

**Minerals Management Service
Unrestricted Crude Oil Sale
IFO No. 1435-02-04-RP-40474
Summary of Amendments**

August 2, 2004

- The main IFO document and Exhibits A and B have been revised.
 - Page 1 of the IFO: Fourth paragraph of “Offers,” first line, package 5 was added.
 - Page 3 of the IFO: First paragraph of “Quality,” first line, “packages” modified from “1-5” to “1-4.”
 - Page 3 of the IFO: Second paragraph of “Quality,” first line, package 5 was added.
 - Exhibit A: For package 5, the “Custody Transfer Point” changed to “Empire (from MP 30 A),” the “Quality Bank Included in Offer” changed to “N,” and the “Offer” columns were modified so that the “offshore delivery point” columns are now shaded instead of the “delivery at Market Center” columns.
 - Exhibit B: For package 5, the “Custody Transfer Point” changed to “Empire (from MP 30 A)” and the “Pipelines” changed to “N/A.”



INVITATION FOR OFFER – UNRESTRICTED RIK CRUDE OIL SALE
IFO No. 1435-02-04-RP-40474
Deliveries beginning October 1, 2004

Introduction

The Minerals Management Service (MMS) of the U.S. Department of the Interior is soliciting offers from pre-qualified companies to buy royalty oil and condensate produced from certain Federal leases in the Gulf of Mexico.

This Invitation for Offer (IFO) is for a 6-month sales term beginning October 1, 2004. Successful offerors will take custody of the royalty oil at the applicable custody transfer point as shown in Exhibit A and are responsible for moving the royalty oil downstream of this point.

Offers must be made in writing and submitted via facsimile to Richard Fantel (fax no. 303-231-3846) or email (richard.fantel@mms.gov) by 2:00 p.m. Mountain Time on August 9, 2004. MMS will confirm receipt of all offers by telephone. Royalty oil packages will be awarded by 2:00 p.m. Mountain Time on August 12, 2004. Call Richard Fantel for technical questions at 303-231-3502, Maggie Miller for contracting questions at 303-231-3932 and Larry Cobb for pre-qualification or credit questions at 303-231-3307.

Offers

Offerors must be pre-qualified to submit offers. Please see the “Pre-qualification and Credit Requirements” section for more information. MMS reserves the right to reject any offer received.

Exhibit A identifies 18 packages of royalty oil. Exhibit B provides further detail on Facility Measurement Point (FMP) operators, pipelines, and custody transfer points. Data in the exhibits is not warranted. Offerors are expected to 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. You may call Richard Fantel for a 1-year production history of royalty volumes associated with the custody transfer points. Other pertinent information such as leases/agreements, properties, operators, and royalty rates will be provided in an attachment to the “MMS Crude Oil Transaction Confirmation” sent to the successful offeror upon award. This information is also available upon request from Richard Fantel.

Exhibit A is the offer sheet to be completed and faxed or emailed. Offerors must be to the nearest \$0.0001. MMS prefers no more than one award for each package. However, MMS may consider offers on only part of a royalty oil package if favorable to the government.

Offers on packages 5, 6 and 7 must be at Empire. Packages 8 and 11 have multiple custody transfer points. Offers may be at either or both custody transfer points. Offeror must clearly designate in their offer(s) the applicable custody transfer point. Offers on custody transfer points GC 158 and ST 317 in package 11 may be as either or both crude types Mars and Poseidon. MMS will choose the offer most advantageous to the Federal Government.

Offers on custody transfer point GC 65 A in package 10 may be as any or all of crude types Eugene Island, Mars, and Poseidon. Offers on custody transfer point GC 19 A, also in package 10, may be as crude types Eugene Island and/or Mars.

Royalty oil from any new wells on currently producing properties supplying custody transfer points during the contract term will be automatically added to the awarded volumes. Royalty oil from any new properties supplying custody transfer points during the contract term will be added to the awarded volumes on a case-by-case basis pursuant to mutual consent of all parties.

Pricing Mechanism: Offerors must submit offers as an increment or decrement from one or both of the following pricing formulas:

- (1) **(Koch WTI Posting + Platts P⁺) – (Platts WTI – Platts Crude Type)**
or
(2) **(Calendar NYMEX + Daily Roll) – (Platts WTI – Platts Crude Type)**

Where: Koch WTI Posting: Koch Supply and Trading’s posting for West Texas/New Mexico Intermediate (WTI), deemed 40° API Gravity, for the Physical Month of Delivery

Platts P⁺: Arithmetic average of the daily high and low price quotes for “P-Plus WTI” for the Platts Month of Delivery

Platts WTI: The arithmetic average of the daily high and low price quotes for WTI for the Platts Month of Delivery

Platts Crude Type: The arithmetic average of the daily high and low price quotes for the crude type that is the subject of the offer for the Platts 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 Month of Delivery: Refers to quotes in Platts Oilgram 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

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 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. MMS will award to successful offerors by means of the “MMS Crude Oil Transaction Confirmation.” MMS will attempt to award 100 percent of the volume from a custody transfer point.

Term

Deliveries of royalty oil to successful offerors will commence October 1, 2004, and end March 31, 2005.

Quality

For crude type **HLS**, packages 1-4, quality bank debits/credits should be included in your offer. Successful offerors will not pass back to MMS any quality bank debits/credits received.

For crude type **HLS**, packages 5, 6 and 7, quality banks costs will not be incurred by the successful offeror since delivery is at Empire and therefore should not be reflected in your offer.

For crude type **HLS**, package 8, quality bank debits/credits should not be included in your offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s). Market center custody transfer point quality banks will not be included.

For crude type **LLS**, package 9, quality banks costs will not be incurred by the successful offeror and therefore should not be reflected in your offer.

For crude types **Eugene Island, Mars, and Poseidon**, packages 10 and 11, quality bank debits/credits should not be included in your offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s). Market center custody transfer point quality banks will not be included.

For crude type **HLS-South Bend (HLS-SB)**, packages 12-18, quality bank debits/credits should not be included in your offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s).

The quality information in the Exhibits represents MMS' most recent data for the FMP 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.

Transporting and Scheduling Royalty Oil

Successful offerors are responsible for transporting all royalty oil volumes downstream of the custody transfer point specified in Exhibit A. Successful offerors 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, you are required to indicate that the nomination is for MMS sourced crude 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 moving royalty oil, that MMS royalty volumes be itemized separately from non-MMS volumes. In cases where the pipeline companies are unable to itemize the MMS volumes on the pipeline statement, you 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 successful offeror.

Successful offerors will provide MMS with pipeline statements and any third-party documentation within 2 days after the documents have been made available to the shipper. Documentation not received by the due date may be purchased by MMS with the successful offeror being billed the associated costs.

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

No later than 5 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 the delivery of royalty oil. This process will continue for each month of the term of this IFO.

MMS instructs the operators of offered properties to use reasonable efforts, consistent with industry practice, to inform MMS and/or successful offerors of significant changes in royalty oil production levels and production shut-ins.

Upon mutual consent between MMS and its successful offeror, the successful offeror's contract may be amended when there is an increase or decrease in tariff-based transportation costs related to awarded

properties. Unless extraordinary circumstances exist, contract amendments will not be granted for rate changes in offerors buy/sell arrangements.

Imbalances

Successful offerors 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.

MMS and the operator will jointly monitor imbalances between deliveries and entitlements. Routine imbalances will be resolved by adjusting the volume of royalty oil delivered to successful offerors in the second month following the month of delivery unless otherwise approved by MMS. MMS will communicate these adjustments to the successful offeror regarding the first of month availability of royalty oil.

MMS and the operator will mutually resolve property imbalances not remedied within 90 days of the production month. The contract price under this IFO may form the basis of resolving certain extraordinary imbalances. The rights and responsibilities under RIK oil situations are outlined in MMS' Sample "Dear Operator" letter included as Exhibit C.

MMS is not responsible for royalty crude oil pipeline imbalances.

Confidentiality

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) 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 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. Pre-qualification information can be found on our web site at <http://www.mrm.mms.gov/RIKweb/Oilprequal.htm>. By submitting an offer, the offeror agrees to be bound by the terms of its signed MMS base contract and this IFO.

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, or such information is available on Edgar Online, no additional information will be required. However, MMS reserves the right to request updated financial information in any situation it deems 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, 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 within 5 business days prior to first delivering oil under the contract. If additional security is required, successful offerors 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 receipt of final delivery or 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.

See our website at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4071.pdf> for a sample of the ILOC, MMS Form-4071. For Bonds, go to <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4072.pdf> for MMS Form-4072. 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 should be calculated using the selected pricing mechanism plus the awarded offer amount applied to the August 2004 production month. This value must be multiplied by the daily royalty production (estimated in Exhibit A), multiplied by 60 days, and then reduced by the amount of unsecured credit issued by MMS. The amount of unsecured credit available for this sale is contingent upon the successful offeror's current participation in other RIK sales or exchange programs.

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. 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 provide additional performance assurances when requested may result in early termination of the contract. Where applicable, an investment-grade rating by Standard and Poor's is required by MMS to maintain creditworthiness.

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 MMS base contract and the terms of this IFO will be resolved in favor of this IFO. Only companies who have pre-qualified and signed the MMS base contract may receive a contract.

Paperwork Reduction Act of 1995 (PRA) Statement:

The OMB Control Number for this IFO is 1010-0126 with an expiration date of June 30, 2006. 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.

3 Exhibits:

Exhibit A – Offer Sheet

Exhibit B – RIK Custody Transfer Point Detail

Exhibit C – Sample Dear Operator Letter

Offer Pkg	Crude Type	Custody Transfer Point (CTP)	MMS Royalty Volume (bbls/day)	Gravity	Sulfur %	Quality Bank Included in Offer (Y/N)	Offer 1/ Koch WTI + Platts P ⁺ basis (offshore delivery point)	Offer 1/ NYMEX + Daily Roll basis (offshore delivery point)	Offer 1/ Koch WTI + Platts P ⁺ basis (delivery at Market Center)	Offer 1/ NYMEX + Daily Roll basis (delivery at Market Center)
1	HLS	WD 106i	230	40.1	N/A	Y				
2	HLS	MP 70	130	30.7	N/A	Y				
3	HLS	Venice	250	27.5	N/A	Y				
4	HLS	WD 109 A	530	36.7	N/A	Y				
5	HLS	Empire (from MP 30 A)	220	34.9	N/A	N				
6	HLS	Empire (from MP 42 L)	1,400	30.8	N/A	N				
7	HLS	Empire (from Bay Marchand)	400	28.1	N/A	N				
8a	HLS	MC 20 A or Empire	540	28.7	N/A	N				
8b	HLS	MC 109 or Empire	1,300	28.0	N/A	N				
8c	HLS	SP 49 A or Empire	350	33.4	N/A	N				
9	LLS	Johnson's Bayou, LA	930	51.6	N/A	N				
10a	EI	GC 19 A	50	30.4	1.38	N				
10ai	EI	GC 65 A	2,700	30.1	1.65	N				
10b	Mars	GC 19 A	50	30.4	1.38	N				
10bi	Mars	GC 65 A	2,700	30.1	1.65	N				
10c	Poseidon	GC 65 A	2,700	30.1	1.65	N				
11a	Mars	GC 158 A or Clovelly	3,000	34.9	1.41	N				
11b	Mars	ST 317 ssti or Clovelly	100	33.1	0.10	N				
11ai	Poseidon	GC 158 A or Houma	3,000	34.9	1.41	N				
11bi	Poseidon	ST 317 ssti or Houma	100	33.1	0.10	N				
12	HLS-SB	EC 321 A	400	32.6	0.23	N				
13	HLS-SB	EC 332 A	200	42.5	0.32	N				
14	HLS-SB	EC 338 A	190	41.7	0.34	N				
15a	HLS-SB	EC 272 C	100	28.5	0.53	N				
15b	HLS-SB	EC 272 D	130	28.4	0.53	N				
16	HLS-SB	SM 40 ssti	150	36.1	0.35	N				
17	HLS-SB	SM 69 B	850	34.9	0.16	N				
18	HLS-SB	VR 250 C	150	38.3	0.16	N				
Grand Total			14,300							

1/ See "Pricing Mechanism" from IFO: Increment or Decrement from either or both:

- (Koch WTI Posting + Platts P⁺) - (Platts WTI - Platts Crude Type)
- (Calendar NYMEX + Daily Roll) - (Platts WTI - Platts Crude Type)

Your Name

Phone No.

Company Name

Fax No.

MMS Contacts

Crystal Tobar: 303-231-3126 crystal.tobar@mms.gov
 Richard Fantel: 303-231-3502 richard.fantel@mms.gov
 Donna Hogan: 303-231-3148 donna.hogan@mms.gov
 Fax No.: 303-231-3846

Offer Pkg	Crude Type	Custody Transfer Point	Volume Metered at	MMS FMP No.	FMP Operator	MMS Royalty Volume (bbbls/day)	Gravity (Note 1)	Sulfur %	Pipelines	Common Carrier(s)	Buy/Sell
1	HLS	WD 106i	WD 106 A	20177193907	Walter Oil & Gas Corp.	230	40.1	N/A	Walter private line into	no	(Note 5)
							(Note 2)		West Delta/Marlin P/L	no	STUSCO
2	HLS	MP 70	MP 77 A	20177255102	ChevronTexaco	130	30.7	N/A	ChevronTexaco private line into	no	(Note 5)
									Pompano P/L into	no	STUSCO
									Delta P/L	yes	
Pipeline Total						360					
3	HLS	Venice	WD 27 A	20177194300	ChevronTexaco	250	27.5	N/A	ChevronTexaco P/L	yes	
4	HLS	WD 109 A	WD 109 A	20177194602	ChevronTexaco	530	36.7	N/A	ChevronTexaco P/L	yes	
5	HLS	Empire (from MP 30 A)	MP 30 A	20177255307	ChevronTexaco	220	34.9	N/A	N/A	yes	
6	HLS	Empire (from MP 42 L)	MP 42 L	20177255304	ChevronTexaco	1,400	30.8	N/A	N/A	N/A	
7	HLS	Empire (from Bay Marchand)	Bay Marchand (Note 3)	20170573604	ChevronTexaco	400	28.1	N/A	N/A	N/A	
Pipeline Total						2,800					
8a	HLS	MC 20 A or Empire	MC 20 A	20608174951	Taylor Energy	540	28.7	N/A	SP 49 P/L into Delta P/L	yes	
8b	HLS	MC 109 or Empire	MC 109	20608174952	BP Expl. and Prod.	1,300	28.0	N/A	SP 49 P/L into Delta P/L	yes	
						(Note 4)					
8c	HLS	SP 49 A or Empire	SP 49 A	20177214950	ChevronTexaco	350	33.4	N/A	SP 49 P/L into Delta P/L	yes	
Pipeline Total						2,190					
9	LLS	Johnson's Bayou, LA	Johnson's Bayou, LA	20170230450	Plains	930	51.6	N/A	Title transfer at Johnson's Bayou; Purchaser to ship onto Sabine Pass, then to barge, etc.	yes	
Condensate Total						930					
10a	EI or	GC 19 A	GC 19 A	20608112953	Shell Offshore	50	30.4	1.38	Boxer P/L into Eugene Island P/L into	yes	
10b	Mars								Shell's S. LA Sys. or;	yes	
									Amberjack P/L into Mars Oil P/L	yes	
10ai	EI or	GC 65 A	GC 65 A	20608117000	Shell Offshore	2,700	30.1	1.65	Amberjack P/L or;	yes	
10bi	Mars or					(Note 4)			Amberjack P/L into Boxer P/L into EIPL into	yes	
10c	Poseidon								Shell's S. LA Sys. or;	yes	
									Shell 12" into Boxer P/L (except Angus) into	no	Shell Offshore
									EIPL into Shell's S. LA Sys. or;	yes	
									Shell 12" P/L (except Angus) into	no	Shell Offshore
									Shell Trading 12" P/L into	no	STUSCO
									Poseidon P/L	no	Poseidon
Pipeline Total						2,750					

Offer Pkg	Crude Type	Custody Transfer Point	Volume Metered at	MMS FMP No.	FMP Operator	MMS Royalty Volume (bbls/day)	Gravity (Note 1)	Sulfur %	Pipelines	Common Carrier(s)	Buy/Sell
11a	Mars	GC 158 A or Clovelly	GC 158 A	20608113652	Shell Offshore	3,000	34.9	1.41	Brutus P/L into Amberjack P/L into Mars Oil P/L or;	yes	
	or								Brutus P/L into SS301 to SS332 into	yes	
11b	Poseidon	GC 158 A or Houma	GC 158 A						Poseidon P/L; Delivery at Houma	no	Poseidon
11ai	Mars	ST 317 ssti or Clovelly	ST 317 A	20177163650	Houston Exploration	100	33.1	0.10	Brutus P/L into Amberjack P/L into Mars Oil P/L or;	yes	
	or								Brutus P/L into SS301 to SS332 into	yes	
11bi	Poseidon	ST 317 ssti or Houma	ST 317 A						Poseidon P/L; Delivery at Houma	no	Poseidon
Pipeline Total						3,100					
12	HLS-SB	EC 321 A	EC 321 A	20177042202	Marathon Oil Company	400	32.6	0.23	Marathon P/L into ExxonMobil P/L into ExxonMobil S. LA System	yes	
										yes	
13	HLS-SB	EC 332 A	EC 332 A	20177042208	Noble Energy	200	42.5	0.32	Noble private line into	no	(Note 5)
									Marathon P/L into ExxonMobil P/L into ExxonMobil S. LA System	yes	
										yes	
14	HLS-SB	EC 338 A	EC 338 A	20177042205	W&T Offshore	190	41.7	0.34	Marathon P/L into ExxonMobil P/L into ExxonMobil S. LA System	yes	
										yes	
15a	HLS-SB	EC 272 C	EC 272 C	20177042200	ChevronTexaco	100	28.5	0.53	ExxonMobil P/L into ExxonMobil S. LA System	yes	
15b	HLS-SB	EC 272 D	EC 272 D	20177042201	ChevronTexaco	130	28.4	0.53	ExxonMobil P/L into ExxonMobil S. LA System	yes	
16	HLS-SB	SM 40 ssti	SM 39 A	20177072207	Westport Resources Corp.	150	36.1	0.35	ExxonMobil P/L into ExxonMobil S. LA System	yes	
17	HLS-SB	SM 69 B	SM 69 B	20177072206	Taylor Energy Co.	850	34.9	0.16	ExxonMobil P/L into ExxonMobil S. LA System	yes	
18	HLS-SB	VR 250 C	VR 250 C	20177052203	El Paso Production	150	38.3	0.16	ExxonMobil P/L into ExxonMobil S. LA System	yes	
Pipeline Total						2,170					
Grand Total -->>						14,300					

- STUSCO contact: Brett Jones (713-230-1944)
- Shell Offshore contact: Mike Faulise (713-230-1967)
- Poseidon Pipeline contact: James Hostetler (720-956-3054)
- Noble contact: Jo Phillips (580-221-1351)

- FMP: Facility Measurement Point
- HLS-SB: HLS South Bend

Note 1: Gravity is based on April 2004 production. Gravity and Sulfur are measured at the Facility Measurement Point unless otherwise noted.
 Note 2: For all properties that are Buy/Sells with STUSCO, the gravities listed were supplied by STUSCO and represent an average from February to May, 2004.
 Note 3: Also known as "Pass Fourchon Terminal."
 Note 4: FMP contains a lease in Royalty Relief status. Volumes from that lease will not be included in deliveries to purchaser.
 Note 5: No charge across private line.

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 Gulf of Mexico (GOM) that you operate or are a working interest owner of to be included in a Royalty In-Kind (RIK) program in which we will take crude oil and condensate royalty production in-kind beginning October 1, 2004. This letter supercedes previous operator letters you have received regarding oil royalties taken in-kind and is effective the first day of the month following its receipt by you.

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 royalty 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 your properties flowing to the Facility Measurement Point(s) (FMP) listed in Enclosure 1 beginning October 1, 2004, 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 when terminating the in-kind status.

Royalty Oil Delivery

The custody transfer point for royalty oil produced from the properties are at the FMP or first interconnect into a main pipeline, as identified in Enclosure 1. Enclosure 1 lists the properties that are approved to flow to the FMPs listed in Enclosure 1. It is your responsibility to ensure that royalty production from any of your properties that is actually flowing to the designated FMP on any given month, with the exception of leases in royalty relief status, section 6 leases, state leases, or net profit share leases, will be delivered in-kind to the Lessor or our designee. The Lessor or designee will take custody and responsibility for royalty oil at the custody transfer point. You can be reimbursed for transportation and quality bank debits and/or quality differentials associated with royalty oil delivery to points identified in Enclosure 1 that lie downstream of the FMP. If gathering upstream of the FMP has been approved by MMS, you may take this deduction, as well as other related fees, on the Report of Sales and Royalty Remittance (Form MMS-2014). You will be required to report quality bank debits and credits for properties where the quality bank is passed back to the operator/producer or where a quality differential exists on a pipeline where there is not an instituted quality bank, as allowed in applicable MMS regulations. Please use the applicable GravCap tables to calculate the quality differential on pipelines where there is a not an instituted quality bank.

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.

You must deliver all royalty oil from the selected leases, including royalty oil from newly producing wells on these leases. During the in-kind period, you will make your best effort to notify the Lessor's designated point of contact of new oil production flowing to the FMP identified in Enclosure 1. Royalty oil from such new properties may be added to the RIK volumes at the existing custody transfer points by the Lessor.

Fulfillment of Royalty Obligations

Delivering 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's Obligation to Take

We agree to take 100 percent of the royalty oil delivered to the custody transfer point for the account of the Lessor. Using reasonable and customary industry practices, we will try to minimize imbalances with you and the Lessees.

To facilitate timely and accurate custody transfer of royalty oil, we will communicate with you regarding arrangements to transfer the royalty oil from the custody transfer 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

You must notify the Lessor in writing via facsimile (303-231-3846) 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 by the dates shown in Enclosure 2 for each of the properties identified in Enclosure 1. On this same schedule, for each of the properties, 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 custody transfer points must be indicated 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 use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes to the information listed in Enclosure 1; e.g., oil production levels, oil type, and/or royalty rates for the RIK contract properties, as well as if the property was

sold and to whom it was sold.

Volume Reconciliation

You must provide the pipeline with the volume allocation for MMS' royalty oil separately from other take in-kind owners.

You must send all volume allocation schedules provided to pipeline companies that address royalty oil volumes at the custody transfer points in Enclosure 1 to MMS at the same time they are submitted to the pipeline companies.

You 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 submitting the statement. We will monitor and reconcile royalty entitlements with the royalty oil deliveries you make. Reconciliation will involve communication between you and MMS. 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 must be submitted to the rik.project@mms.gov mailbox.

Operator Assignments

For leases which are being taken in-kind and which you are assigning to another operator, you will make best reasonable efforts to notify one of the New Lease Production-Lessor's Points of Contact listed below. In addition, any ending imbalance existing at the effective date of the assignment will be cashed out as described under "Balancing Account and Imbalances".

Balancing Account and Imbalances

You and MMS will jointly monitor imbalances between delivered and entitled volumes of royalty oil. You will take timely action to remedy such imbalances by adjusting the 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.
- Cash out payment based on the contract price (at the custody transfer 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 custody transfer 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 Enclosure 1 will be settled in compliance with your Purchase and Sale Agreement assignments. Imbalance provisions will be reviewed six months from initial contract date.

In cases where the operator delivers the royalty barrels to the market center there will be market center imbalances. The definition of market center imbalances is the difference between royalty volumes delivered to MMS or its designated agent at the Gulf Coast market centers during the month of delivery, and actual royalty volumes produced at the custody transfer point. The successful offeror will resolve these imbalances by adjusting the nominated volumes to be delivered to MMS or its designated agent at the Gulf Coast market centers by noon the 21st day of the month following the month of delivery, unless otherwise approved by MMS. If the 21st is a Saturday, Sunday, or Federal holiday, then nominated volumes will be adjusted the following business day.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR). You must also report transportation allowances and quality bank debits/credits on the Form MMS-2014 for any royalty volumes that are delivered downstream of the FMP or where the quality bank is passed back to the operator/producer under requirements specified in the MMS regulations and the MMS *Minerals Revenue Reporter Handbook*, please see our website at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf>.

You will not be required to report royalties for the RIK properties listed in Enclosure 1 on the Form MMS-2014 for the term during which the Lessor takes royalty in-kind, with the exception of properties noted as royalty relief, section 6 leases, state leases, net profit share leases and any retrograde or free condensate not delivered to the Lessor. You must continue to report these properties on the Form MMS-2014 per the MMS regulations. Reporting does not change for non-RIK leases.

Lessor's Designee

The Lessor may act by or through a duly authorized designee. Enclosure 1 provides MMS' designee at each custody transfer point. 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. You are allowed, but not required to direct communications to our designee. You are required to direct communications to us. We will provide written notification when the designee changes or is no longer authorized to act on our behalf for the purposes of this letter.

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 custody transfer 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's Points 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), Volume Allocation Schedules, and Operator Imbalance Statements:

Mr. Larry Barker

Telephone: 303-231-3157; Fax: 303-231-3846

E-mail: Lawrence.Barker@mms.gov

- New Lease Production:

Ms. Crystel Tobar (Mars, EI, Poseidon, LLS)

Telephone: 303-231-3126; Fax: 303-231-3846

E-mail: Crystel.Tobar@mms.gov or

Mr. Richard Fantel (HLS)

Telephone: 303-231-3502; Fax: 303-231-3846

E-mail: Richard.Fantel@mms.gov or

Ms. Donna Hogan (HLS-SB)

Telephone: 303-231-3148; FAX: 303-231-3846

E-Mail: Donna.Hogan@mms.gov

- Electronic Funds Transfer:

Mr. Joe Romero

Telephone: 303-231-3123; Fax: 303-231-3501;

E-mail: Joseph.Romero@mms.gov

- Marketable Condition Questions:

Mr. Roman Geissel

Telephone: 303-231-3226; Fax: 303-231-3473

E-mail: Roman.Geissel@mms.gov

We acknowledge that you and the Lessees have given proper notice when using the telephone number or fax number provided to communicate with us. MMS will confirm any telephone communication regarding volumes by fax or e-mail no later than 1 business day after telephone communication occurs. We further agree to make arrangements to receive such communications regarding oil scheduling issues during normal business hours. You and the Lessees should communicate with one of the points of contact to answer any further questions.

The Paperwork Reduction Act

The OMB Control Number for this Dear Operator Letter is 1010-0126 with an expiration date of June 30, 2006. 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 mandatory (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 one 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.

Sincerely,

Gregory W. Smith
Deputy Program Manager
for Royalty In-Kind

2 Enclosures

Offer Pkg	Crude Type	Custody Transfer Point (CTP)	MMS Royalty Volume (bbls/day)	Gravity	Sulfur %	Quality Bank Included in Offer (Y/N)	Offer 1/ Koch WTI + Platts P+ basis (offshore delivery point)	Offer 1/ NYMEX + Daily Roll basis (offshore delivery point)	Offer 1/ Koch WTI + Platts P+ basis (delivery at Market Center)	Offer 1/ NYMEX + Daily Roll basis (delivery at Market Center)
1	HLS	WD 106i	230	40.1	N/A	Y				
2	HLS	MP 70	130	30.7	N/A	Y				
3	HLS	Venice	250	27.5	N/A	Y				
4	HLS	WD 109 A	530	36.7	N/A	Y				
5	HLS	Empire (from MP 30 A)	220	34.9	N/A	N				
6	HLS	Empire (from MP 42 L)	1,400	30.8	N/A	N				
7	HLS	Empire (from Bay Marchand)	400	28.1	N/A	N				
8a	HLS	MC 20 A or Empire	540	28.7	N/A	N				
8b	HLS	MC 109 or Empire	1,300	28.0	N/A	N				
8c	HLS	SP 49 A or Empire	350	33.4	N/A	N				
9	LLS	Johnson's Bayou, LA	930	51.6	N/A	N				
10a	EI	GC 19 A	50	30.4	1.38	N				
10ai	EI	GC 65 A	2,700	30.1	1.65	N				
10b	Mars	GC 19 A	50	30.4	1.38	N				
10bi	Mars	GC 65 A	2,700	30.1	1.65	N				
10c	Poseidon	GC 65 A	2,700	30.1	1.65	N				
11a	Mars	GC 158 A or Clovelly	3,000	34.9	1.41	N				
11b	Mars	ST 317 ssti or Clovelly	100	33.1	0.10	N				
11ai	Poseidon	GC 158 A or Houma	3,000	34.9	1.41	N				
11bi	Poseidon	ST 317 ssti or Houma	100	33.1	0.10	N				
12	HLS-SB	EC 321 A	400	32.6	0.23	N				
13	HLS-SB	EC 332 A	200	42.5	0.32	N				
14	HLS-SB	EC 338 A	190	41.7	0.34	N				
15a	HLS-SB	EC 272 C	100	28.5	0.53	N				
15b	HLS-SB	EC 272 D	130	28.4	0.53	N				
16	HLS-SB	SM 40 ssti	150	36.1	0.35	N				
17	HLS-SB	SM 69 B	850	34.9	0.16	N				
18	HLS-SB	VR 250 C	150	38.3	0.16	N				
		Grand Total	14,300							

1/ See "Pricing Mechanism" from IFO: Increment or Decrement from either or both:

- (Koch WTI Posting + Platts P+) - (Platts WTI - Platts Crude Type)
- (Calendar NYMEX + Daily Roll) - (Platts WTI - Platts Crude Type)

Your Name

Phone No.

Company Name

Fax No.

MMS Contacts

Crystal Tobar: 303-231-3126
 Richard Fantel: 303-231-3502
 Donna Hogan: 303-231-3148
 Fax No.: 303-231-3846

crystal.tobar@mms.gov
richard.fantel@mms.gov
donna.hogan@mms.gov