OMB Control Number 1010-0129
Expiration Date: June 30, 2003

INVITATION FOR OFFER – STRATEGIC PETROLEUM RESERVE FILL EXCHANGE OF ROYALTY-IN-KIND CRUDE OIL TO MARKET CENTERS IFO No. 1435-02-02-RP-40370 April 2002 - March 2003

Introduction

The Minerals Management Service (MMS) of the U.S. Department of the Interior is soliciting written offers (bids) from prequalified companies for the exchange of royalty oil produced from certain Federal offshore leases in the Gulf of Mexico for common stream crude oil (exchange oil) delivered to three Gulf Coast market centers. This exchange is for a one-year term beginning April 1, 2002.

This Invitation for Offer (IFO) is published in coordination with a separate solicitation of the Department of Energy (DOE) in a joint, 2 to 3-year initiative to fill the remaining capacity of the Strategic Petroleum Reserve (SPR). Exchange oil under this MMS IFO will be delivered at Gulf Coast market centers to MMS or its designated agent. MMS' designated agent, which will either be DOE or its exchange contractor, is required to accept custody of all exchange oil delivered under the terms of this IFO. 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 consult DOE (www.spr.doe.gov). Additional MMS and DOE contracting efforts will occur over the course of the SPR initiative until the remaining SPR capacity is filled.

Regarding this MMS IFO, successful offerors will take custody of the royalty oil at offshore delivery points, and will be responsible for all movement of 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 and other factors (see below).

Offers must be made in writing and submitted via facsimile (fax no. 303-231-3846 – DO NOT EMAIL OFFERS) to Stacy Leyshon by 10:00 a.m. Mountain Time on January 31, 2002. MMS will confirm receipt of all offers. Royalty oil packages will be awarded by 2:00 p.m. Mountain Time on February 4, 2002. Technical questions should be addressed to Ms. Stacy Leyshon at 303-231-3638. Contracting questions should be addressed to Mr. Terry Grush at 303-275-7320.

Offers

Exhibit A identifies 7 packages of royalty oil offered. Exhibit B provides further detail on properties, operators, pipelines, delivery points, and other information pertinent to this 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 MMS at the above technical point of contact 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 bid sheet to be completed and faxed to the contact indicated above as the official bid. Tiered bids that offer different prices based on levels of volumes delivered will not be acceptable. MMS prefers to transact no more then one award of royalty oil for each royalty oil package. However, consideration may be given to bids on only part of a royalty oil package if favorable to the government. By submission of a bid, the offeror agrees to be bound by the terms of its signed base contract "RIK Crude Oil General Terms and Conditions" and this solicitation.

MMS reserves the right to reject any bid received.

In exchange for delivery of crude oil at Gulf Coast market centers (see below), successful offerors are granted the rights to 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 producers.

Royalty oil from the properties listed in Exhibit B originating 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 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.

Successful offerors are obligated to deliver common stream quality crude oil at the following Gulf Coast market centers according to royalty oil type:

Royalty Oil Type	Gulf Coast Market Center
Mars	Clovelly
Eugene Island	St. James
HLS	Empire

Deliveries of exchange oil will occur ratably each day of the month concurrent with royalty oil receipts.

Offerors must record bids on Exhibit A as a value (to the nearest $0.0001) representing the offeror's view of differences in value between the applicable Gulf Coast market center and the offshore delivery point identified in Exhibit A for each royalty oil package.

Offerors may submit bids for Mars and Eugene Island crude types with the quality bank debit or credit included in the bid or not included in the bid and therefore passed back to MMS when received from the quality bank administrator. Bids for Mars and Eugene Island may be submitted on either or both of these methods. Bids for HLS should include the quality bank debit/credit. Please see the "Quality" section of this IFO for more information. In general, as further described below, the lowest bid for a royalty oil package will typically be the successful bid.

The bid value will be used to pay for value differences between royalty oil delivered by operators to successful offerors at offshore locations and exchange oil delivered by successful offerors to MMS or its designated agent at onshore market centers. Payment will be made in kind in the form of additional crude oil volumes retained during the Delivery Month by successful offerors.

Specifically, the following formula will be used to calculate a Delivery Percentage to be applied to royalty oil volumes to arrive at volumes of exchange oil to be delivered and additional volumes retained by successful offerors:

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

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 for the crude type package exchanged for the period beginning the 26th of the second month prior to the Delivery Month and ending on **the 20th of the month prior to the Delivery Month**.

X: Accepted bid for the royalty oil

No later than 8 days before each Delivery Month during the contract term, MMS and successful offerors will jointly communicate and agree on the calculated Delivery Percentage to be used during the Delivery Month. At the same time, MMS and successful offerors will apply this mutually agreed Delivery Percentage to the daily royalty volumes anticipated for the Delivery Month to arrive at an agreed upon volume of exchange oil to be delivered to DOE or its agent. This Delivery Volume will be delivered each day of the Delivery Month unless force majeure events apply or the applicable pipeline cuts successful offerors' nominations.

In the event that DOE rejects any offers for redelivery into the SPR of exchange oil related to successfully awarded royalty oil packages in this MMS IFO, the MMS award for such royalty oil packages will be for an outright purchase at the offshore delivery points for the applicable royalty oil package specified in Exhibit A, rather than an exchange agreement. Exhibit D provides details.

Term

Deliveries of royalty oil to successful offerors will commence April 1, 2002, and end March 31, 2003.

Transportation and Scheduling of Royalty 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 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 break out the MMS volumes on the pipeline statement, you must provide MMS with third-party data that breaks out the MMS volumes delivered or use a measurement facilitator designated by the pipeline.

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

No later than 8 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.

Imbalances at the Gulf Coast market centers between **actual** Delivery Volumes (nominated offshore royalty oil volumes multiplied by the Delivery Percentage) and **entitled** "Delivery Volumes" (offshore royalty oil volumes received by successful offerors multiplied by the Delivery Percentage) will be jointly monitored by MMS and successful offerors and resolved in the second month following the Delivery Month. Imbalances existing at the end of this RIK contract term will be either cashed out at the Platt's Trade Month Price applicable to the last month of delivery or resolved by mutual agreement between the MMS and it's exchange partner.

Imbalances between volumes delivered to successful offerors by lease operators at the offshore delivery points indicated on Exhibit B 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 "price received" from awards 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 bid packages identified as belonging to crude types Mars and Eugene Island, successful offerors may bid with the quality bank debits or credits included in the bid or not included in the bid. If the quality bank debit or credit is not included in the bid, the successful offeror will pay MMS any actual first receipt point quality bank **credit** received from the quality bank administrator. Delivery point quality banks will not be included. Payments must be made to MMS the month after quality bank credits are received, and must be accompanied by supporting documentation. MMS will pay successful offerors, in the same timeframe, for any actual first receipt point quality bank **debit** received from the quality bank administrator, provided that supporting documentation is provided to MMS.

For crude type HLS, successful offerors will not adjust payments to MMS for quality bank debits and credits received. For this package, offers should reflect estimates of the quality credit and/or debit. All quality information in Exhibit B 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 bids of similar or unanticipated values are received. All information about the origin and value of bids received will remain confidential, except as noted above under Transportation and Scheduling of Royalty Oil with respect to resolution of extraordinary imbalances.

The MMS shall award a contract resulting from this solicitation to the offeror whose bid, 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."

Bidder Pre-qualification and Credit Requirements

Bidders are required to pre-qualify by signing the base contract "RIK Crude Oil General Terms and Conditions" and providing detailed financial information. Please contact Larry Cobb at 303-231-3307 for further information. Upon pre-qualification, MMS will issue an amount of unsecured credit based on the creditworthiness of the bidder. In most cases, bidders that have previously submitted financial documentation in 2001 will not need to resubmit, and approved unsecured lines of credit are still valid. 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 requires a parent guaranty in situations where the bidding company 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 5 business days prior to first delivery of oil under the contract. If additional security is required, successful bidders 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 final delivery of the common stream quality crude oil at the appropriate market centers is verified.

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. The value of the financial assurance should be calculated as the price/barrel using the bid amount applied to the monthly calendar mean for the Platts crude type price as published in Platts for February 2002, multiplied by the daily royalty production (estimated in Exhibit A), multiplied by 30 days, less the amount of unsecured credit issued by MMS, available for this offer.

Please submit the calculated amount of financial assurance to Larry Cobb of the RIK Office via fascimile at 303-231-3849 for verification before application is made for an ILOC or Bond. 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.

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 provided adequate performance assurances when requested may result in early termination of the contract.

The financial institution issuing the ILOC or surety company issuing the Bond must meet MMS requirements under 30 CFR Part 208.11. Contact Larry Cobb for a sample of the ILOC or Bond if needed.

Governing Contract

This transaction is governed by the base contract "RIK Crude Oil General Terms and Conditions," previously 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.

Documentation

As stipulated in the base contract "RIK Crude Oil General Terms and Conditions," successful offerors must provide pipeline statements, invoices, quality bank data, and any other information necessary to support royalty oil receipts and exchange oil deliveries, to MMS Crude Oil RIK Accounting by the 20^{th} 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 bids on sales of royalty production. The estimated burden to report is approximately one hour each for a bid 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 – Bid Sheet
Exhibit B – RIK Property Profile Detail
Exhibit C – Listing of Leases Within Unit Agreements
Exhibit D – Contingency for Outright Purchase
Exhibit E – Sample Dear Operator Letter

Minerals Management Service
Strategic Petroleum Reserve Fill
IFO: 1435-02-02-RP-40370
Term: April 1, 2002 to March 31, 2003

Bid Pkg	Royalty Oil Type	Gulf Coast Market Center	Offshore Delivery Point	MMS Royalty Volume (bbls/day)	"X" Bid 1/ Quality Bank Debits/Credits Included	"X" Bid 1/ Quality Bank Debits/Credits Not Included
1	Mars	Clovelly	MC 807 A	20,600		
2	Mars	Clovelly	MC 809 A	16,250		
3	Mars	Clovelly	GC 158 A	9,375		
4	Eugene Island	St. James	GC 65 A	11,400		
5	Eugene Island	St. James	GC 18 A	1,300		
6	Eugene Island	St. James	GC 19 A	75		
7	HLS	Empire	MP 281 A	1,800		**N/A**

1/ See bid calculation formula in "Offers" section of the IFO.

Your Name _______________ Phone No. _______________

Company Name _______________ Fax No. _______________

MMS Contacts:
Stacy Leyshon: 303-231-3638
Crystel Tobar: 303-231-3126
Fax No.: 303-231-3846

RIK Property Profile Detail

Minerals Management Service
Strategic Petroleum Reserve Fill
IFO: 1435-02-02-RP-40370
Term: April 1, 2002 to March 31, 2003

Bid Pkg	Royalty Oil Type	Gulf Coast Market Center	Offshore Delivery Point	MMS Facility Measurement Point	Common Industry Name	Producing MMS Lease or Unit Agre. No. (see note 1)	Area	Blk	Operator	MMS Royalty Volume (bbls/day) (see note 2)	Delivery Point Gravity	Sulfur (%)	Pipeline	Common Carrier(s) (see note 3)
1	Mars	Clovelly	MC 807 A	20608173650	Mars	7543930020	MC	807	Shell	17,500			Mars Oil P/L	yes
					Europa	754395016A	MC	935	Shell	2,500				
					King	0540088520	MC	764	Shell	600				
										20,600	28.6	2.20		
2	Mars	Clovelly	MC 809 A	20608173651	Ursa	754393012A	MC	854	Shell	10,625			Ursa Oil P/L into Mars Oil P/L	yes
					Crosby	754398012A	MC	899	Shell	5,625				
										16,250	30.2	2.05		
3	Mars	Clovelly	GC 158 A	20608113652	Brutus	754395014A	GC	158	Shell	9,375	36.0	1.20	Brutus P/L into Amberjack P/L into Mars Oil P/L	yes
• Mars total (3 bid packages and 6 properties)										**46,225**				
4	EI	St. James	GC 65 A	20608117000	Troika	754393016A	GC	244	BP Amoco	8,750			Amberjack P/L or;	yes
					Bullwinkle	754399006A	GC	65	Shell	500			Amberjack P/L into Boxer P/L into EIPL or;	yes
					Rocky	0540140230	GC	110	Shell	25			Shell 12" P/L into;	no
					Angus	0540155450	GC	112	Shell	125			Equlion 12" P/L into;	no
					Angus	0540155460	GC	113	Shell	2,000			Poseidon P/L	no
										11,400	35.1	1.06		
5	EI	St. James	GC 18 A *	20608112950		0540049400	GC	18	Exxon Mobil	20			Boxer P/L into;	yes
						0540058090	EW	944	Exxon Mobil	1,000			Eugene Island P/L	yes
						0540140210	GC	60	Exxon Mobil	280				
	*** Volume measured at GC 18 A but purchaser takes custody at Boxer P/L inlet (EW 989)**									1,300	31.0	1.43		
6	EI	St. James	GC 19 A	20608112953	Boxer	0540041310	GC	19	Shell	50			Boxer P/L into Eugene Island P/L	yes
						0540155310	GC	20	Enterprise Oil	25				
										75	31.8	1.30		
• Eugene Island total (3 bid packages and 10 properties)										**12,775**				

Minerals Management Service
Strategic Petroleum Reserve Fill
IFO: 1435-02-02-RP-40370
Term: April 1, 2002 to March 31, 2003

Bid Pkg	Royalty Oil Type	Gulf Coast Market Center	Offshore Delivery Point	MMS Facility Measurement Point	Common Industry Name	Producing MMS Lease or Unit Agre. No. (see note 1)	Area	Blk	Operator	MMS Royalty Volume (bbls/day) (see note 2)	Delivery Point Gravity	Sulfur (%)	Pipeline	Common Carrier(s) (see note 3)
7	HLS	Empire	MP 281 A	2017724511G		0540109100	MP	281	Dominion E & P	1,150			Main Pass O&G P/L into;	no
						0540145850	MP	264	BP Amoco	230			Delta P/L or Cypress P/L	yes
						0540153950	MP	275	BP Amoco	150				
						0540165140	MP	279	Dominion E & P	10				
						0540165150	MP	280	Dominion E & P	260				
• HLS total (1 bid package and 5 properties)										**1,800**	45.7	n/a		
• Total All Royalty Oil Types (7 bid packages and 21 properties)										**60,800**				

Note 1: See Exhibit C for listing of leases and blocks within a Unit Agreement

Note 2: Production estimates provided by operators and represent the most recent month's nominations

Note 3: Pipeline contact names and phone nos.:

Equilon	Mike Watters	713-241-2434
• Amberjack, Boxer, Brutus, EIPL, Mars, Ursa		
Shell	Mike Faulise	713-241-2780
Poseidon	James Hostetler	303-628-3495
Main Pass O&G	Steve Chrien	281-966-4746
Cypress	Daryl Pyne	281-596-2820
Odyssey & Delta	Brett Jones	713-277-5534

Minerals Management Service
Strategic Petroleum Reserve Fill
IFO: 1435-02-02-RP-40370
Term: April 1, 2002 to March 31, 2003

Bid Pkg	Unit Agreement	Leases within Unit Agreement	Area	Block
1	7543930020	0540079580	MC	763
		0540079620	MC	806
		0540079630	MC	807
1	754395016A	0540079690	MC	890
		0540079750	MC	934
2	754393012A	0540058680	MC	809
		0540058710	MC	853
2	754398012A	0540098950	MC	898
		0540098960	MC	899
3	754395014A	0540079950	GC	158
		0540079980	GC	202
4	754393016A	0540110430	GC	244
		0540122090	GC	200
		0540122100	GC	201
4	754399006A	0540058890	GC	65
		0540059000	GC	109

Exhibit D

CONTINGENCY FOR OUTRIGHT PURCHASE
IFO: 1435-02-02-RP-40370

Introduction

In the event the Department of Energy rejects any offer for redelivery into the Strategic Petroleum Reserve of exchange oil related to a successfully awarded royalty oil package from this MMS IFO, the MMS award will be for an outright purchase at the offshore delivery point specified in Exhibit A, rather than an exchange.

MMS will notify successful offerors by February 15, 2002, 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 six-month term, beginning April 1, 2002 and ending September 30, 2002.** Payment terms are governed by the base contract "RIK Crude Oil General Terms and Conditions," previously signed by the offeror and MMS.

Pricing Mechanism

For any royalty oil packages awarded as an outright purchase rather than an exchange, the accepted IFO bid ("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 Petroleum Group, L.P. 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 two months prior to the Physical Month of Delivery through the 25th day of the month one 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 type that is the subject of the bid (Mars, Eugene Island, or HLS) for the Platts Month of Delivery

Bidder Pre-qualification and Credit Requirements

For royalty oil packages awarded as outright purchases rather than as exchange agreements, 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. The value of the financial assurance should be calculated as the price/barrel as follows:

(1) The bid amount offered in your bid, added to;
(2) The base price calculated under the formula: (Koch Posting + Platts P+) – [Platts WTI - Platts Crude Type Price], where the postings and Platts prices are determined as outlined below, multiplied by;
(3) The daily royalty production (as estimated in Exhibit A), multiplied by;
(4) 60 days, minus;
(5) The amount of unsecured credit issued by MMS.

In calculating the financial assurance amount under (2) above, the following applies:

(a) The Koch Posting is the monthly calendar average for February 2002;
(b) The Platts P+ is the monthly calendar mean for February 2002 as published in Platts;
(c) The Platts WTI and Platts Crude Type Price are the average of the monthly calendar means for these prices as published in Platts for December 2001, January 2002, and February 2002.

Please note: The modification of the Pricing Mechanism for credit calculation purposes is intended to utilize the most current pricing available and be more indicative of current market conditions. Any questions regarding calculation of the financial assurance amount should be directed to Larry Cobb at 303-275-7294. 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.

MMS/MRM/RIK
Mail Stop 330G5

(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 April 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 crude oil taken in kind by the Lessor will reflect and be consistent with all grants of royalty relief.

<u>Term</u>
The Lessor will take all Royalty Oil in kind from the properties listed in the enclosure beginning April 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.

<u>Royalty Oil Delivery</u>
You must deliver all Royalty Oil from the selected leases, including Royalty Oil from newly producing wells on these leases. In addition, you will make best efforts to notify the Lessor's designated point of contact of leases that, during this period of in-kind status, begin producing crude oil that flows to the facility measurement points (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.

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.

The delivery point for Royalty Oil produced from the properties in the enclosure 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 beyond the delivery point. You can be reimbursed for transportation of Royalty Oil to any delivery points identified in the enclosure that are downstream of the FMP, as allowed in applicable MMS regulations, by taking a transportation deduction on the Report of Sales and Royalty Remittance (Form MMS-2014).

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 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 (303-275-7136) 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 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, 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 should be submitted to the rik.project@mms.gov mailbox.

Balancing Account and Imbalances

Imbalances between delivered and entitled volumes of royalty oil will be jointly monitored by you and MMS. 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 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) and Operator Imbalance Statements:**

  Mr. Larry Barker
  Telephone: 303-275-7296; Fax: 303-275-7136;
  E-mail: Lawrence.Barker@mms.gov or;

  Mr. Ted Drescher
  Telephone: 303-275-7297; Fax: 303-275-7136;
  E-mail: Theodore.Drescher@mms.gov

- **New Lease Production:**

  Ms. Crystel Tobar
  Telephone: 303-275-7282; Fax: 303-275-7136;
  E-mail: Crystel.Tobar@mms.gov or;

  Mr. Richard Fantel
  Telephone: 303-275-7434; Fax: 303-275-7137;
  E-mail: Stacy.Leyshon@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