

Confidential

Small Refiner Royalty-in-Kind Program October 28, 1999 Sale

Statistics:

- X - 4 barrels of Gulf of Mexico crude oil were offered for sale.
 - The majority of this oil was from leases in the following areas:

| Area | Daily Royalty Share |
|--------------------|---------------------|
| Green Canyon | 13,737 |
| Ship Shoal | 11,900 |
| Eugene Island | 10,811 |
| Garden Banks | 9,414 |
| Main Pass | 9,311 |
| South Marsh Island | 4,950 |
| Vermilion | 4,786 |
| West Delta | 4,387 |
| Ewing Bank | 1,619 |
| South Timbalier | 1,598 |
| West Cameron | 1,311 |

- X - 4 barrels of Offshore Pacific crude oil were offered for sale.
 - The majority of this oil was from leases in the following areas:

| Area | Daily Royalty Share |
|----------------|---------------------|
| Santa Ynez | 14,196 |
| Pt. Arguello | 2,092 |
| Beta | 1,576 |
| Pt. Pedernales | 1,549 |
| Carpinteria | 1,213 |

- The main oil types offered were:

| Oil Type | Daily Royalty Share |
|-----------------------|---------------------|
| Eugene Island | 27,213 |
| Light Louisiana Sweet | 24,608 |
| Heavy Louisiana Sweet | 17,853 |
| Heavy California | 16,553 |
| MARS | 8,475 |

Bid Process

- Fourteen refiners submitted applications:

American International Refinery, Inc.
 Calumet Lubricants Company
 Edgington Oil Company
 Gary-Williams Energy
 Kern Oil & Refining Company
 Paramount Petroleum
 San Joaquin Refining Co., Inc.

Calcasieu Refining Company
 Dolphin Industries, Inc.
 Frontier Oil
 Huntway Refining Company
 Oxnard Refinery
 Placid Refining Company, LLC
 U.S. Oil & Refining Co.

- Nine refiners submitted bids. The refiners who submitted applications but not bids were:

| Refiner | Reason for not submitting bid |
|---------------------------------------|-------------------------------|
| American International Refinery, Inc. | X ————— 4 |
| Dolphin Industries, Inc. | |
| Edgington Oil Company | |
| Frontier Oil | |
| San Joaquin Refining Co., Inc. | X ————— 4 |

- Bids for Gulf of Mexico crude were as follows:

| | LLS - St. James | LLS - South Bend | HLS - Empire | EI - St. James | MARS - Clovelly | HLS - Grand Isle |
|---------------|-----------------|------------------|--------------|----------------|-----------------|------------------|
| Calcasieu | X | X | X | X | X | X |
| Calumet | | | | | | |
| Gary-Williams | | | | | | |
| Huntway | | | | | | |
| Kern | 4 | 4 | 4 | 4 | 4 | 4 |
| Oxnard | | | | | | |
| Paramount | | | | | | |
| Placid | | | | | | |
| U.S. Oil | 4 | 4 | 4 | 4 | 4 | 4 |

- Bids for Offshore California were as follows:

| | CL-C | CL-M | CH-C | CH-R | H-H | H-A | H-Y | BTA | PTP |
|---------------|------|-------|------|------|-----|-----|-----|-----|-----|
| Calcasieu | X | _____ | | | | | | | 4 |
| Calumet | | | | | | | | | |
| Gary-Williams | | | | | | | | | |
| Huntway | X | _____ | | | | | | | 4 |
| Kern | | | | | | | | | |
| Oxnard | | | | | | | | | |
| Paramount | X | _____ | | | | | | | 4 |
| Placid | | | | | | | | | |
| U.S. Oil | | | | | | | | | |

- Minimum acceptable bids were established as follows:

| Oil type | Minimum acceptable bid |
|------------------------------------|------------------------|
| All Gulf of Mexico grades of crude | X _____ 4 |
| CL-M and CL-C | |
| CH-C and CH-R | |
| H-H, H-A, and H-Y | |
| BTA | |
| PTP | |

The minimum acceptable bids were determined by management (Quality Steering Council) based on various factors including:

- 1) X _____ 4
- X _____ 4
- 2) X _____ 4
- 3) X _____ 4

- Based on the above, the only acceptable bids were the following for Offshore California:

| Refiner | Bid | Oil Group | Fields | Location |
|---------------|-----|-----------|--------|----------|
| Gary-Williams | X | X | X | X |
| Gary-Williams | | | | |
| Paramount | | | | |
| Gary-Williams | | | | |
| Gary-Williams | | | | |
| Paramount | | | | |
| Huntway | | | | |

Handwritten annotations: Vertical lines connect the 'X' marks in the first row to the numbers '1', '4', '4', and '4' in the bottom row of the table.

Management (Lucy Q. plus others) was called on October 28, 1999, to discuss the results of the sale. RIK staff discussed the possibility of lowering the minimum bid threshold based on:

- a) X _____ 4
- b) X _____ 4
- c)
- d) X _____ 4

Management ruled that their established minimum thresholds will stand and we will hold another sale in the immediate future. Between now and the next sale, we should gather data to find out where the refiners concept of market prices differ from our concept of market prices.

Lease Selection

Gary-Williams had the first selection for H-H, H-A, and H-Y (Gary-Williams also had the second selection for H-Y) crude types and selected:

1) / _____ 4
2) / _____ 4
3) / _____ 4

X _____ 4

Paramount had the second selection for H-A and the third selection for H-Y crude types and selected:

1) X _____ 4
2) X _____ 4

X _____ 4

Future

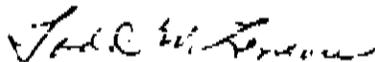
Another sale will be held in the near future. Data needs to be gathered before this sale to analyze why refiners bid below the minimum acceptable bid threshold established by the MMS. With this data, it is anticipated that a more successful sale can be held.

Recommendation

Based on the above, award contracts to Gary-Williams Energy and Paramount Petroleum.

 11/8/99
Robert F. Prael
Chief, Royalty-in-Kind Section

Concur with above recommendation.



Todd W. Leneau
Contracting Officer
9 Nov 99