



**INVITATION FOR OFFER – SMALL REFINER RIK CRUDE OIL SALE
IFO No. MMS-RIKOIL-2008-SR-004
Deliveries beginning October 1, 2008**

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 buy royalty oil and condensate produced from certain Federal leases in the Gulf of Mexico.

This Invitation for Offer (IFO) is for a sales term of 1 year beginning October 1, 2008. 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.

Offers must be made in writing and submitted to Maggie Miller via email (maggie.miller@mms.gov) or facsimile (303-462-9944) by 10:00 am MT on July 29, 2008. The MMS will confirm receipt of all offers. **Royalty oil packages will be awarded by 2:00 pm MT on July 31, 2008.**

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 Maggie Miller only 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 26 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.

Please see the “Quality” section of this IFO for more information on how to account for gravity and sulfur in the offer. For hurricane surcharges, offerors should follow standard industry practice and include the surcharge(s) in the offer.

For all **HLS** packages, buyers will be responsible for the Empire exit fee (also known as outbound terminal or pump out fee) and reconsignment fee, when applicable. For **LLS** packages, the Ship Shoal Inventory Management Fees will not be reimbursed by MMS.

Packages in this IFO for which offers are rejected will be included in another MMS IFO (Unrestricted RIK Crude Oil Sale), open to both eligible, pre-qualified small refiners and other pre-qualified companies. Please see the RIK Home Page for details regarding this IFO at <http://www.mrm.mms.gov/RIKweb/default.htm>.

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 buyers.

Gulf of Mexico Pricing Mechanism: Offerors must submit offers as an increment or decrement from one or both of the following pricing formulas. If you would like to submit an offer based on an alternative pricing formula, please caveat the offer with the alternative pricing formula used.

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

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 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 buyers by means of the "Oil Transaction Confirmation and Agreement."

Term

Delivery of royalty oil will begin on October 1, 2008 and end on September 30, 2009.

Quality

For **HLS** packages 1-11 and 16, quality bank debits/credits should not be included in the offer. Buyers will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s).

For **HLS** packages 12-15, the buyer will pass back to MMS only the first receipt bank at the custody transfer point and therefore this quality bank should not be included in the offer. All other quality banks downstream of the receipt point should be included in the offer.

For **HLS** package 17, quality bank costs will not be incurred by the buyer since delivery is at Empire and therefore should not be reflected in the offer.

For **LLS** packages, with the exception of the market center delivery bank, quality bank debits/credits should not be included in the offer. The buyers will pass back to MMS those quality bank(s) debits/credits received from the quality bank administrator(s). Market center delivery quality bank(s) debits/credits should be included in the offer.

Note: For **HLS** package 1-11 and **LLS** packages 18-26, where the STUSCO invoices do not reflect the quality bank adjustment, the buyer will adjust the payment each month for gravity. This adjustment will be based on the difference between the FMP run ticket and the common stream delivered gravity, using the standard Gravcap calculation.

Buyers must net any quality bank credits or debits against the monthly charges for purchased oil. The net payment is due to MMS by the 20th of the month after receipt. All quality bank data must be accompanied by supporting documentation supplied to MMS on or before the 19th of the month after receipt.

The API Gravity 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.

Pipeline Loss Allowance

MMS will estimate the Pipeline Loss Allowance (PLA) for all crude types by using the average NYMEX WTI forward curve for the term of the contract. For this sale, the average will include October 2008 through September 2009, using the NYMEX settle prices on the day of the sale. The most recent year of Argus crude differentials (July 2007 through June 2008) will be used to apply the grade differentials.

In mid-March 2009, the average NYMEX forward curve will be calculated from April 2009 through September 2009. The same methodology will be used to calculate the grade differentials. If the new price is greater or less than \$10 of the original calculation, a contract amendment will be allowed to compensate for the adjusted PLA costs for the remaining 6 months of the contract.

See PLA calculation example and explanation below (data used is not actual – for illustration only).

<u>PLA Adjustment for Oct-08 to Sep-09</u>	<u>Argus Differential</u>	<u>NYMEX forward curve + Argus Diff.</u>
NYMEX forward curve		\$139.50
LLS differential to WTI	+\$1.00	\$140.50
HLS differential to WTI	-\$1.15	\$138.35

The NYMEX forward curve was calculated on July 11, 2008 by using the average daily settle price from October 2008 through September 2009. On March 16, 2009, the NYMEX forward curve will be calculated

by using the average daily settle prices from April 2009 through September 2009. Using the LLS example, the LLS differential to WTI would have to be less than \$130.50 or greater than \$150.50 to justify a contract modification. Supporting documentation will be required for a contract modification.

Scheduling and Transporting Royalty Oil

The MMS will no longer notify buyers of the daily royalty oil volumes anticipated for the following month of production. The buyers will be responsible for obtaining this information from the FMP operators. The buyer, as our designated agent, will communicate directly with the FMP operator, obtain estimated volumes, and make arrangements for the delivery and transfer of royalty oil from each custody transfer point identified in Exhibit A.

Buyers are responsible for transporting all royalty oil volumes downstream of the custody transfer point specified in Exhibit A. Buyers 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, buyers are required to indicate that the nomination is for MMS sourced crude oil.

Within 10 business days of execution of the "MMS Crude Oil Transaction Confirmation" relative to this IFO, buyers 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, buyers 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 buyer.

Buyers will provide MMS with pipeline statements and any third-party documentation within 2 business days after the documents are available to the buyer, 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 buyer being billed the associated costs.

Buyers, 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. Buyers, at their expense, will make all necessary arrangements to receive royalty oil at the custody transfer point. Buyers are not responsible for any transportation costs upstream of the custody transfer point.

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

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. The buyer or MMS must not adjust costs until the tariff adjustment is approved. Supporting documentation is required to verify the requested tariff adjustment, i.e., copy of the FERC tariff.

Imbalances

Buyers 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.

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

Payment Terms

Buyers must pay MMS invoiced amounts in accordance with instructions for the US Treasury FEDWIRE Deposit System for electronic payments, see <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., Small Refiner or 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.

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

Only eligible small refiners may pre-qualify for this offer. Small refiners must meet eligibility requirements established by the Small Business Administration as provided by 30 CFR Part 208. Furthermore, eligible small refiners must document such eligibility by submitting Form MMS-4070, "Application for the Purchase of Royalty Oil," see (<http://www.mrm.mms.gov/ReportingServices/PDFDocs/4070.pdf>).

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 transportation 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.

Exhibit:

Exhibit A: Offer Sheet

Offer Pkg	Royalty Oil Type	Custody Transfer Point (Volume Metered At)	MMS FMP No.	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Custody Transfer Point API Gravity (Note 1)	See Note	Pipelines and Gulf Coast Market Center	Common Carrier Unless Buy/Sell is Noted	NYMEX + Daily Roll basis (offshore delivery)	NYMEX + Daily Roll basis (market center)	Required: Platts or Argus (indicate P or A)
1	HLS	VK 786 A	20608165116	Chevron Corp.	3,100	31.2		Petronius P/L into Odyssey P/L into Delta P/L into Empire	STUSCO			
2	HLS	MP 310 A	20177245115	Apache Corp.	250	28.3		Shell P/L into Odyssey P/L into Delta P/L into Empire	STUSCO			
3	HLS	MP 259 A	2017724511B	Devon Energy	95	37.9		(Devon private line into) Bud P/L into Delta P/L into Empire	STUSCO			
4	HLS	MP 296 B	20177245113	GOM Shelf LLC	170	24.4		Odyssey P/L into Delta P/L into Empire	STUSCO			
5	HLS	MP 296 C	20177245114	GOM Shelf LLC	70	22.0		Odyssey P/L into Delta P/L into Empire	STUSCO			
6	HLS	MP 289 C (VK 956 A)	20608165112	Shell Offshore Inc.	550	37.1		Odyssey P/L into Delta P/L into Empire	STUSCO			
7	HLS	MP 289 I (MP 288 A)	20177245110	Stone Energy	325	29.2		Odyssey P/L into Delta P/L into Empire	STUSCO			
8	HLS	MP 289 C	20177245118	Apache Corp.	225	32.3		Odyssey P/L into Delta P/L into Empire	STUSCO			
9	HLS	SP 62 (VK 989 A)	20608165102	BP Expl. and Prod.	1,175	34.6		Pompano P/L into Delta P/L into Empire	STUSCO			
10	HLS	MP 311 A	20177245100	GOM Shelf LLC	270	27.9		Pompano P/L into Delta P/L into Empire	STUSCO			
11	HLS	MP 311 B	20177245101	GOM Shelf LLC	200	24.2		Pompano P/L into Delta P/L into Empire	STUSCO			
				Pipeline Total	6,430							
12	HLS	MC 474 A	20608175111	BP Expl. and Prod.	8,600	32.3	2	Na Kika P/L into Delta P/L into Empire				
				Pipeline Total	8,600							
13	HLS	ST 52 C	2017715360A	Chevron Corp.	420	36.9		Chevron P/L into Empire				
14	HLS	ST 37 J	2017715360E	Chevron Corp.	1,400	33.6		Chevron P/L into Empire				
15	HLS	ST 177 E	20177153605	Chevron Corp.	145	36.5		Chevron P/L into Empire				
16	HLS	MP 30 A	20177255307	Chevron Corp.	135	34.7		Chevron P/L into Empire				
				Pipeline Total	2,100							
17	HLS	MP 42 L (Empire)	20177255304	Chevron Corp.	1,600	N/A		Empire				
		BM-Fed (Empire)	20170573604	Chevron Corp.								
		BM-State (Empire)	20170573601	Chevron Corp.								
				Pipeline Total	1,600	32.7	3					
18	LLS	EI 176 ssti (EI 175 C)	20177092601	Apache Corp.	180	35.9	4	Apache private line (no charge) into CGGS into Tarpon P/L into Ship Shoal P/L into St. James	STUSCO			
19	LLS	EI 174 ssti (EI 182 A)	2017709260C	McMoran Oil and Gas LLC	195	35.5	4	McMoran private line (no charge) into CGGS into Tarpon P/L into Ship Shoal P/L into St. James	STUSCO			

Offer Pkg	Royalty Oil Type	Custody Transfer Point (Volume Metered At)	MMS FMP No.	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Custody Transfer Point API Gravity (Note 1)	See Note	Pipelines and Gulf Coast Market Center	Common Carrier Unless Buy/Sell is Noted	NYMEX + Daily Roll basis (offshore delivery)	NYMEX + Daily Roll basis (market center)	Required: Platts or Argus (indicate P or A)
20	LLS	EI 252 I	2017709260K	Chevron Corp.	460	35.5	4 & 5	CGGS into Tarpon P/L into Ship Shoal P/L into St. James	STUSCO			
21	LLS	EI 259 ssti (EI 258 B)	20177092609	Nexen Petroleum	380	33.5	4	Nexen private line (no charge) into CGGS into Tarpon P/L into Ship Shoal P/L into St. James	STUSCO			
22	LLS	SM 130 A	20177082604	Energy Res. Tech.	425	27.1	4 & 6	CGGS into Tarpon P/L into Ship Shoal P/L into St. James	STUSCO			
23	LLS	SS 274 C	2017712260E	Apache Corp.	110	36.5	4	CGGS into Tarpon P/L into Ship Shoal P/L into St. James	STUSCO			
24	LLS	VR 214 A	20177052600	Chevron Corp.	150	37.1	4	Chevron private line into CGGS into Tarpon P/L into Ship Shoal P/L into St. James	Chevron STUSCO			
25	LLS	VR 215 A	20177052601	McMoran Oil and Gas LLC	170	39.5	4	CGGS into Tarpon P/L into Ship Shoal P/L into St. James	STUSCO			
26	LLS	VR 376 A	2017706260C	Rooster Petroleum Inc.	65	37.7	4	CGGS into Tarpon P/L into Ship Shoal P/L into St. James	STUSCO			
Pipeline Total					2,135							
Grand Total					20,865							

Pipeline and Buy/Sell Contacts:

- Chevron: Malcolm Taylor (832-854-2936)
- STUSCO for HLS properties, all deliveries at Empire: Brett Jones (713-230-1944)
- STUSCO for LLS properties: Richard Cross (713-230-1995)

Send Offer Sheet to:

Maggie Miller maggie.miller@mms.gov
 Offer Fax No. 303-462-9944

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

Note 1: API Gravity is not warranted and is measured at the FMP unless otherwise noted.
 Note 2: FMP contains a lease in Royalty Relief status whose volume will not be included in deliveries to buyer.
 Note 3: API Gravity represents average delivered common stream at the Market Center.
 Note 4: Ship Shoal Inventory Management Fees will not be reimbursed by MMS.
 Note 5: Volume does not include unit volume (Area/Blocks EI 214, 230, 231) which flows to RIV FMP 21171132800.
 Note 6: Volume does not include Area/Block SM 122 operated by Seneca.

 Your Name

 Telephone No.

 Company Name

 Fax No.