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

INVITATION FOR OFFER
PACIFIC SMALL REFINER ROYALTY-IN-KIND CRUDE OIL SALE
IFO No: 1435-02-02-RP-40398
Deliveries beginning January 1, 2003

Introduction

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

This sale is for either a six-month or twelve-month term beginning January 1, 2003. Successful offerors will take custody of the Royalty Oil at specified delivery points and will be responsible for its movement downstream of these points.

Offers must be made in writing and submitted via facsimile (fax number 303-231-3846) or email (crystel.tobar@mms.gov) **by 10:00 a.m. Mountain Time on November 8, 2002**. MMS will confirm receipt of all offers. Royalty Oil sales packages will be awarded by 2:00 p.m. Mountain Time on November 13, 2002. Technical questions should be addressed to Crystel Tobar at 303-231-3126. Contracting questions should be addressed to Terry Grush at 303-231-3932.

Offers[1]

Exhibit A identifies 6 packages of Royalty Oil offered. Exhibit B provides further detail on properties, operators, delivery points, and other information pertinent to this Invitation for Offer (IFO). The royalty volumes shown for each package represent MMS' most recent production data for properties behind the indicated delivery points. MMS does not warrant the accuracy of information on either the Exhibit A or B. You may call Crystel Tobar for a 1-year production history for royalty volumes associated with the delivery points in Exhibit A.

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

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

Successful offerors (buyers) purchase Royalty Oil delivered by operators at the delivery points indicated in Exhibit A, not the actual entitlement due the Federal government. Imbalances between these two volumes will be resolved between MMS and the operators. Royalty Oil from the properties listed in Exhibit A that originates from new wells added during the term of this IFO will be automatically added to the volumes purchased under this IFO.

Pricing Mechanisms

Offerors may submit offers on any of the methods authorized below for the respective crude types.

Santa Ynez Crude (Packages 1 through 4)**:**

(1) Offerors may submit offers as a fixed increment/decrement from the following pricing formula:

The **arithmetic average** of two sets of California posted prices, (a+b)/2, where:

a) The calendar month's average of the following Midway Sunset posted prices at 13° API: Chevron Texaco, Exxon Mobil, Shell Trading, and Union 76;

b) The calendar month's average of the following Buena Vista posted prices at 26° API: Chevron Texaco, Exxon Mobil, Shell Trading, and Union 76.

(2) Offerors may offer a fixed increment/decrement of the calendar month average New York Mercantile Exchange (NYMEX) price at 40° API (see below for definition of calendar month NYMEX).

Adjustments for sulfur content are to be included in your offer(s).

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Dos Cuadras Crude and Platform Gail Crude (Packages 5 and 6)**:**

(1) Offerors may submit offers as a fixed increment/decrement from the following pricing formula:

The calendar month's average of the following Buena Vista posted prices at 26° API: Exxon Mobil, Shell Trading, and Union 76.

(2) Offerors may offer a fixed increment/decrement of the calendar month average New York Mercantile Exchange (NYMEX) price at 40° API (see below for definition of calendar month NYMEX).

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

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

Offers should be carried out to four decimal places. For example, an offer may be -$2.9545 and the average of the four Midway Sunset prices ($24.00) plus the average of the four Buena Vista postings ($26.45) divided by two. Thus, the value of the offer equals $22.2705 ($25.225 less $2.9545).

Deliveries of Royalty Oil to buyers will commence January 1, 2003, and will terminate either on June 30, 2003 or December 31, 2003 depending on whether a six-month or twelve-month offer is awarded.

Transportation and Scheduling of Royalty Oil

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

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

Within 10 days of execution of the “MMS Crude Oil Transaction Confirmation” relative to this IFO, buyers must request in writing to all pipeline companies that will move Royalty Oil, that MMS royalty volumes be separately itemized on pipeline statements and/or invoices. In cases where the pipeline companies are unable to breakout the MMS volumes on the pipeline statement, you must provide MMS with acceptable third-party data that breaks out the MMS volumes delivered or use a measurement facilitator designated by the pipeline.

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

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

Imbalances

Imbalances between volumes delivered to buyers by lease operators at the specified delivery points indicated on Exhibit A and volumes entitled to the United States as Lessor will be monitored jointly by MMS and the operator. Routine imbalances will be resolved by adjustments in the volume of Royalty Oil delivered to buyers in subsequent months.

These adjustments will be reflected in communications from MMS to the buyer 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 buyers in this process. The contract price under this IFO may form the basis of resolution of certain extraordinary imbalances between MMS and operators. The rights and responsibilities of operators under RIK oil situations are outlined in MMS' Sample "Dear Operator" letter included as Exhibit C.

Quality Adjustments

For payment, buyers will make appropriate quality adjustments to match the actual gravity of the delivered Royalty Oil by using Shell Trading's California posted price gravity adjustment table applicable to the month of production. If this table changes mid-month, the monthly average of the table will be used. This adjustment table applies to all of the allowed offering methods. Specifically:

> Santa Ynez Crude:
> Buyers using pricing formula number (1) will adjust their payment by accounting for the difference between the delivered Royalty Oil and 19.5° API (the average of Midway Sunset's 13° posted gravity and Buena Vista's 26° posted gravity). This adjustment will be made using the monthly average of Shell Trading's California posted price gravity adjustment table.
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> Buyers using pricing formula number (2) will adjust their payment by accounting for the difference between the delivered Royalty Oil and 40° API (NYMEX WTI barrel gravity). This adjustment will be made using the monthly average of Shell Trading's California posted price gravity adjustment table.
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> Adjustments for sulfur content are to be included in your offer(s).
>
> Dos Cuadras Crude and Platform Gail Crude:
> Buyers using pricing formula number (1) will adjust their payment by accounting for the difference between the delivered Royalty Oil and 26° API (the posted gravity of Buena Vista crude). This adjustment will be made using the monthly average of Shell Trading's California posted price gravity adjustment table.
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> Buyers using pricing formula number (2) will adjust their payment by accounting for the difference between the delivered Royalty Oil and 40° API (NYMEX WTI barrel gravity). This adjustment will be made using the monthly average of Shell Trading's California posted price gravity adjustment table.

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Consideration of Offers

MMS may award a contract on the basis of initial offer(s) received without discussions. Accordingly, each initial offer should be submitted on the most favorable terms that the offeror can submit. However, MMS may negotiate with offerors in the event offers of similar or unanticipated values are received. All information about the origin and value of

offers received will remain confidential, except as noted above under "Imbalances" with respect to resolution of extraordinary imbalances.
In the event that any offeror is successful for packages whose volumes comprise more than 60% of the capacity of its refineries, MMS reserves the right to negotiate with both that small refiner and other offerors to result in awards most advantageous to the Federal Government.

MMS will award 100% of the volume from an FMP. Packages 1 through 4 include properties measured for royalty purposes at the same FMP. Therefore, if any one of Packages 1 through 4 is not awarded, then none of Packages 1 through 4 will be awarded. These Packages may be awarded to one or more buyers. If awarded, MMS will award Packages 1 through 4 for either a six-month or twelve-month term, but not both.

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

Neither party shall disclose directly or indirectly without the prior written consent of the other party the terms of any transaction 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) in order to comply with any applicable law, order, regulation, or exchange rule, (ii) to the extent necessary for the enforcement of this Contract, (iii) to the extent necessary to implement any transaction, (iv) to the extent necessary to implement any transaction as described above in the Transportation and Scheduling of Royalty Oil section, or (v) 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 disclosure of the terms of any transaction (other than as permitted hereunder) and use reasonable efforts to prevent or limit the disclosure. The existence of this Contract is not subject to this confidentiality obligation. The terms of any transaction hereunder shall be kept confidential by the parties hereto for one year from the expiration of the transaction.

Pre-qualification and Credit Requirements

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

For awards exceeding the amount of unsecured credit issued by MMS, 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 within 5 business days prior to first delivery of oil under the contract. Buyers will be notified if additional security is required, and such notice will be included in the sales transaction confirmation. The ILOC, Bond, or other MMS-acceptable surety instrument must be effective for a period beginning on the date of first delivery under the contract and ending when receipt of final payment under the contract is verified. Failure to provide adequate financial assurance when requested may result in a loss of award, unless the MMS Contracting Officer extends the date.

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

The financial assurance amount shall be sufficient to cover the value of 60 days of deliveries of the estimated production of all Royalty Oil awarded, less the amount of unsecured credit issued by the MMS as previously notified. The value of the financial assurance will be calculated using the selected pricing mechanism plus the submitted offer applied to the November 2002 delivery month.

For example, for NYMEX pricing, the front-month calendar month average of the NYMEX daily settlement prices reported during November 2002, plus the offered increment or decrement. If a posting basis is used, the calendar month average posted price for November 2002, plus the offered increment or decrement. This offered value will then be multiplied by the daily production (estimated in Exhibit A), multiplied by 60 days, less the amount of unsecured credit issued by MMS. The amount of unsecured credit applicable to this sale is contingent upon the buyer's current participation in other ongoing RIK sales programs.

Significant and sustained increases in the value of crude oil during the term of the contract may result in a requirement to increase the amount of financial assurance. Further, should the creditworthiness, financial responsibility or ability to perform become unsatisfactory to the MMS at any time during the term of this agreement, satisfactory assurances may be required as a condition to further 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 additional performance assurances when requested may result in early termination of the contract.

Governing Contract

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

Documentation

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

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

3 Exhibits:

Exhibit A – Offer Sheet
Exhibit B – RIK Property Profile Detail
Exhibit C – Sample Dear Operator Letter

Offer Sheet **Exhibit A**

Minerals Management Service
Pacific Small Refiner RIK Crude Oil Sale
IFO No: 1435-02-02-RP-40398
January 2003 - June 2003/December 2003

Pkg	Crude Type	Delivery Point	Estimated MMS Royalty Volume (bbls/day)	Sulfur	Gravity	Offer 1/ Postings (+ or -) 6-mo. Term	Offer 1/ Postings (+ or -) 12-mo. Term	Offer 1/ NYMEX (+ or -) 6-mo. Term	Offer 1/ NYMEX (+ or -) 12-mo. Term
#1	Santa Ynez	Las Flores Canyon	1,200	4.83%	20.9				
#2	Santa Ynez	Las Flores Canyon	3,550	4.83%	20.9				
#3	Santa Ynez	Las Flores Canyon	2,700	4.83%	20.9				
#4	Santa Ynez	Las Flores Canyon	1,550	4.83%	20.9				
#5	Dos Cuadras	Rincon Plant- Tailgate	1,025	*1.09%	24.2				
#6	Santa Clara - Platform Gail	Platform Grace	700	*4.0%	18.7				

* Sulfur content is given for informational purposes only. Offers should not be adjusted for sulfur.

1/ **See "Pricing Mechanisms" from the IFO for complete details.**

Santa Ynez Crude:

1) Offerors may submit offers as a fixed increment/decrement from the following pricing formula:
The arithmetic average of two sets of California posted prices, (a+b)/2, where:
a) The calendar month's average of the following four Midway Sunset posted prices at 13° API:
Chevron Texaco, Exxon Mobil, Shell Trading, and Union 76.
b) The calendar month's average of the following Buena Vista posted prices at 26° API:
Chevron Texaco, Exxon Mobil, Shell Trading, and Union 76.

2) Offerors may offer fixed increment/decrement of the calendar month average NYMEX price at 40° API, where:

Dos Cuadras Crude and Platform Gail:

1) Offerors may submit offers as a fixed increment/decrement from the following pricing formula:
The calendar month's average of the Buena Vista posted prices at 26° API:
Exxon Mobil, Shell Trading, and Union 76.

2) Offerors may offer a fixed increment/decrement of the calendar month average NYMEX price at 40° API, see above for definitions.

Calendar Month: The physical month of delivery.

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

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

Your Name ____________________ Telephone ____________________

Company Name ____________________ FAX ____________________

MMS Contact:

Crystel Tobar 303-231-3126
Fax No. 303-231-3846

Minerals Management Service
Pacific Small Refiner RIK Crude Oil Sale
IFO No: 1435-02-02-RP-40398
January 2003 - June 2003/December 2003

Package	Crude Type	Delivery Point	MMS Facility Measurement Point	Producing MMS Lease or Unit Agre. No.	Operator	Estimated MMS Royalty Volume (bbls/day) **(note 1)**	Sulfur **(note 2)**	Gravity **(note 2)**
#1	Santa Ynez	Las Flores Canyon	20040833500	891-008979-A	ExxonMobil	1,200	4.83%	20.9
#2	Santa Ynez	Las Flores Canyon	20040833500	891-008979-B	ExxonMobil	3,550	4.83%	20.9
#3	Santa Ynez	Las Flores Canyon	20040833500	891-008979-C	ExxonMobil	2,700	4.83%	20.9
#4	Santa Ynez	Las Flores Canyon	20040833500	891-008979-D	ExxonMobil	1,550	4.83%	20.9
#5	Dos Cuadras	Rincon Plant- Tailgate	20041113000	088-000240-0 088-000241-0	Nuevo Energy Co.	1,025	*1.09%	24.2
#6	Santa Clara - Platform Gail	Platform Grace	20043111901	891-012369-B	Venoco, Inc.	700	*4.0%	18.7
Total Estimated MMS Royalty bbls/day for all 6 Bid Packages						**10,725**		

* Sulfur content is given for informational purposes only. Offers should not be adjusted for sulfur.

Note 1: Production estimates provided by operators and generally represent latest nominations.
Note 2: Sulfur and Gravity data provided by the operator or pipeline and generally represent Aug.-Sep. 2002 production.

Package	Unit Agreement	Leases within Unit Agreement
#1	891-008979-A	088-000180-0
		088-000181-0
		088-000187-0
		088-000188-0
		088-000190-0
#2	891-008979-B	088-000180-0
		088-000181-0
		088-000190-0
		088-000191-0
		088-000329-0
#3	891-008979-C	088-000182-0
		088-000183-0
#4	891-008979-D	088-000193-0
		088-000194-0
		088-000195-0
		088-000326-0
#6	891-012369-B	088-000204-0
		088-000205-0
		088-000208-0
		088-000209-0

Exhibit C

MMS/MRM/RIK
Mail Stop 330B2

(Address)

Dear (Title, Name):

The Minerals Management Service (MMS) has selected one or more offshore Federal leases in the Pacific that you operate to be included in a Royalty In-Kind (RIK) program in which we will take crude oil royalties in-kind beginning January 1, 2003.

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.

Term

The Lessor will take all Royalty Oil in-kind from the properties listed in the enclosure beginning January 1, 2003, and will continue taking royalties in-kind until we notify you that status is terminated. We will provide Lessees and Operators with at least a 45-day prior written notice of termination of status.

Royalty Oil Delivery

You must deliver all Royalty Oil from the selected leases, including Royalty Oil from newly producing wells on these leases. 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. The Lessor will take custody and responsibility for Royalty Oil beyond the delivery point. If gathering upstream of the FMP has been approved by MMS, you may take this 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 (281-987-6808) 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 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 provided to MMS or it's designee, 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 Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are listed below:

Volume Nominations (Anticipated Volumes +/- Makeup Volume):
Ms. Carol Smothers
Telephone: 281-987-6856; Fax: 281-987-6808;
E-mail: Carol.Smothers@mms.gov

Imbalance Statements:
Ms. Faye Stewart
Telephone: 281-987-6825; Fax: 281-987-6808
E-mail: Berlinda.Stewart@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