INVITATION FOR OFFER – STRATEGIC PETROLEUM RESERVE FILL
TRANSFER OF ROYALTY IN KIND CRUDE OIL TO MARKET CENTERS
IFO No. MMS-RIKOIL-2009-SPR-002
Deliveries beginning April 1, 2009

Introduction

The Minerals Management Service (MMS) of the U.S. Department of the Interior is requesting written offers from pre-qualified companies (see "Pre-qualification and Credit Requirements" section) to transfer, through a buy/sell arrangement, royalty oil produced from certain Federal leases in the Gulf of Mexico.

This Invitation for Offer (IFO) is for a sales term beginning April 1, 2009 (see "Term" section). Buyers will take custody of the royalty oil at the applicable custody transfer points shown in Exhibit A and will be responsible for moving the royalty oil downstream of this point. Crude oil will be delivered to MMS at the Gulf Coast market center. The payment owed to the shipper for transportation and/or quality bank charges will be a credit applied against monthly payments owed MMS in other RIK oil programs, if applicable, or paid through an invoice submitted to MMS.

The publication of this IFO is in coordination with a separate Department of Energy (DOE) solicitation in a joint initiative to fill the remaining capacity of the Strategic Petroleum Reserve (SPR). Through a separate solicitation, DOE will contract for the exchange of oil resulting from this MMS IFO for crude oil delivered to the SPR. Please see the DOE website at http://www.spr.doe.gov.

This award is contingent upon the DOE awarding a contract for the exchange or direct movement of oil resulting from this MMS IFO. In the event the DOE does not award such a contract, the MMS award may be terminated or it may become an outright sale**. If the authorized SPR capacity is reached during the term of the contract or volumes required by DOE are reduced, awards of all or partial volumes under this IFO may revert to an outright sale, see Exhibit B.**

Offers must be made in writing and submitted via email to rikoiloffers@mms.gov or facsimile (303-462-9944) by 10:00 am MT on Tuesday January 6, 2009. The MMS will confirm receipt of all offers. **Royalty oil packages will be awarded by 2:00 pm MT on January 7, 2009.**

Please call the contacts below for additional information:

- Robert Kronebusch for technical and contracting questions at 303-231-3510
- David Denson for pre-qualification or credit questions at 281-987-6807
- Bernie Muniz for payment and accounting questions at 303-231-3854

Offer Requirements

- Offers must be submitted on the Offer Sheet along with any additional comments or offer caveats
- Offers must be to the nearest $0.0001. MMS will assume missing numbers are zeros if the offer is not to four decimal places
- Offers must reflect total consideration
- Submit offers to the email address or fax number shown above and not to any other MMS contacts

Failure to comply with the offer requirements may disqualify a company's offer. The MMS reserves the right to reject any offer.

Offers

Exhibit A is the Offer Sheet to be completed and emailed or faxed. Exhibit A identifies 2 packages of royalty oil including details on Facility Measurement Point (FMP) operators, pipelines, and custody transfer points. Data in the Exhibit is not warranted and offerors can 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. Other pertinent information such as leases/agreements, operators, and royalty rates will be provided to the buyer upon award.

MMS will sell royalty volumes to the successful offeror at the custody transfer points listed in Exhibit A. The sales value will be determined using the following pricing formula as defined in Exhibit B.

(Calendar NYMEX + Daily Roll) + (Argus Weighted Average Crude Type Differential)

In exchange, the MMS will buy equivalent volumes from the successful offeror at the market center using the same sales value, adjusted for location and quality differences. The difference between the sell and buy will be netted and forms the basis for the transportation offer. The successful offeror will invoice the MMS for the net difference multiplied by the number of royalty barrels delivered to the market center.

Shippers must deliver common stream quality crude oil to the Gulf Coast market center listed below.

Royalty Oil Type	Gulf Coast Market Center
Mars	Clovelly

Please see the "Quality" section for more information on how to account for gravity and sulfur in the offer. For hurricane surcharges, shippers should follow standard industry practice and include the surcharge(s) in the offer as applicable.

Royalty oil from new wells on currently producing properties behind the custody transfer points that commence production during the term of this IFO will be automatically added to the volumes awarded under this IFO. Royalty oil from new properties behind the custody transfer points that commence production during the term of this IFO will be added to the volumes awarded under this IFO on a case-by-case basis pursuant to mutual consent of MMS and shippers.

Consideration of Offers

The 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 below 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. The MMS prefers no more than one award for each package and will attempt to award 100 percent of the volume from a custody transfer point. However, MMS may consider offers on only part of a royalty oil package if favorable to the Government. The MMS will award to shippers by means of the "Oil Transaction Confirmation and Agreement."

Term

Delivery of royalty oil for transport will begin on April 1, 2009 and end December 31, 2009.

Quality

For these **Mars** packages, with the exception of the market center delivery banks, quality bank debits/credits should not be included in the offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s). Market center delivered quality bank(s) debits/credits should be included in the offer.

Shippers must net any quality bank credits or debits against the monthly transportation charges that are invoiced. If the net results in a payment due the MMS, the net payment is due to the MMS by the 20th of the month after receipt of volumes. All quality bank data must be accompanied by supporting third-party documentation supplied to MMS on or before the 19th of the month after receipt.

The quality information in Exhibit A represents MMS' most recent data for the custody transfer points in the packages offered. Actual quality during the term of this sale may vary. Data provided by MMS is based on the best information available at the time of IFO publishing and is not warranted.

PLA Pass back

MMS is allowing pass back of the pipeline loss allowance (PLA) for these packages. Please enter the PLA pass back percentage (total PLA percentage for all transport legs) on the offer sheet. Documentation may be required to support the pass back percentage. The PLA pass back value will be calculated using the following pricing formula, adjusted for gravity. **(Calendar NYMEX + Daily Roll) + (Argus Weighted Average Crude Type Differential)**

Transporting and Scheduling Royalty Oil

Shippers will take custody and title of the royalty oil at the custody transfer point specified in Exhibit A and are responsible for transporting all royalty oil volumes to the market center. Shippers must nominate and schedule all volumes awarded through this IFO separately from all other volumes owned or controlled at the custody transfer point where royalty oil is received. When nominating to the pipeline, shippers are required to indicate that the nomination is for MMS sourced crude oil.

Within 10 business days of execution of the "Oil Transaction Confirmation and Agreement" relative to this IFO, shippers 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 break out the MMS volumes on the pipeline statement, shippers must provide MMS with acceptable third-party data itemizing the MMS volumes delivered or use a pipeline assigned measurement facilitator. Any charges associated with obtaining this third-party data are the responsibility of the shipper.

Shippers will provide MMS with pipeline statements and any third-party documentation within 2 business days after the documents are available to the shipper, no later than the 19th day of the month following the month of production. Documentation not received by the due date may be purchased by MMS with the shipper being billed any associated costs.

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

NOTE: For this term of SPR shipments, the shipper will deliver estimated volumes, including revisions, to the market center. Any such estimates are not warranties of actual deliveries to be made but are provided to facilitate planning the delivery of royalty oil.

The shipper will provide the estimated delivery volumes for each custody transfer point identified in Exhibit A to MMS, DOE, and DOE's designated agents by noon MT the 21st of each month. When the 21st falls on a weekend or Federal holiday, the following business day applies. The MMS will provide contact points to the shippers prior to the contract term. If there is a revision to the estimated delivery volumes, shippers must communicate the adjustment as soon as possible to MMS, DOE, and DOE's designated agents. This process will continue for each month of the term of this IFO.

The operators of the properties offered in this IFO are instructed to use reasonable efforts, consistent with industry practice, to inform MMS and MMS' designated shippers regarding significant changes in royalty oil production levels and production shut-ins.

Contract Amendments

The buyer or MMS can request a contract amendment to adjust an awarded offer by any increase or decrease in tariff-based transportation costs effective on the date of the change. Supporting documentation is required to verify the requested tariff adjustment, i.e., copy of the FERC tariff.

Also, a contract amendment will be considered when the oil flow changes due to operational issues on the platform, pipeline, or at onshore receiving facilities (for instance; hurricanes, maintenance, or some other unanticipated event). Supporting documentation is required to verify the requested pricing adjustment.

Imbalances

Operator
Shippers 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.

The MMS and the operator will jointly monitor imbalances between deliveries and entitlements. Routine imbalances may be resolved by the operator adjusting the volume of royalty oil delivered to buyers unless otherwise approved by MMS. The MMS will communicate these volume adjustments to the buyer. The contract price may be used to as a basis to settle monthly imbalances in certain situations.

Pipeline
The MMS is not responsible for royalty crude oil pipeline imbalances downstream of the custody transfer point.

Market Center
The definition of a market center imbalance is the difference between volumes delivered at the Gulf Coast market center during the month of delivery and actual volumes received by the shipper at the custody transfer points. **The MMS shipper will resolve market center imbalances by adjusting the nominated volumes to be delivered to MMS at the Gulf Coast market centers by noon MT the 21st day of the month following the month of delivery, unless otherwise approved by MMS.** When the 21st falls on a weekend or Federal holiday, then nominated volumes will be adjusted the following business day.

Market center imbalances that occur each month will be valued using the buy/sell pricing formula and tracked throughout the contract term. Market center imbalances that exist at the conclusion of this contract will be settled by aggregating the monthly values and netting the amount owed to either party for final payment.

Confidentiality

Neither MMS or the buyer 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 1 year from the expiration of the transaction.

Pre-qualification and Credit Requirements

To pre-qualify, offerors are required to sign the MMS base contract "RIK Crude Oil General Terms and Conditions" and provide detailed financial information. 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, no additional information will be required. 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.

MMS reserves the right to request additional financial information in any situation it deems necessary and may reissue or suspend approved lines of credit. Furthermore, buyers are required to provide MMS with any information regarding a significant, adverse change in their financial status that would affect the approved line of credit. Such adverse changes would include a credit downgrade, material changes to liquidity or capital resources, noncompliance with financial covenants in debt documents, or significant market events affecting operations, revenues, or assets. 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 assurance may be required as a condition to further performance under the agreement.

For awards exceeding the amount of unsecured credit issued by MMS, buyers 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 5 business days prior to first receipt of oil under the contract. 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. For new surety instruments, the MMS will contact you regarding the calculation of an estimated amount of surety to be provided prior to initial deliveries. For continuing surety instruments, we will contact you regarding renewal requirements. Significant and sustained increases in the value of crude oil during the term of the contract may result in requiring an increase in the amount of financial assurance. Failure to provide requested surety within 5 business days after the request has been made, may result in cancellation of the award or termination of the contract.

Limitation of Liability

Neither party shall be liable for indirect, special, or consequential damages.

Governing Contract

This transaction is governed by the MMS base contract "RIK Crude Oil General Terms and Conditions," signed by the offeror and MMS. **By submitting an offer, the offeror agrees to be bound by the terms of its signed MMS base contract and this IFO.** Conflicts between the MMS base contract and the terms of this IFO will be resolved in favor of this IFO. Only companies who are pre-qualified and have signed the MMS base contract may receive an RIK transfer contract.

The MMS will send the buyer an "Oil Transaction Confirmation and Agreement" (Transaction Confirmation) detailing the award packages. Transaction Confirmations not signed and returned within 2 business days of receipt will be deemed binding on behalf of both parties. The MMS prefers that a fully executed Transaction Confirmation be returned.

Paperwork Reduction Act of 1995 (PRA) Statement:
The OMB Control Number for this IFO is 1010-0119 with an expiration date of February 28, 2009. 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.

2 Exhibits:
Exhibit A – Offer Sheet and RIK Custody Transfer Point Detail
Exhibit B – Contingency for Outright Sale

Minerals Management Service **Offer Sheet** **Exhibit A**
SPR RIK Crude Oil Transfer
IFO No. MMS-RIKOIL-2009-SPR-002
Deliveries: April 1, 2009 through December 31, 2009

Offer Pkg	Royalty Oil Type	Custody Transfer Point (Volume Metered At)	MMS FMP No.	FMP Operator	Custody Transfer Point Royalty Volume bbls/day (Note 1)	API Gravity (Note 2)	Sulfur % (Note 2)	Common Carrier Pipelines and Gulf Coast Market Center	Transport Offer	Pass back PLA %	For Outright Sale Only: Argus or Platts (indicate A or P)
1	Mars	MC 807 A	20608173650	Shell Offshore	15,700	29.3	2.32	• Mars Oil P/L into Clovelly			
2	Mars	MC 809 A	20608173651	Shell Offshore	10,400	29.8	2.20	• Ursa P/L into Mars Oil P/L into Clovelly			
			Total Barrels Offered		**26,100**						

MMS Contacts:
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Allen Vigil (303-231-3098) allen.vigil@mms.gov
Amanda Martinez (303-231-3480) amanda.martinez@mms.gov
Fax No. (303-231-3846)

FMP: Facility Measurement Point

Note 1: Shell Offshore's estimated production volume for April 2009. Their estimate for the 9-mo. term is 14,500 bpd for MC 807 A and 10,100 bpd for MC 809 A.
Note 2: Gravity and Sulfur contents are not warranted and are measured at the FMP unless otherwise noted.

____________________ ____________________
Your Name Phone No.

____________________ ____________________
Company Name Fax No.

CONTINGENCY FOR OUTRIGHT SALE
IFO No. MMS-RIKOIL-2009-SPR-002

Introduction

In the event the Department of Energy does not award a contract for delivery of exchange oil into the Strategic Petroleum Reserve (SPR) related to a successfully awarded royalty oil package from this MMS Invitation for Offer (IFO) or if the authorized SPR capacity is reached during the term of this contract, the MMS award may become an outright sale at the offshore custody transfer point specified in Exhibit A.

If DOE does not award a contract through their solicitation, MMS will notify successful offerors by February 13, 2009 of any royalty oil packages converted to an outright sale. Any outright sales of royalty oil packages will be for a 9-month term beginning April 1, 2009 and ending December 31, 2009. 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 authorized SPR capacity is reached during the term of the contract, royalty oil deliveries to the SPR may be reduced and therefore may revert to an outright sale. MMS will provide shippers 45 days notice of the packages reverting in part or in total to an outright sale at the offshore custody transfer point specified in Exhibit A.

Pricing Formula

For any royalty oil package converted to an outright sale rather than being shipped, the accepted IFO transport offer will be used to price the royalty crude oil and will represent an increment or decrement from either of the following pricing formulas:

1. (Calendar NYMEX + Daily Roll) + (Argus Weighted Average Crude Type Differential)

2. (Calendar NYMEX + Daily Roll) – (Platts WTI – Platts Crude Type)

Pricing Definitions:

Platts WTI: The arithmetic average of the daily high and low price quotes for West Texas Intermediate (WTI) Cushing for the Platts Month of Delivery

Platts Crude Type: The arithmetic average of the daily high and low price quotes for crude type for Platts Month of Delivery

Argus Weighted Average Crude Type Differential: The weighted average differential for each crude type published by Argus for the Argus Month of Delivery

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)

Platts or Argus Month of Delivery: Refers to quotes in Platts Oilgram Price Report or Petroleum Argus Americas Crude 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 when the crude oil is delivered

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

Payment Terms

Buyers must pay MMS invoiced amounts in accordance with instructions for the US Treasury FEDWIRE Deposit System for electronic payments provided at: http://www.mrm.mms.gov/ReportingServices/PDFDocs/fedwire.pdf.
Buyers must provide specific information to their bank so that a FEDWIRE message can be transmitted to the MMS US Treasury account. RIK payments must not include other, non-RIK, payments made to MMS.

If the buyer is awarded properties in multiple RIK contracts covering the same production months, one wire transfer payment is required and supporting documentation must be separated by oil program (i.e., SPR, Small Refiner, and Unrestricted).

If the buyer uses a third party agent to administer charges and invoicing, MMS must be notified immediately in writing of the buyer and agent agreement.

If buyers dispute an invoiced amount, supporting documentation must clearly demonstrate the basis for the dispute within 5 business days of the payment due date. Supporting documentation should include actual pipeline transportation invoices, quality bank statements, additional charge details, or other payment support that validates the claim.

Please be advised that unpaid portions of due invoices may be referred to the U.S. Department of Treasury for collection under the Debt Collection Improvement Act of 1996 if greater than 180 days.

Pre-qualification and Credit Requirements

For royalty oil packages awarded as outright sales rather than as transportation 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.

Any questions regarding calculation of the financial assurance amount should be directed to David Denson at 281-987-6807. 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.