, contract amendments will not be granted for rate changes in offeror's buy/sell arrangements.

Imbalances

Successful offerors are granted rights to royalty oil delivered by operators at the custody transfer points indicated in Exhibit A, not actual entitlements due the Federal Government.

MMS and the operator will jointly monitor imbalances between deliveries and entitlements. Routine imbalances will be resolved by adjusting the volume of royalty oil delivered to successful offerors in the second month following the month of delivery unless otherwise approved by MMS. MMS will communicate these adjustments to the successful offeror regarding the first of month availability of royalty oil.

MMS and the operator will mutually resolve property imbalances not remedied within 90 days of the production month. The contract price under this IFO may form the basis of resolving certain extraordinary imbalances. The rights and responsibilities under RIK oil situations are outlined in MMS' Sample "Dear Operator" letter included as Exhibit E.

The definition of market center imbalances is the difference between volumes delivered to MMS or its designated agent at the Gulf Coast market centers during the month of delivery, and actual adjusted (Delivery Percentage) volumes delivered to the successful offeror at the custody transfer point. The successful offeror will resolve these imbalances by adjusting the nominated volumes to be delivered to MMS or its designated agent at the Gulf Coast Market Centers by noon MST the 21st day of the month following the month of delivery, unless otherwise approved by MMS. If the 21st is a Saturday, Sunday, or Federal holiday, then nominated volumes will be adjusted the following business day.

In the event the SPR capacity is reached during the term of this contract, any market center imbalances applicable to the SPR exchange will be resolved as follows:

- Over-Deliveries to DOE: The volume over-delivered to DOE will be valued at the price on the last month of the SPR exchange. MMS' purchaser will reduce their payment to MMS on the outright sale by this amount.
- Under-Deliveries to DOE: The volume under-delivered to DOE will be valued at the price on the last month of the SPR exchange. MMS' purchaser will increase their payment to MMS on the outright sale by this amount.

Market center imbalances existing at the conclusion of this contract will be settled by mutually-agreed arrangements in crude type(s) and market center(s) by the earliest date possible.

MMS is not responsible for royalty crude oil pipeline imbalances.

Confidentiality

Neither MMS or the successful offeror shall disclose directly or indirectly, without the prior written consent of the other party, the terms of any transaction under this IFO to a third-party (other than the employees, lenders, royalty owners, counsel, accountants and other agents of the party, or prospective purchasers of all or substantially all of a party's assets or of any rights under this Contract, provided such persons shall have agreed to keep such terms confidential) except; (i) to comply with any applicable law, order, regulation, or exchange rule, (ii) to the extent necessary to enforce this Contract, (iii) to the extent necessary to implement any transaction, including any transaction as described above in the section "Transporting and Scheduling Royalty Oil", or (iv) to the extent such information is delivered to such third-party for the sole purpose of calculating a published index.

Each party shall notify the other party of any proceeding of which it is aware which may result in disclosing the terms of any transaction (other than as permitted above) and use reasonable efforts to prevent or limit the disclosure. The existence of this Contract is not subject to this confidentiality obligation. The terms of any transaction hereunder shall be kept confidential by the parties hereto for one year from the expiration of the transaction.

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. Pre-qualification information can be found on our web site at <http://www.mrm.mms.gov/RIKweb/Oilpregual.htm>. By submitting an offer, the offeror agrees to be bound by the terms of its signed MMS base contract and this IFO.

Upon pre-qualifying, MMS will issue an amount of unsecured credit based on the creditworthiness of the offeror. In most cases where offerors have submitted their most current financial documentation, or such information is available on Edgar Online, no additional information will be required. However, MMS reserves the right to request updated financial information in any situation it deems 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 five 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.

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 delivery or payment under the contract is verified. Failure to provide adequate financial assurance when requested may result in a loss of award, unless the MMS Contracting Officer extends the date.

See the MMS website at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4071.pdf> for a sample of an ILOC, MMS Form-4071. See <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4072.pdf> for a sample of a Bond, MMS Form-4072. The financial institution issuing the ILOC or surety company issuing the Bond must meet MMS requirements under 30 CFR Part 208.11.

The financial assurance amount shall be sufficient to cover the value of 30 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. For new surety instruments, the value of the financial assurance should be calculated using the selected pricing mechanism plus the awarded offer amount applied to the February 2005 production month. This value must be multiplied by the daily royalty production (estimated in Exhibit A), multiplied by 30 days, and then reduced by the amount of unsecured credit issued by MMS. For continuing surety instruments, we will notify you regarding renewal. The amount of unsecured credit available for this sale is contingent upon the successful offeror's current participation in other RIK sales or exchange programs.

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 perform 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. Where applicable, an investment-grade rating by Standard and Poor's is required by MMS to maintain creditworthiness.

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 MMS base contract and the terms of this IFO will be resolved in favor of this IFO. Only companies who have pre-qualified and signed the MMS base contract may receive a contract.

The Paperwork Reduction Act

The OMB Control Number for this IFO is 1010-0129 and has an expiration date of July 31, 2006. The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to document fulfillment of royalty obligations on minerals removed from Federal lands. The MMS uses the information to maintain and audit lease accounts. Responses are voluntary (43 U.S.C. 1334). Proprietary information 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 Department 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. Public reporting burden for this form is estimated to average 1 hour per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Minerals Management Service, Mail Stop 4230, 1849 C Street, NW., Washington, DC 20240.

5 Exhibits:

- Exhibit A – Offer Sheet
- Exhibit B – RIK Custody Transfer Point Detail
- Exhibit C – Contingency for Outright Purchase
- Exhibit D – Marathon Transportation Rates
- Exhibit E – Sample Dear Operator Letter

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Custody Transfer Point Royalty Volume (bbls/day)	Gravity	Sulfur %	"X" Offer Quality Bank Debits/Credits Included	"X" Offer Quality Bank Debits/Credits Not Included	Accept MMS' Transportation or Buy/Sell (Yes or No)
1	HLS	Empire	SP 65 A	220	30.0	N/A			
2	HLS	Empire	SP 62	1,900	34.6	N/A			
3	HLS	Empire	SP 62 Ai	250	36.1	N/A			
4a	HLS	Empire	MP 311 A	140	27.8	N/A			
4b	HLS	Empire	MP 311 B	230	25.8	N/A			
5	HLS	Empire	MP 313 ssti	400	29.1	N/A			
6	HLS	Empire	SP 62 A	480	35.7	N/A			
7	HLS	Empire	SP 87 D	310	36.6	N/A			
8	HLS	Empire	SP 86 C	40	36.6	N/A			
9	HLS	Empire	WD 79 A	150	36.3	N/A			
10a	HLS	Empire	SP 89 B	70	29.8	N/A			
10b	HLS	Empire	SP 89 B (Zia)	600	29.8	N/A			
11	HLS	Empire	Venice, LA (into ChevTex)	190	35.4	N/A			
12	HLS	Empire	SP 77 A	830	36.1	N/A			
13	HLS	Empire	Venice, LA (into Plains)	200	34.2	N/A			
14	HLS	Empire	MC 474 A	12,750	30.9	N/A			
15	HLS	Empire	MP 123	100	36.2	N/A			
16	HLS	Empire	MP 133 C	180	44.6	N/A			
17	HLS	Empire	MP 69	7,260	37.8	N/A			
18	HLS	Empire	MP 73 CF	210	30.4	N/A			
19	HLS	Empire	Grand Bay	280	29.5	N/A			
20	HLS	Empire	S.W. Pass 24	750	30.3	N/A			
21	HLS	Empire	MP 69 PS	750	34.5	N/A			
22a	HLS	Empire	WD 133i	190	35.4	N/A			
22b	HLS	Empire	MC 311 A (from WD 152)	40	34.5	N/A			
22c	HLS	Empire	MC 311 A	110	35.1	N/A			
23	HLS	Empire	WD 103i	380	30.9	N/A			
24	HLS	Empire	WD 89 A	100	34.9	N/A			
25	HLS	Empire	WD 90i	270	30.9	N/A			
26	EI	St. James	SM 128 A	900	40.5	0.17			
27	EI	St. James	SS 181 B	150	29.2	0.32			
28	EI	St. James	EW 989 ssti	500	29.8	1.43			
29	EI	St. James	VR 369 ssti	530	30.9	1.07			Yes - See IFO
30	EI	St. James	SM 137 ssti	120	28.4	1.01			Yes - See IFO
31	EI	St. James	SM 141 ssti	130	27.4	1.03			
32	EI	St. James	VR 331 ssti	100	31.1	0.94			Yes - See IFO
33a	EI	St. James	EI 327 ssti (EI 325 A)	260	39.5	0.42			
33b	EI	St. James	EI 327 ssti (EI 341 A)	120	34.9	0.90			
34a	Bonito	St. James	EI 316 ssti (EI 361 A)	260	36.2	0.80			
34b	Bonito	St. James	EI 316 ssti (EI 360 E)	320	35.5	0.86			
35	Bonito	St. James	EI 339 B	620	32.1	1.10			
36	Bonito	St. James	EI 338 A	220	28.7	1.45			
37	Bonito	St. James	EI 330 ssti	320	33.8	0.77			
38	Bonito	St. James	EI 337 A	220	34.3	0.87			
39	Bonito	St. James	EI 330 S	1,350	31.8	1.10			
40a	LLS	St. James	GB 128 A	350	53.4	N/A			
40b1	Bonito	St. James	GB 128 A	3,600	37.1	0.88			
40b2	EI	St. James	GB 128 A	3,600	37.1	0.88			
41	Mars	Clovelly	GI 116 A	200	45.3	0.34			
42	Mars	Clovelly	GI 115 ssti	380	25.5	2.19			

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Custody Transfer Point Royalty Volume (bbls/day)	Gravity	Sulfur %	"X" Offer Quality Bank Debits/Credits Included	"X" Offer Quality Bank Debits/Credits Not Included	Accept MMS' Transportation or Buy/Sell (Yes or No)
43	Mars	Clovelly	MC 807 A	16,000	28.6	2.09			
44	Mars	Clovelly	WD 117 ssti	70	46.4	0.10			
45	Mars	Clovelly	MC 809 A	15,500	31.1	1.95			
46	Poseidon	Houma	GB 72 A	230	35.8	0.77			
47	Poseidon	Houma	EW 1003 A	400	31.5	1.24			
48	Poseidon	Houma	ST 204 B	100	54.3	0.03			
49	HOOPS	Jones Creek	AC 25 A	730	31.3	1.04			
50	HOOPS	Jones Creek	EB 602 A	2,900	33.2	0.48			
51	HOOPS	Jones Creek	EB 643 A	2,900	29.0	1.25			
52	LLS	St. James	EI 175 C	110	35.7	N/A			
53	LLS	St. James	EI 174 ssti	180	34.6	N/A			
54	LLS	St. James	EI 252 I	920	38.0	N/A			
55a	LLS	St. James	EI 259 ssti (EI 258 B)	380	35.8	0.20			
55b	LLS	St. James	EI 259 ssti (EI 276 B)	190	35.6	0.20			
56	LLS	St. James	SM 130 A	790	27.7	0.41			
57	LLS	St. James	SM 132 A	360	35.7	N/A			
58	LLS	St. James	SS 274 C	160	36.5	0.17			
59	LLS	St. James	VR 214 A	230	36.7	N/A			
60	LLS	St. James	VR 215 A	220	38.9	N/A			
61	LLS	St. James	VR 250 ssti	450	36.1	N/A			
62	LLS	St. James	VR 331 ssti	100	34.9	N/A			
63	LLS	St. James	VR 376 A	240	36.8	0.21			
64	LLS	St. James	WC 498 B	60	35.1	N/A			
65a	TXG	Texas City	Segment I (GA 256 ssti)	710	33.4	unknown			
65b	TXG	Texas City	HIA 474 A	210	40.8	unknown			
66a	TXG	Texas City	EB 159 A	230	39.6	unknown			
66b	TXG	Texas City	EB 160 A	270	34.4	unknown			
66c	TXG	Texas City	HIA 536 C	120	34.7	unknown			
66d	TXG	Texas City	HIA 563 B	130	35.8	0.03			
66e	TXG	Texas City	HIA 582 C	980	40.9	0.04			
67a	TXG	Texas City	IP#4/SEG III (HIA 546 ssti)	210	36.9	unknown			
67b	TXG	Texas City	HIA 379 B	90	36.1	unknown			
67c	TXG	Texas City	HIA 443 ssti	330	36.8	unknown			
67d	TXG	Texas City	HIA 573 B	190	35.1	unknown			
67e	TXG	Texas City	HIA 595 C	440	30.8	unknown			
67f	TXG	Texas City	GB 189 A	400	32.4	0.07			

Your Name _____

Phone No. _____

Company Name _____

Fax No. _____

MMS Contacts

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 Richard Fantel: 303-231-3502 richard.fantel@mms.gov
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 Allen Vigil: 303-231-3098 allen.vigil@mms.gov
 Fax No.: 303-231-3846

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Royalty Volume Metered At	MMS FMP No.	Common Industry Name	FMP Operator	Custody Transfer Point Royalty Volume (bbbls/day)	Gravity (Note 1)	Sulfur % (Note 1)	Pipelines	Common Carrier(s)	Buy/Sell
1	HLS	Empire	SP 65 A	SP 65 A	20177215102		Devon Louisiana Corp.	220	30.0	N/A	Devon private line (no charge) into Pompano P/L into Delta P/L	no no yes	STUSCO
2	HLS	Empire	SP 62	VK 989	20608165102	Pompano	BP Expl. and Prod.	1,900	34.6	N/A	Pompano P/L into Delta P/L	no yes	STUSCO
3	HLS	Empire	SP 62 Ai	VK 900 A	20608165101		ChevronTexaco	250	36.1	N/A	Pompano P/L into Delta P/L	no yes	STUSCO
4a	HLS	Empire	MP 311 A	MP 311 A	20177245100		GOM Shelf	140	27.8	N/A	Pompano P/L into Delta P/L	no yes	STUSCO
4b	HLS	Empire	MP 311 B	MP 311 B	20177245101		GOM Shelf	230	25.8	N/A	Pompano P/L into Delta P/L	no yes	STUSCO
5	HLS	Empire	MP 313 ssti	MP 313 A	20177245700		ChevronTexaco	400	29.1	N/A	Mountaineer P/L into Chevron P/L	no yes	Williams
6	HLS	Empire	SP 62 A	SP 62 A	20177215100		Apache Corp.	480	35.7	N/A	Pompano P/L into Delta P/L	no yes	STUSCO
Pipeline Total								3,620					
7	HLS	Empire	SP 87 D	SP 87 D	20177224602		Marathon Oil Co.	310	36.6	N/A	• South Pass-West Delta System (Marathon P/L) into Chevron P/L or; • South Pass-West Delta System (Marathon P/L) into Chevron P/L	yes yes no yes	(Note 2) Multiple Co.
8	HLS	Empire	SP 86 C	SP 86 C	20177224601		Marathon Oil Co.	40	36.6	N/A	• South Pass-West Delta System (Marathon P/L) into Chevron P/L or; • South Pass-West Delta System (Marathon P/L) into Chevron P/L	yes yes no yes	(Note 2) Multiple Co.
9	HLS	Empire	WD 79 A	WD 79 A	20177194600		Amerada Hess Corp.	150	36.3	N/A	• South Pass-West Delta System (Marathon P/L) into Chevron P/L or; • South Pass-West Delta System (Marathon P/L) into Chevron P/L	yes yes no yes	(Note 2) Multiple Co.
10a	HLS	Empire	SP 89 B	SP 89 B	20177224600		Marathon Oil Co.	70	29.8	N/A	• South Pass-West Delta System (Marathon P/L) into Chevron P/L or; • South Pass-West Delta System (Marathon P/L) into Chevron P/L	yes yes no yes	(Note 2) Multiple Co.
10b	HLS	Empire	SP 89 B	SP 89 B (Zia)	20177224600	Zia	Marathon Oil Co. (Devon Energy for Zia)	600	29.8	N/A	• South Pass-West Delta System (Marathon P/L) into Chevron P/L or; • South Pass-West Delta System (Marathon P/L) into Chevron P/L	yes yes no yes	(Note 2) Multiple Co.
Pipeline Total								1,170					

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Royalty Volume Metered At	MMS FMP No.	Common Industry Name	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Gravity (Note 1)	Sulfur % (Note 1)	Pipelines	Common Carrier(s)	Buy/Sell
11	HLS	Empire	Venice, LA (into ChevronTexaco)	WD 117 G	20177204300		Anglo-Suisse	190	35.4	N/A	Chevron P/L	yes	
12	HLS	Empire	SP 77 A	SP 77 A	20177224701		ChevronTexaco	830	36.1	N/A	Chevron P/L	yes	
13	HLS	Empire	Venice, LA (into Plains)	Venice, LA	20170755200		Noble Energy	200 (Note 3)	34.2	N/A	Chevron P/L	yes	
							Pipeline Total	1,220					
14	HLS	Empire	MC 474 A	MC 474 A	20608175111	Na Kika	BP Expl. and Prod.	12,750 (Note 4)	30.9	N/A	Na Kika P/L into Delta P/L	yes yes	
							Pipeline Total	12,750					
15	HLS	Empire	MP 123 A	MP 123 A	20177255400		Pogo Producing	100 (Note 6)	36.2	N/A	Pogo private line (no charge) into Chevron P/L	no yes	
16	HLS	Empire	MP 133 C	MP 133 C	20177255402		Petro Ventures	180	44.6	N/A	Chevron P/L	yes	
							Pipeline Total	280					
17	HLS	Empire	MP 69 (from MPOG) (Note 8)	VK 826 A	20608165111	Neptune	Kerr-McGee	7,260	37.8	N/A	Delta P/L or Cypress P/L (Note 8)	yes	
				VK 915 A	20608165114	Marlin/Nile	BP Expl. and Prod.	(Note 5)	35.8	(Note 7)			
				MP 281 A	2017724511G		Dominion E & P	(Note 5)					
				VK 823 A	20608165115	Virgo	Total E & P	(Note 5)					
				MP 225 A	2017724511C		Dominion E & P						
							Pipeline Total	7,260					
18	HLS	Empire	MP 73 CF	MP 73 CF	20177255401		Pogo Producing	210	30.4	N/A	Cypress P/L	yes	
19	HLS	Empire	Grand Bay Rec. Stn.	Grand Bay Rec. Stn.	20170755600		Apache Corp.	280	29.5	N/A	Chevron P/L	yes	
20	HLS	Empire	S.W. Pass 24	MC 194	20608174850	Cognac	Shell Offshore	750	30.3	N/A	Cognac P/L into Delta P/L	no yes	STUSCO
21	HLS	Empire	MP 69 PS	MP 69 PS	20177255111		Superior Resources	750	34.5	N/A	Delta P/L	no	STUSCO
							Pipeline Total	1,990					
22a	HLS	Empire	WD 133i	WD 133 B	20177203900		Apache Corp.	190	35.4	N/A	Shell Bourbon P/L into West Delta/Marlin P/L	no	STUSCO
22b	HLS	Empire	MC 311 A	MC 311 A (from WD 152)	20608173901		Apache Corp.	40	34.5	N/A	Shell private line (no charge) into West Delta/Marlin P/L	no no	STUSCO
22c	HLS	Empire	MC 311 A	MC 311 A	20608173900		Apache Corp.	110	35.1	N/A	Shell private line (no charge) into West Delta/Marlin P/L	no no	STUSCO
23	HLS	Empire	WD 103i	WD 104 C	20177193903		Apache Corp.	380	30.9	N/A	West Delta/Marlin P/L	no	STUSCO
24	HLS	Empire	WD 89 A	WD 89 A	20177193905		ENI Petroleum	100	34.9	N/A	ENI private line (no charge) into West Delta/Marlin P/L	no no	STUSCO

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Royalty Volume Metered At	MMS FMP No.	Common Industry Name	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Gravity (Note 1)	Sulfur % (Note 1)	Pipelines	Common Carrier(s)	Buy/Sell
25	HLS	Empire	WD 90i	WD 90 A	20177193906		Apache Corp.	270	30.9	N/A	West Delta/Marlin P/L	no	STUSCO
							Pipeline Total	1,090					
26	EI	St. James	SM 128 A	SM 128 A	20177082951		Devon Energy	900	40.5	0.17	Eugene Island P/L into Shell's South Louisiana System	yes yes	
27	EI	St. James	SS 181 B	SS 181 B	20177112951		ChevronTexaco	150	29.2	0.32	Shell P/L into Eugene Island P/L into Shell's South Louisiana System	yes yes	
							Pipeline Total	1,050					
28	EI	St. James	EW 989 ssti	GC 18 A	20608112950		ExxonMobil	500	29.8	1.43	Boxer P/L into Eugene Island P/L into Shell's South Louisiana System	yes yes	
							Pipeline Total	500					
29	EI	St. James	VR 369 ssti	VR 386 B	20177062954		Houston Exploration	530	30.9	1.07	Marathon P/L into Eugene Island P/L (Marathon capacity) into Shell's South Louisiana System	yes yes yes	(Note 2)
30	EI	St. James	SM 137 ssti	VR 356 A	20177062959		El Paso Production	120	28.4	1.01	Marathon P/L into Eugene Island P/L (Marathon capacity) into Shell's South Louisiana System	yes yes yes	(Note 2)
31	EI	St. James	SM 141 ssti	SM 160 A	20177082956		Newfield Exploration	130	27.4	1.03	Marathon P/L into Eugene Island P/L (Marathon capacity) into Shell's South Louisiana System	yes yes yes	
32	EI	St. James	VR 331 ssti	EC 346 A	20177042950		Remington Oil and Gas	100	31.1	0.94	Marathon P/L into Eugene Island P/L (Marathon capacity) into Shell's South Louisiana System	yes yes yes	(Note 2)
33a	EI	St. James	EI 327 ssti	EI 325 A	20177102952		Forest Oil Corp.	260	39.5	0.42	Marathon P/L into Eugene Island P/L (Marathon capacity) into Shell's South Louisiana System	yes yes yes	
33b	EI	St. James	EI 327 ssti	EI 341 A	20177102958		ChevronTexaco	120	34.9	0.90	Marathon P/L into Eugene Island P/L (Marathon capacity) into Shell's South Louisiana System	yes yes yes	
							Pipeline Total	1,260					
34a	Bonito	St. James	EI 316 ssti	EI 361 A	2017710260J		ChevronTexaco	260	36.2	0.80	Bonito P/L into Ship Shoal P/L	yes	
34b	Bonito	St. James	EI 316 ssti	EI 360 E	2017710260K		ChevronTexaco	320	35.5	0.86	Bonito P/L into Ship Shoal P/L	yes	
35	Bonito	St. James	EI 339 B	EI 339 B	20177102609		ChevronTexaco	620	32.1	1.10	Bonito P/L into Ship Shoal P/L	yes	
36	Bonito	St. James	EI 338 A	EI 338 A	20177102608		ChevronTexaco	220	28.7	1.45	Bonito P/L into Ship Shoal P/L	yes	
37	Bonito	St. James	EI 330 ssti	EI 314 A	20177102605	Teal	ExxonMobil	320	33.8	0.77	Bonito P/L into Ship Shoal P/L	yes	

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Royalty Volume Metered At	MMS FMP No.	Common Industry Name	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Gravity (Note 1)	Sulfur % (Note 1)	Pipelines	Common Carrier(s)	Buy/Sell
38	Bonito	St. James	EI 337 A	EI 337 A	2017710260B		Devon Energy	220	34.3	0.87	Bonito P/L into Ship Shoal P/L	yes	
39	Bonito	St. James	EI 330 S	EI 330 S	20177102607		Devon Energy	1,350	31.8	1.10	Bonito P/L into Ship Shoal P/L	yes	
							Pipeline Total	3,310					
40a	LLS	St. James	GB 128 A	GB 128 A	20608072601 (Note 9)	Enchilada	Shell Offshore	350 (Note 5)	53.4	N/A	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
40b1	Bonito	St. James	GB 128 A	GB 128 A	20608077000 (Note 9)	Enchilada	Shell Offshore	3,600 (Note 5)	37.1	0.88	• Auger P/L into Ship Shoal P/L or;	yes	
40b2	or EI	St. James									• Auger P/L into Bonito P/L into Ship Shoal P/L or; • Auger P/L into Eugene Island P/L into Shell's South Louisiana System	yes yes yes	
							Pipeline Total	3,950					
41	Mars	Clovelly	GI 116 A	GI 116 A	20177183651		Apache Corp.	200	45.3	0.34	Amberjack P/L into Mars Oil P/L	yes	
42	Mars	Clovelly	GI 115 ssti	EW 921 A	20608103651	Morpeth	ENI Petroleum	380 (Note 5)	25.5	2.19	Amberjack P/L into Mars Oil P/L	yes	
							Pipeline Total	580					
43	Mars	Clovelly	MC 807 A	MC 807 A	20608173650	Mars	Shell Offshore	16,000	28.6	2.09	Mars Oil P/L	yes	
44	Mars	Clovelly	WD 117 ssti	GI 78 A	20177173650		EI Paso Production	70	46.4	0.10	Mars Oil P/L	yes	
							Pipeline Total	16,070					
45	Mars	Clovelly	MC 809 A	MC 809 A	20608173651	Ursa	Shell Offshore	15,500	31.1	1.95	Ursa P/L into Mars Oil P/L	yes	
							Pipeline Total	15,500					
46	Poseidon	Houma	GB 72 A	GB 72 A	20608072950		Fluxtrend Development Co.	230	35.8	0.77	Poseidon P/L	no	Poseidon
47	Poseidon	Houma	EW 1003 A	EW 1003 A	20608102952	Prince	EI Paso Production	400	31.5	1.24	Poseidon P/L	no	Poseidon
48	Poseidon	Houma	ST 204 B	ST 204 B	20177152952		EI Paso Production	100	54.3	0.03	Poseidon P/L	no	Poseidon
							Pipeline Total	730					
49	HOOPS	Jones Creek	AC 25 A	AC 25 A	20608050130	Diana	ExxonMobil	730 (Note 10)	31.3	1.04	ExxonMobil P/L	yes	
50	HOOPS	Jones Creek	EB 602 A	EB 602 A	20608040134	Nansen	Kerr-McGee	2,900	33.2	0.48	ExxonMobil P/L	yes	
51	HOOPS	Jones Creek	EB 643 A	EB 643 A	20608040135	Boomvang	Kerr-McGee	2,900	29.0	1.25	ExxonMobil P/L	yes	
							Pipeline Total	6,530					
52	LLS	St. James	EI 175 C	EI 175 C	20177092601		Apache Corp.	110	35.7	N/A	Apache private line (no charge) into Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no no yes	STUSCO
53	LLS	St. James	EI 174 ssti	EI 182 A	2017709260C		Newfield Exploration	180	34.6	N/A	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Royalty Volume Metered At	MMS FMP No.	Common Industry Name	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Gravity (Note 1)	Sulfur % (Note 1)	Pipelines	Common Carrier(s)	Buy/Sell
54	LLS	St. James	EI 252 I	EI 252 I	2017709260K		ChevronTexaco	920	38.0	N/A	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
55a	LLS	St. James	EI 259 ssti	EI 258 B	20177092609		Nexen Petroleum	380	35.8	0.20	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
55b	LLS	St. James	EI 259 ssti	EI 276 B	20177102601		Unocal	190	35.6	0.20	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
56	LLS	St. James	SM 130 A	SM 130 A	20177082604		Energy Res. Technology	790	27.7	0.41	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
57	LLS	St. James	SM 132 A	SM 149 C	2017708260A		Unocal	360	35.7	N/A	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
58	LLS	St. James	SS 274 C	SS 274 C	2017712260E		Apache Corp.	160	36.5	0.17	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
59	LLS	St. James	VR 214 A	VR 214 A	20177052600		ChevronTexaco	230	36.7	N/A	Chevron P/L into Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	yes no yes	STUSCO
60	LLS	St. James	VR 215 A	VR 215 A	20177052601		Newfield Exploration	220	38.9	N/A	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
61	LLS	St. James	VR 250 ssti	VR 252 A	2017706260A		Seneca Resources	450	36.1	N/A	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
62	LLS	St. James	VR 331 ssti	VR 315 A	20177062608		Northstar Gulfsands	100	34.9	N/A	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
63	LLS	St. James	VR 376 A	VR 376 A	2017706260C		PetroQuest Energy	240	36.8	0.21	Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no yes	STUSCO
64	LLS	St. James	WC 498 B	WC 498 B	20177022600		El Paso Production	60	35.1	N/A	El Paso Merchant Energy P/L into Central Gulf Gathering System into Tarpon P/L into Ship Shoal P/L	no no yes	El Paso STUSCO
							Pipeline Total	4,390					
65a	TXG	Texas City	Segment I (GA 256 ssti)	GA 209 B	20427060150		ExxonMobil	710	33.4	unknown	HIPS P/L	yes	
65b	TXG	Texas City	HIA 474 A	HIA 474 A	20427090153		Newfield Exploration	210	40.8	unknown	HIPS P/L	yes	
							Pipeline Total	920					
66a	TXG	Texas City	EB 159 A	EB 159 A	20608040150		Unocal	230	39.6	unknown	HIPS P/L	yes	
66b	TXG	Texas City	EB 160 A	EB 160 A	20608040151		Unocal	270 (Note 5)	34.4	unknown	HIPS P/L	yes	
66c	TXG	Texas City	HIA 536 C	HIA 536 C	20427090155		Newfield Exploration	120	34.7	unknown	HIPS P/L	yes	

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Royalty Volume Metered At	MMS FMP No.	Common Industry Name	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Gravity (Note 1)	Sulfur % (Note 1)	Pipelines	Common Carrier(s)	Buy/Sell
66d	TXG	Texas City	HIA 563 B	HIA 563 B	20427090158		ChevronTexaco	130	35.8	0.03	HIPS P/L	yes	
66e	TXG	Texas City	HIA 582 C	HIA 582 C	2042709015E		ChevronTexaco	980	40.9	0.04	HIPS P/L	yes	
							Pipeline Total	1,730					
67a	TXG	Texas City	IP#4/SEG III (HIA 546 ssti)	HIA 376 A	20427110152		Apache Corp.	210	36.9	unknown	HIPS P/L	yes	
67b	TXG	Texas City	HIA 379 B	HIA 379 B	20427110153		Kerr-McGee	90	36.1	unknown	Kerr-McGee private line into HIPS P/L	no yes	Kerr-McGee
67c	TXG	Texas City	HIA 443 ssti	HIA 442 A	2042709015i		Devon Louisiana Corp	330	36.8	unknown	HIPS P/L	yes	
67d	TXG	Texas City	HIA 573 B	HIA 573 B	2042709015B		Apache Corp.	190	35.1	unknown	HIPS P/L	yes	
67e	TXG	Texas City	HIA 595 C	HIA 595 C	2042709015C		Apache Corp.	440	30.8	unknown	HIPS P/L	yes	
67f	TXG	Texas City	GB 189 A	WC 661 A	20177020150		Tarpon Offshore	400	32.4	0.07	HIPS P/L	yes	
							Pipeline Total	1,660					
							Grand Total	87,560					

The royalty volumes may vary as production resumes in the aftermath of Hurricane Ivan.

Pipeline and Buy/Sell Contacts:

- Apache: Johnny Dobecka (713-296-6639)
- El Paso Merchant Energy-Petroleum Company: Jerry Ross (713-420-6360)
- Kerr-McGee: Beth Sachs (281-618-6605)
- Marathon for Pipeline Incentive Program (see Exhibit D): Ted Skinner (713-296-3719) or Bruce Norcini (713-296-3738)
- Main Pass Oil Gathering (MPOG): Chris O'Neill (918-660-4383)
- Pogo: Don McGregor (713-297-5010)
- Poseidon: James Hostetler (303-820-0846)
- Shell Offshore: Mike Faulise (713-230-1967)
- STUSCO for HLS properties: Brett Jones (713-230-1944)
- STUSCO for LLS properties: Chuck Morelli (713-230-1949)
- Williams: Keith Selby (918-573-8464)

- FMP: Facility Measurement Point
- N/A: Not Applicable

Note 1: Gravity and Sulfur are not warranted. Gravity and Sulfur are measured at the Facility Measurement Point unless otherwise noted.

Note 2: Reserve Commitment Program for Marathon's tariff, see Exhibit D.

Note 3: Volume reflects only Newfield's share and is not expected to be available until the second or third quarter of 2005.

Note 4: Volume may vary, please contact operator for more information.

Note 5: FMP contains a lease in Royalty Relief status whose volume will not be included in deliveries to purchaser.

Note 6: MP 123 not expected to be back into production until June or July 2005.

Note 7: The first gravity listed is the commingled MPOG gravity entering Delta P/L for December 2004, the second is the commingled gravity entering Cypress P/L for August 2004, both are measured at MP 69. Currently the Cypress P/L connection from MPOG at MP 69 is not in operation.

Note 8: Since the Delta P/L is the only available option for moving the volumes to Empire from MP 69 at the time of issuance of this IFO, offers should be made based on using the Delta P/L. MMS reserves the right to renegotiate the offer should an alternate, less expensive, route to Empire from MP 69 become available.

Note 9: Offers required on both FMPs as Package 40 will be awarded to one purchaser.

Note 10: Volume reflects only non-ExxonMobil share of volumes.

CONTINGENCY FOR OUTRIGHT PURCHASE
IFO No. 1435-02-05-RP-25849

Introduction

In the event the Department of Energy rejects offers for redelivery into the SPR of exchange oil related to a successfully awarded royalty oil package from this MMS Invitation for Offer (IFO), the MMS award will be for an outright purchase at the offshore custody transfer point specified in Exhibit A, rather than an exchange.

MMS will notify successful offerors by February 14, 2005, of any royalty oil packages awarded as an outright purchase rather than an exchange. **Any outright purchases of royalty oil packages will be for a 6-month term beginning April 1, 2005, and ending September 30, 2005.** Payment terms are governed by the MMS base contract "RIK Crude Oil General Terms and Conditions," previously signed by the offeror and MMS.

If the SPR capacity is reached during the term of the contract or volumes delivered to DOE are to be reduced, MMS will notify successful offerors 45 days prior to the delivery month that awards of all or partial volumes under this IFO will revert to an outright sale.

Pricing Mechanism

For any royalty oil package awarded as an outright purchase rather than an exchange, the accepted IFO offer ("X") will be used to price the royalty crude oil and will represent an increment or decrement from the following pricing formula:

(Koch Posting + Platts P⁺) - (Platts WTI - Platts Crude Type Price)

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

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

Platts P⁺: Platts Oilgram Price Report (Platts) arithmetic average of the daily high and low price quotes for "P-Plus WTI" for the Platts Month of Delivery

Platts Month of Delivery: Refers to quotes in Platts for the period of time from the 26th day of the month 2 months prior to the Physical Month of Delivery, through the 25th day of the month 1 month prior to the Physical Month of Delivery (excluding weekends and holidays)

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 oil type that is the subject of the offer: HLS, LLS, Bonito, Eugene Island, Mars, Poseidon, TXG (Platts WTI) or HOOPS (Platts WTS) for the Platts Month of Delivery

Pre-qualification and Credit Requirements

For royalty oil packages awarded as outright purchases rather than as exchange agreements, all pre-qualification and credit requirements outlined under this IFO will continue to apply, with the following modifications. If required, 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 financial assurance must be effective for a period beginning on the date of first delivery under the contract and ending when final payment under the contract is verified. For new surety instruments, the value of the financial assurance should be calculated as the price per barrel using the above pricing mechanism plus the submitted offer applied to the February 2005 delivery month prices. Alternatively, the most currently available Platts pricing data may be used instead of Platts Month of Delivery. For continuing surety instruments, we will notify you regarding renewal.

Any questions regarding calculation of the financial assurance amount should be directed to Larry Cobb at 303-231-3307. Failure to provide adequate financial assurance when requested may result in a loss of award unless the date is extended by the MMS Contracting Officer.

**Marathon Pipe Line LLC
Incentive Rates**

Exhibit D

Marathon Contacts:

Ted Skinner (713-296-3719) for South Pass-West Delta Pipeline System properties

Bruce Norcini (713-296-3738) for Eugene Island Pipeline System properties

Offer Pkg	Custody Transfer Point	Pipeline System	Incentive Program Rate	FERC Number
7	SP 87 D	South Pass-West Delta	\$0.85	32
8	SP 86 C	South Pass-West Delta	\$0.85	32
9	WD 79 A	South Pass-West Delta	\$0.45	33
10a	SP 89 B	South Pass-West Delta	\$0.85	32
10b	SP 89 B (Zia)	South Pass-West Delta	\$0.45	54
29	VR 369 ssti / VR 386 B	Eugene Island	\$1.27	63
30	SM 139 ssti / VR 356 A	Eugene Island	\$1.07	63
32	VR 331 ssti / EC 346 A	Eugene Island	\$1.07	63

Note: Line loss based on actuals.

MMS/MRM/RIK
Mail Stop 330B2

, 2005

(Address)

Dear (Title, Name):

The Minerals Management Service (MMS) selected one or more offshore Federal leases in the Gulf of Mexico (GOM), that you operate or are a working interest owner of, to be included in a Royalty In-Kind (RIK) program where we will take crude oil and condensate royalty production in-kind beginning April 1, 2005. This letter supersedes previous operator letters you received regarding oil royalties taken in-kind and is effective the first day of deliveries.

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 your properties flowing to the Facility Measurement Point(s) (FMP) listed in Enclosure 1, beginning April 1, 2005, and will continue taking royalties in-kind until we notify you that the in-kind status is terminated. We will provide Lessees and Operators with at least a 45-day prior written notice when terminating the in-kind status.

Royalty Oil Delivery

The delivery points for royalty oil produced from the properties are at the FMP or first interconnect into a main pipeline, as identified in Enclosure 1, which lists the properties approved to flow to the FMPs. It is your responsibility to ensure that royalty production from any of your properties that is actually flowing to the designated FMP on any given month will be delivered in-kind to the Lessor or our designee, with the exception of leases in royalty relief status, section 6 leases (unless otherwise noted), state leases, or net profit share leases. The Lessor or designee will take custody and responsibility for royalty oil at the delivery point.

You can be reimbursed for transportation and quality bank debits and/or quality differentials associated with royalty oil delivery to points identified in Enclosure 1 that are downstream of the FMP in accordance with the applicable MMS regulations. In addition, you must pay MMS for any quality bank credits received associated with royalty oil delivery to points identified in Enclosure 1 that are downstream of the FMP in accordance with the applicable MMS regulations. If gathering upstream of the FMP is approved by MMS, you may take this deduction, as well as other related fees, on the Report of Sales and Royalty Remittance (Form MMS-2014). You will be required to report quality bank debits and credits for properties where the quality bank is passed back to the operator/producer or where a quality differential exists on a pipeline where there is not an instituted quality bank, as allowed in applicable MMS regulations. Please use the applicable

GravCap tables to calculate the quality differential on pipelines where there is a not an instituted quality bank.

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, you will make your best effort to notify the Lessor's designated point of contact of new oil production flowing to the FMP identified in Enclosure 1. Royalty oil from such new properties may be added to the RIK volumes at the existing delivery points by the Lessor.

Fulfillment of Royalty Obligations

Delivering 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 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. We will try to minimize imbalances with you and the Lessees using reasonable and customary industry practices.

To facilitate timely and accurate custody transfer of royalty oil, we will communicate with you regarding arrangements to transfer the 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

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 by the dates shown in Enclosure 2 for each of the properties identified in Enclosure 1. On this same schedule, for each of the properties, 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 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 use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes to the information listed in Enclosure 1; for example, oil

production levels, oil type, and/or royalty rates for the RIK contract properties, as well as if the property was sold and to whom it was sold.

Volume Reconciliation

You must provide the pipeline with the volume allocation for MMS' royalty oil separately from other take in-kind owners.

You must send all volume allocation schedules provided to pipeline companies that address royalty oil volumes at the delivery points in Enclosure 1 to MMS at the same time they are submitted to the pipeline companies.

You 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 submitting the statement. We will monitor and reconcile royalty entitlements with the royalty oil deliveries you make. Reconciliation will involve communication between you and MMS. Upon project termination, you as the Operator, 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 must be submitted to the rik.project@mms.gov mailbox.

Operator Assignments

For leases which are being taken in-kind and which you are assigning to another operator, you will make the best reasonable effort to notify one of the Lessor's Points of Contact - New Lease Production listed below. In addition, any ending imbalance existing at the effective date of the assignment will be cashed out as described under "Balancing Account and Imbalances."

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 by adjusting the 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.
- 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 starting 60 days after the final month of delivery. Imbalances remaining at the time of any sale/assignment of properties identified in Enclosure 1 will be settled in compliance with your Purchase and Sale Agreement assignments.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR). You must also report transportation allowances and quality bank debits/credits on the Form MMS-2014 for any royalty volumes that are delivered downstream of the FMP or where the quality bank is passed back to the operator/producer under requirements specified in the MMS regulations and the MMS *Minerals Revenue Reporter Handbook*, please see our website at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf>.

You will not be required to report royalties for the RIK properties listed in Enclosure 1 on the Form MMS-2014 for the term during which the Lessor takes royalty in-kind, with the exception of properties noted as royalty relief, section 6 (unless being taken in-kind), net profit share, and any retrograde or free condensate not delivered to the Lessor. You must continue to report these properties on the Form MMS-2014 per the MMS regulations. Reporting does not change for non-RIK leases.

Lessor's Designee

The Lessor may act by or through a duly authorized designee. Enclosure 1 provides MMS' designee at each custody transfer point. 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. You are allowed, but not required, to direct communications to our designee. You are required to direct communications to us. We will provide written notification when the designee changes or is no longer authorized to act on our behalf for the purposes of this letter.

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. Bernie Muniz

Telephone: 303-231-3854; Fax: 303-231-3846

E-mail: Bernadette.Muniz@mms.gov

- New Lease Production:

Ms. Crystel Edler (BON, POS, EI, MARS, HOOPS)

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

E-mail: Crystel.Edler@mms.gov or

Mr. Richard Fantel (HLS)
Telephone: 303-231-3502; Fax: 303-231-3846
E-mail: Richard.Fantel@mms.gov or

Ms. Donna Hogan (LLS, HLS-SB & TXG)
Telephone: 303-231-3148; Fax: 303-231-3846
E-Mail: Donna.Hogan@mms.gov or

Mr. Allen Vigil (LLS, HLS-SB & TXG)
Telephone: 303-231-3098; Fax: 303-231-3846
E-Mail: Allen.Vigil@mms.gov

- Electronic Funds Transfer:
Mr. Joe Romero
Telephone: 303-231-3123; Fax: 303-231-3501
E-mail: Joseph.Romero@mms.gov
- Marketable Condition Questions:
Mr. Roman Geissel
Telephone: 303-231-3226; Fax: 303-231-3473
E-mail: Roman.Geissel@mms.gov

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

The Paperwork Reduction Act

The OMB Control Number for this Dear Operator Letter is 1010-0129 with an expiration date of July 31, 2006. The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to document fulfillment of royalty obligations on minerals removed from Federal lands. The MMS uses the information to maintain and audit lease accounts. Responses are mandatory (43 U.S.C. 1334). Proprietary information 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 Department 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. Public reporting burden for this form is estimated to average one hour per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Minerals Management Service, Mail Stop 4230, 1849 C Street, NW., Washington, DC 20240.

Sincerely,

Gregory W. Smith
Deputy Program Manager
for Royalty In-Kind

2 Enclosures