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United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

ARD-FB-RIK
Mail Stop 3131

JUL 24 1998

VIA FEDERAL EXPRESS

Mr. Norman D. Ewart
Attorney at Law
Nine Greenway Plaza, Suite 884
Houston, Texas 77046-0995

RE: Notice of Delivery of Oil for Eugene Island Block 327

Dear Mr. Ewart:

This is in response to your July 13, 1998, letter, in which you stated that the Minerals Management Service (MMS) does not have the authority to change Royalty-in-Kind (RIK) oil delivery points. Therefore, Coastal Oil & Gas Corporation (Coastal) would continue to deliver oil at the platform. Furthermore, you stated that since Coastal was not a party to the re-negotiated contract it would not be subject to the terms and conditions of the contract.

We agree that Coastal is not a party to the re-negotiated contract. However, the contract terms are not the basis for the MMS authority to change designation of oil delivery points. The MMS authority set forth at 30 CFR 208.8 (b) (1997), titled, "Transportation and delivery," states, in part:

The lessee shall deliver royalty oil from section 8 offshore leases issued after September 1969 at a delivery point to be designated by MMS. . . .

This lease agreement became effective December 1, 1974. Pursuant to the lease terms, MMS is entitled to change delivery points. Section 3(a)(3) of the lease agreement states, in part:

. . . When paid in production. . . Such deliveries shall be made at reasonable times and intervals and, at the Lessor's option, shall be effected either (i) on or immediately adjacent to the leased area, without cost to the Lessor, (ii) at a more convenient point closer to shore or on shore, in which event the Lessee shall be entitled to reimbursement for the reasonable cost of transporting the royalty substance to such delivery point. . . .

Mr. Norman D. Ewart

In accordance with the "Notice to Royalty-In-Kind Lease Operators," dated June 30, 1998, Coastal is required to deliver oil to the designated trading centers based on oil type, except where such delivery is not feasible. If Coastal refuses to deliver the oil to the designated trading center, Coastal may be subject to civil penalties of up to \$10,000 per day or the cancellation of the lease.

Section 10 of the lease terms state, in part:

... Whenever the Lessee fails to comply with any of the provisions of the Act, or of this lease, or of the regulations issued under the Act, ... the lease shall be subject to cancellation ...

Title 30 CFR 241.51(b) (1997), states, in part:

... to any person who --
... Knowingly or willfully fails to make any payment due by the date as specified by statute, regulation, order, or terms of the lease;
... shall be liable for a penalty of up to \$10,000 per violation for each day such violation continues. ...

Since Coastal is not a party to the amended contract, MMS is not obligated to provide a copy of the contract as requested.

If you have any questions, please call Mr. Robert Prael at (303) 231-3217. Thank you for your cooperation.

Sincerely,

**Original Signed By
Vernon B. Ingraham**

Vernon B. Ingraham
Chief, Accounting and Reports Division

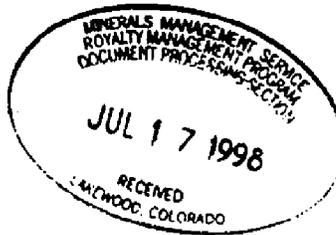
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July 15, 1998

↑
JUL 1998
Received
Reference Data
Branch

Mr. Vernon B. Ingraham
Chief, Accounting and Reports Division
Minerals Management Service
Royalty Management Program
P. O. Box 5760
Denver, Colorado 80217-5760

Amended Letter



ATTN: ARD/FB/RIK
Mail Stop 3131

RE: *Notice of Delivery of Oil - Eugene Island Block 327*

Dear Mr. Ingraham:

On behalf of Coastal Oil & Gas Corporation, please take notice that Coastal will continue to make delivery of MMS oil at the platform as Coastal has done since delivering MMS oil under the 1995 notice to take RIK oil.

In the more recent "notice" from MMS to attempt to change the delivery point of oil, MMS acknowledges that the RIK contract has not terminated and the MMS is trying to change the delivery of oil under existing contracts. The current contracts were extended from November 1, 1997 through May 1, 1999. I find nothing in the regulations that authorizes the MMS to change designation of delivery at any time. The regulations do not authorize MMS to change delivery under existing contracts. The regulations do not authorize MMS to change delivery to a market center. The regulations do not authorize MMS to simply change the delivery point whenever MMS deems it desirable. The attempt to change delivery is not in accordance with 30 C.F.R. 208.8(b) (1997). If MMS has authority in support of its position or any analysis in support of its position, please forward such to me. At this point in time, it does not appear that MMS has a well-grounded basis for its attempt to change delivery under an existing contract. If MMS has changed its delivery points of RIK oil in the past, please provide me with information on when, with whom, and the documents evidencing and relating to such a change in delivery.

Mr. Vernon B. Ingraham
Chief, Accounting and Reports Division
July 15, 1998
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Coastal is not a party to your "re-negotiated" contracts with RIK refiners, and is not subject to the terms and conditions of those contracts. The MMS's attempt to re-designate delivery under contracts to which Coastal is not a party does not require Coastal to transport MMS oil. I do not believe you have furnished Coastal with copies of those contracts. Please provide me with copies of the applicable contracts for refining of MMS oil, both before and after the recent re-negotiations. Notwithstanding that the contracts have no binding effect on Coastal, delivery of RIK oil to St. James is not feasible and is unwarranted. I look forward to receiving the contracts and to a prompt resolution of this matter. Should you have any questions, do not hesitate to call me.

Very truly yours,



Norman D. Ewart



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Royalty Management Program
P.O. Box 5760
Denver, Colorado 80217-5760

IN REPLY REFER TO

ARD-FB-RIK
Mail Stop 3131

JUN 29 1998

OVERNIGHT COURIER
FEDERAL EXPRESS

NOTICE TO ROYALTY-IN-KIND LEASE OPERATORS

Dear Operator:

As part of an ongoing pilot to improve the existing small oil Royalty-in-Kind (RIK) program, the Minerals Management Service (MMS) has negotiated amendments to the existing contract terms with the participating RIK refiners. The revised contract terms now require that most RIK oil be delivered to particular trading centers, except where such delivery is not feasible. In accordance with 30 CFR 208.8(b) (1997), Minerals Management Service (MMS) is notifying you of a change in the designated delivery point for RIK oil effective August 1, 1998. Generally, RIK oil must now be delivered to trading centers shown below, based on oil type.

Light Louisiana Sweet (LLS) - St. James, LA or South Bend, LA
Heavy Louisiana Sweet (HLS) - Empire, LA
Eugene Island (EI) - St. James, LA
Bonita Sour (BS) - St. James, LA
Texas Gulf Coast (TGC) - Texas City, TX
Mars Blend (Mars) - Clovelly, LA

The enclosed schedule lists all of your RIK leases, whether or not the designated delivery point has changed. It lists:

- Refiner name
- RIK contract numbers
- Federal lease numbers
- Lease locations
- Refiner royalty allocation percentages
- Current delivery point
- Oil type based on MMS information
- New delivery point.

You may be able to take an oil transportation allowance in accordance with 30 CFR 206.104 (1997). If you are eligible to claim a transportation allowance on your "Report of Sales and Royalty Remittance," Form MMS-2014, please refer to 30 CFR 206.105 (1997) for further information on determining an allowance rate and reporting requirements. Also, report any quality bank adjustments separately, whether positive or negative, using Transaction Code 13, Adjustment

Reason Code 04, and Payment Method 01 or 03. The Selling Arrangement must be 444 for these amounts, rather than the RIK selling arrangement.

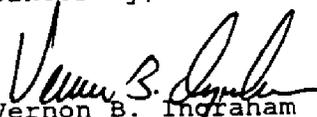
Please notify all affected lessees, payors and working interest owners of this change of the delivery point.

If our information does not show the correct oil type, or if your company is not currently operating any of the leases indicated, or if your status as operator changes during the period of the contract(s), please notify us in writing and by facsimile transmission at the following address:

Minerals Management Service
Royalty Management Program
Attention: ARD/FB/RIK, Mail Stop 3131
P.O. Box 5760
Denver, CO 80217-5760
FAX: (303) 231-3216

If you have any questions, please call Ms. Mary Turton at (303) 231-3665 or Mr. Dave Domagala at (303) 275-7255. Thank you for your cooperation.

Sincerely,



Vernon B. Ingraham
Chief, Accounting and Reports Division

Enclosure(s)