**INVITATION FOR OFFER – UNRESTRICTED RIK CRUDE OIL SALE**
**IFO No. M07PX14955**
**Deliveries beginning July 1, 2007**

## 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 sales term beginning July 1, 2007 (see "Term" for more information). Buyers will take custody of the royalty oil at the applicable custody transfer points shown in Exhibit A and will be responsible for moving the royalty oil downstream of this point.

**Offers must be made in writing and submitted to Maggie Miller via email (maggie.miller@mms.gov) or facsimile (303-231-3846) by 10:00 am MDT on May 1, 2007.** The MMS will confirm receipt of all offers. **Royalty oil packages will be awarded by 2:00 pm MDT on May 3, 2007**.

Please call the contacts below for additional information:

- Jim Steward for technical questions at 303-231-3715
- Maggie Miller for contracting questions at 303-231-3932
- Larry Cobb for pre-qualification or credit questions at 303-231-3307

## Offers

Offerors must be pre-qualified for eligibility. Please see the "Pre-qualification and Credit Requirements" section for more information. The MMS reserves the right to reject any offer. Offerors may be contacted during the award review for a term roll offer on specific packages.

Exhibit A is the offer sheet to be completed and emailed or faxed. Offers must be to the nearest $0.0001. Exhibit A identifies 23 packages of royalty oil including details on Facility Measurement Point (FMP) operators, pipelines, and custody transfer points. Data in the exhibit is not warranted and offerors 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. Other pertinent information such as leases/agreements, operators, and royalty rates will be provided to the buyer upon award.

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

For all **HLS** packages, buyers will be responsible for the Empire exit fee (also known as outbound terminal or pump out fee) and reconsignment fee, when applicable. These fees should not be included in the offers.

For package 22 (GC 65 A), buyers may bid as crude types **Eugene Island, Mars,** or **Poseidon**.

For package 23 (GB 128 A), buyers may bid as crude types **Bonito** and/or **Eugene Island**. Due to pre-determined monthly volume prorations at EI 330/331, if submitting an offer on the Bonito Pipeline and/or

Eugene Island Pipeline, offerors must also submit an offer on Auger Pipeline or caveat offer to state where the prorated production will flow.

For package 23a, the Ship Shoal Inventory Management Fees will not be reimbursed by MMS.

Royalty oil from new wells on currently producing properties behind the custody transfer points that commence production during the term of this IFO will be automatically added to the volumes awarded under this IFO. Royalty oil from new properties behind the custody transfer points that commence production during the term of this IFO will be added to the volumes awarded under this IFO on a case-by-case basis pursuant to mutual consent of MMS and buyers.

**Pricing Mechanism:** Offerors must submit offers as an increment or decrement from either or all of the below pricing formulas. If you would like to submit an offer based on an alternative pricing formula, please caveat the offer with the alternative pricing formula used.

1. (Calendar NYMEX + Daily Roll) – (Platts WTI – Platts Crude Type)

2. (Calendar NYMEX + Daily Roll) + (Argus Weighted Average Crude Type Differential)

**Pricing Definitions:**

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

Platts Crude Type: The arithmetic average of the daily high and low price quotes for crude type for Platts Month of Delivery

Argus Weighted Average Crude Type Differential: The weighted average differential for each crude type published by Argus

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

Platts or Argus Month of Delivery: Refers to quotes in Platts Oilgram Price Report or Petroleum Argus Americas Crude Price Report for the period of time from the twenty-sixth day of the month two months prior to the physical month of delivery through the twenty-fifth day of the month one month prior to the Physical Month of Delivery (excluding weekends and holidays)

Physical Month of Delivery: The calendar month when the crude oil is delivered

Daily Roll: (X – Y).6667 + (X – Z).3333, where:
X = Average of the daily NYMEX settlement price for the prompt month, trading days only, when the Physical Month of Delivery is the prompt month trading on NYMEX
Y = Average of the daily NYMEX settlement price for the second month during the same period, trading days only
Z = Average of the daily NYMEX settlement price for the third month during the same period, trading days only

The MMS may award a contract on the basis of initial offer(s) received without discussions. Accordingly, each initial offer should be submitted on the most favorable terms 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 below under "Imbalances" with respect to resolving certain extraordinary imbalances.

The MMS shall award a contract resulting from this IFO to the party whose offer, in MMS' judgment, is most advantageous to the Federal Government. The MMS prefers no more than one award for each package and will attempt to award 100 percent of the volume from a custody transfer point. However, MMS may consider offers on only part of a royalty oil package if favorable to the Government. The MMS will award to buyers by means of the “MMS Crude Oil Transaction Confirmation.”

## Term

Delivery of royalty oil will begin on July 1, 2007 and end March 31, 2008.

This Contract shall be effective and shall continue in full force and effect for a term of 9 months beginning July 1, 2007 (Initial Term) and may be renewed for an additional term of 3 months (Renewal Term) upon mutual agreement by both parties at least 60 days prior to the expiration of the Initial Term. In the event the Renewal Term is executed, the shipper and MMS may negotiate for changes in pipeline loss allowance.

## Quality

For **HLS** package 5 and **HLS-SB** packages 6-10, offerors will pass back to MMS only the first receipt bank at the custody transfer point and therefore this quality bank should not be included in the offer. All other quality banks downstream of the receipt point should be included in the offer.

For **LLS** package 11, quality bank costs will not be incurred by the buyer and therefore should not be reflected in the offer.

For **TXG** packages 12-21, quality bank debits/credits should not be included in the offer as they will be passed back to the MMS by the operator.

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

For all **Mars, Eugene Island,** and **Bonito** packages, with the exception of market center delivery banks, quality bank debits/credits should not be included in the offer. Buyers will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s). Market center delivery banks should be included in the offer.

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

The quality information in Exhibit A represents MMS’ most recent data for the custody transfer points in the packages offered. Actual quality during the term of this sale may vary. Data provided by MMS is based on the best information available at the time of IFO publishing and is not warranted.

## Transporting and Scheduling Royalty Oil

Buyers are responsible for transporting all royalty oil volumes downstream of the custody transfer point specified in Exhibit A. Buyers must nominate and schedule all volumes awarded through this IFO separately from all other volumes owned or controlled at the custody transfer point where royalty oil is received. When nominating to the pipeline, buyers are required to indicate that the nomination is for MMS sourced crude oil.

Regardless of flow, the buyer must pay on the awarded crude type pricing methodology and awarded pipeline. In the event that the production is not shipped by means of the awarded pipeline, the buyer must send a representative sample down the awarded pipeline to obtain a per barrel quality bank cost.

Within 10 business days of execution of the “MMS Crude Oil Transaction Confirmation” relative to this IFO, buyers must request in writing to all pipeline companies moving royalty oil, that MMS royalty volumes be itemized separately from non-MMS volumes. In cases where the pipeline companies are unable to break out the MMS volumes on the pipeline statement, buyers must provide MMS with acceptable third-party data itemizing the MMS volumes delivered or use a pipeline assigned measurement facilitator. Any charges associated with obtaining this third-party data are the responsibility of the buyer.

Buyers will provide MMS with pipeline statements and any third-party documentation within 2 business days after the documents are available to the buyer, no later than the 19th day of the month following the month of production. Documentation not received by the due date may be purchased by MMS with the buyer being billed the associated costs.

Buyers, through customary industry practice, will communicate directly with MMS and the FMP operator and will make arrangements to deliver and transfer the royalty oil from the awarded custody transfer point. Buyers, at their expense, will make all necessary arrangements to receive royalty oil at the custody transfer point. Buyers are not responsible for any transportation costs upstream of the custody transfer point.

**The MMS will no longer notify buyers of the daily royalty oil volumes anticipated for the following month of production. The buyers will be responsible for obtaining this information from the FMP operators.**

**The buyer, as our designated agent, will communicate directly with the FMP operator, obtain estimated volumes, and make arrangements for the delivery and transfer of royalty oil from each custody transfer point identified in Exhibit A. The estimated delivery volumes must be obtained from the responsible FMP operator no later than 10 business days before the first day of each month. The buyer will provide the estimated delivery volumes for each custody transfer point to MMS by noon MDT the 21st of each month. When the 21st falls on a weekend or Federal holiday, the following business day applies. This process will continue for each month of the term of this IFO.**

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

The buyer or MMS can request to adjust an awarded offer by any increase or decrease in tariff-based transportation costs effective on the date of the tariff change. The MMS will send the buyer written notification confirming such changes.

## Imbalances

Buyers are granted rights to royalty oil delivered by operators at the custody transfer points indicated in Exhibit A, not actual entitlements due the Federal Government. The MMS and the operator will jointly monitor imbalances between deliveries and entitlements. Routine imbalances will be resolved by adjusting the volume of royalty oil delivered to buyers in the second month following the month of delivery unless otherwise approved by MMS. The MMS will communicate these adjustments to the buyer regarding the first of month availability of royalty oil.

Property imbalances not remedied within 90 days of the production month will be resolved by mutual agreement between MMS and the operator. The contract price under this IFO may form the basis for resolving certain extraordinary imbalances between MMS and operators.

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

An example of the rights and responsibilities of operators under RIK oil situations is outlined in MMS' "Dear Operator" letter at http://www.mrm.mms.gov/RIKweb/RIKOperLts.htm (see the most current Dear Operator Letter).

## Confidentiality

Neither MMS or the buyer shall disclose directly or indirectly, without the prior written consent of the other party, the terms of any transaction under this IFO to a third-party (other than the employees, lenders, royalty owners, counsel, accountants and other agents of the party, or prospective purchasers of all or substantially all of a party's assets or of any rights under this Contract, provided such persons shall have agreed to keep such terms confidential) except; (i) to comply with any applicable law, order, regulation, or exchange rule, (ii) to the extent necessary to enforce this Contract, (iii) to the extent necessary to implement any transaction, including any transaction as described above in the section "Transporting and Scheduling Royalty Oil", or (iv) to the extent such information is delivered to such third-party for the sole purpose of calculating a published index.

Each party shall notify the other party of any proceeding of which it is aware which may result in disclosing the terms of any transaction (other than as permitted above) and use reasonable efforts to prevent or limit the disclosure. The existence of this Contract is not subject to this confidentiality obligation. The terms of any transaction hereunder shall be kept confidential by the parties hereto for 1 year from the expiration of the transaction.

**Pre-qualification and Credit Requirements**

To pre-qualify, offerors are required to sign the MMS base contract "RIK Crude Oil General Terms and Conditions" and provide detailed financial information. Upon pre-qualifying, MMS will issue an amount of unsecured credit based on the creditworthiness of the offeror. In most cases where offerors have submitted their most current financial documentation 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, buyers will be required to provide secured financial assurance in the form of an Irrevocable Letter of Credit (ILOC), Bond, or other MMS-acceptable surety instrument 5 business days prior to first receipt of oil under the contract. The financial assurance amount shall be sufficient to cover the value of 60 days of deliveries of the estimated production of all royalty oil awarded, less the amount of unsecured credit issued by the MMS as previously notified. For new surety instruments, the MMS will contact you regarding the calculation of an estimated amount of surety to be provided prior to initial deliveries. For continuing surety instruments, we will contact you regarding renewal requirements. Failure to provide requested surety may result in cancellation of the award or termination of the contract.

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 assurance may be required as a condition to further performance under the agreement.

**Limitation of Liability**

Neither Party shall be liable for indirect, special, or consequential damages.

**Governing Contract**

This transaction is governed by the MMS base contract "RIK Crude Oil General Terms and Conditions," signed by the offeror and MMS. **By submitting an offer, the offeror agrees to be bound by the terms of its signed MMS base contract and this IFO.** Conflicts between the MMS base contract and the terms of this IFO will be resolved in favor of this IFO.

The MMS will send the buyer a Transaction Confirmation detailing the award packages. Transaction Confirmations not signed and returned within 2 business days of receipt will be deemed binding on behalf of both parties.

**Paperwork Reduction Act of 1995 (PRA) Statement:**

The OMB Control Number for this IFO is 1010-0119 with an expiration date of February 28, 2009. The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to document fulfillment of royalty obligations on minerals removed from Federal lands. The MMS uses the information to maintain and audit lease accounts. Responses are voluntary (43 U.S.C. 1334). Proprietary information is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1), (4)), and the Department regulations (43 CFR 2). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB Control Number. Public reporting burden for this form is estimated to average 1 hour per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Minerals Management Service, Mail Stop 4230, 1849 C Street, NW, Washington, DC 20240.

Exhibit:
Exhibit A – Offer Sheet and RIK Custody Transfer Point Detail

**Offer Sheet**

**Exhibit A**

| Offer Pkg | Royalty Oil Type | Custody Transfer Point (Volume Metered At) | MMS FMP No. | FMP Operator | Custody Transfer Point Royalty Volume (bbls/day) | API Gravity (Note 1) | Sulfur % (Note 1) | Pipelines and Gulf Coast Market Center | Common Carrier Unless Buy/ Sell is Noted | NYMEX + Daily Roll basis (offshore delivery point) | Required: Platts or Argus (indicate P or A) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | HLS | Venice, LA (WD 27 A) into Chevron Terminal | 20177194300 | Anglo-Suisse | 210 | 31.0 | N/A | Chevron P/L into Empire | | | |
| 2 | HLS | SP 77 A | 20177224701 | Chevron Corp. | 735 | 35.8 | N/A | Chevron P/L into Empire | | | |
| | | | | **Pipeline Total** | **945** | | | | | | |
| 3 | HLS | ST 26 A | 2017715360C | Energy Partners | 300 | 34.4 | N/A | Energy Partners P/L into Fourchon into Chevron P/L into Empire | | | |
| 4 | HLS | ST 41 B | 20177153600J | Energy Partners | 350 | 39.3 | N/A | Chevron P/L into Fourchon into Chevron P/L into Empire | | | |
| | | | | **Pipeline Total** | **650** | | | | | | |
| 5 | HLS | Grand Isle EM Terminal Inlet | 20170513700 | ExxonMobil | 3,100 | 32.8 | 0.37 | • ExxonMobil P/L to St. James or;<br>• Chevron P/L to Empire | | | |
| | | | | **Pipeline Total** | **3,100** | | | | | | |
| 6 | HLS-SB | EC 321 A | 20177042202 | W & T Offshore | 325 | 34.4 | 1.18 | Marathon P/L into ExxonMobil P/L into ExxonMobil S. LA System | | | |
| 7 | HLS-SB | EC 332 A | 20177042208 | Coldren Resources | 430 | 37.7 | 0.47 | Noble private line (no charge) into Marathon P/L into ExxonMobil P/L into ExxonMobil S. LA System | | | |
| 8 | HLS-SB | SM 40 ssti (SM 39 A) | 20177072207 | Hunt Chieftan | 40 | 36.6 | 0.10 | ExxonMobil P/L into ExxonMobil S. LA System | | | |
| 9 | HLS-SB | SM 31 ssti (SM 27 A) | 20177072208 | Taylor Energy Co. | 260 | 41.0 | 0.14 | ExxonMobil P/L into ExxonMobil S. LA System | | | |
| 10 | HLS-SB | SM 69 B | 20177072206 | Taylor Energy Co. | 680 | 35.0 | 0.28 | ExxonMobil P/L into ExxonMobil S. LA System | | | |
| | | | | **Pipeline Total** | **1,735** | | | | | | |
| 11 | LLS | Johnson's Bayou, LA | 20170230450 | Devon Energy Corp. | 480 | 49.0 | 0.08 | Title transfer at Johnson's Bayou. Purchaser tc ship into Sabine Pass, then to barge, etc. | | | |
| | | | | **Pipeline Total** | **480** | | | | | | |
| 12 | TXG | GA 256 ssti (GA 209 B) | 20427060150 | ExxonMobil | 400 | 33.4 | 0.10 | High Island Pipeline System into Texas City | | | |
| 13 | TXG | HIA 474 A | 20427090153 | Newfield Exploration | 525 | 41.0 | 0.19 | High Island Pipeline System into Texas City | | | |
| 14 | TXG | EB 159 A | 20608040150 | Chevron Corp. | 90 | 39.6 | 0.21 | High Island Pipeline System into Texas City | | | |
| 15 | TXG | EB 160 A | 20608040151 | Chevron Corp. | 375 (Note 2) | 32.7 | 0.39 | High Island Pipeline System into Texas City | | | |
| 16 | TXG | HIA 563 B | 20427090158 | Chevron Corp. | 130 | 35.1 | 0.28 | High Island Pipeline System into Texas City | | | |
| 17 | TXG | HIA 582 C | 2042709015E | Chevron Corp. | 700 | 39.6 | 0.33 | High Island Pipeline System into Texas City | | | |

**Minerals Management Service**
**Unrestricted RIK Crude Oil Sale**
**IFO No. M07PX14955**
**Deliveries beginning July 1, 2007**

**Offer Sheet**

**Exhibit A**

| Offer Pkg | Royalty Oil Type | Custody Transfer Point (Volume Metered At) | MMS FMP No. | FMP Operator | Custody Transfer Point Royalty Volume (bbls/day) | API Gravity (Note 1) | Sulfur % (Note 1) | Pipelines and Gulf Coast Market Center | Common Carrier Unless Buy/ Sell is Noted | NYMEX + Daily Roll basis (offshore delivery point) | Required: Platts or Argus (indicate P or A) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 18 | TXG | HIA 546 ssti (HIA 376 A) | 20427110152 | Apache Corp. | 160 | 35.7 | 0.34 | High Island Pipeline System into Texas City | | | |
| 19 | TXG | HIA 573 B | 2042709015B | Apache Corp. | 200 | 35.0 | 0.40 | High Island Pipeline System into Texas City | | | |
| 20 | TXG | HIA 595 C | 2042709015C | Apache Corp. | 250 | 31.8 | 0.61 | High Island Pipeline System into Texas City | | | |
| 21 | TXG | GB 189 A (WC 661 A) | 20177020150 | Tarpon Offshore | 260 | 33.5 | 0.65 | High Island Pipeline System into Texas City | | | |
| | | | | **Pipeline Total** | **3,090** | | | | | | |
| 22a | Mars or | GC 65 A | 20608117000 | Shell Offshore | 1,400 | 32.2 | 1.60 | • Amberjack P/L into Mars Oil P/L into Clovelly | | | |
| 22b | EI or | | | | (Note 2) | | | • Amberjack P/L into Boxer P/L into EIPL into | | | |
| | | | | | | | | Shell's S. LA Sys. into St. James or; | | | |
| | | | | | | | | • Shell 12" P/L into Boxer P/L (except Angus) into | Shell Offshore | | |
| | | | | | | | | EIPL into Shell's S. LA Sys. into St. James | | | |
| 22c | Poseidon | | | | | | | • Shell 12" P/L (except Angus) into | Shell Offshore | | |
| | | | | | | | | Shell Trading 12" P/L into | STUSCO | | |
| | | | | | | | | Poseidon P/L into Houma | Poseidon | | |
| | | | | **Pipeline Total** | **1,400** | | | | | | |
| 23a | Bonito or | GB 128 A | 20608077000 | Shell Offshore | 2,400 | 37.4 | 0.90 | • Auger P/L into Ship Shoal P/L into St. James or; | | | |
| | | | | | | | | • Auger P/L into Bonito P/L into Ship Shoal P/L into | | | |
| | | | | | | | | St James (Note 3) | | | |
| 23b | EI | | | | | | | • Auger P/L into Eugene Island P/L into | | | |
| | | | | | | | | Shell's South Louisiana System into St. James | | | |
| | | | | **Pipeline Total** | **2,400** | | | | | | |
| | | | | **Total Barrels Offered** | **13,800** | | | | | | |

**Pipeline and Buy/Sell Contacts:**
- STUSCO: Brett Jones (713-230-1944)
- Shell Offshore: Mike Faulise (713-230-1967)
- Poseidon: James Hostetler (303-339-0381)

**MMS Contacts:**
Donna Hogan (303-231-3148) donna.hogan@mms.gov
Allen Vigil (303-231-3098) allen.vigil@mms.gov
Fax No. (303-231-3846)

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

Note 1: Gravity and Sulfur contents are not warranted and are measured at the FMP unless otherwise noted.
Note 2: FMP contains a lease in Royalty Relief status whose volume will not be included in deliveries to purchaser.
Note 3: For package 23a, MMS will not reimburse the Ship Shoal Inventory Management Fee.

Your Name ____________________ Phone No. ____________________

Company Name ____________________ Fax No. ____________________