



**INVITATION FOR OFFER – UNRESTRICTED RIK CRUDE OIL SALE**  
**IFO No. M07PX14988**  
**Deliveries beginning October 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 October 1, 2007, and ending March 31, 2008. 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](mailto:maggie.miller@mms.gov)) or facsimile (303-231-3917) by 10:00 am MT on July 31, 2007.** The MMS will confirm receipt of all offers. **Royalty oil packages will be awarded by 2:00 pm MT on August 2, 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 5 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 of this IFO 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.

Offers on packages 1 (GB 783 A), 2 (GB 426 A), and 3 (SM 205 ssti) may be for crude types **Bonito** and/or **Eugene Island**. If an offer is submitted for either Bonito or Eugene Island Pipeline, an additional offer is needed to account for the volumes prorated on Auger Pipeline. Or, an offer may be submitted for 100 percent of crude shipped down Auger Pipeline.

The Ship Shoal Inventory Management Fees will not be reimbursed by MMS.

For **HLS** packages 5a and 5b, buyers will be responsible for the Empire exit fee (also known as outbound terminal or pump out fee) and reconignment fee, when applicable.

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)

The MMS may ask for term roll offers on certain packages during the offer review. The term roll will replace the daily roll in the above pricing formulas. The term roll offer will be requested at a specific time and then awarded shortly thereafter.

**Pricing Definitions:**

Platts WTI: The arithmetic average of the daily high and low price quotes for West Texas Intermediate (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 October 1, 2007, and end March 31, 2008.

### **Quality**

For **Bonito** packages, with the exception of market center delivery banks, quality bank debits/credits should not be included in your 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 your offer.

For **Eugene Island** packages, 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).

For **HLS** 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).

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 20<sup>th</sup> 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 19<sup>th</sup> 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 MT the 21<sup>st</sup> of each month. When the 21<sup>st</sup> falls on a weekend or Federal holiday, the following business day applies. This process will continue for each month during 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 transportation costs effective on the date of the 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 addressed and/or 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).

### **Payment Terms**

Buyers must pay MMS invoiced amounts in accordance with instructions for the US Treasury FEDWIRE Deposit System for electronic payments provided at: <http://www.mrm.mms.gov/ReportingServices/PDFDocs/fedwire.pdf>.

Buyers must provide specific information to their bank so that a FEDWIRE message can be transmitted to the MMS US Treasury account. RIK payments must not include other, non-RIK, payments made to MMS.

If buyers dispute an invoiced amount, supporting documentation must clearly demonstrate the basis for the dispute. Supporting documentation should include actual pipeline transportation invoices, quality bank statements, additional charge details, or other payment support that validates the claim. Documentation must be separated by oil program (i.e., SPR, Small Refiner, Unrestricted) if the buyer is awarded properties in multiple RIK contracts covering the same production months.

Please be advised that unpaid portions of due invoices may be referred to the U.S. Department of Treasury for collection under the Debt Collection Improvement Act of 1996.

### **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 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. All pipelines are common carrier.	NYMEX + Daily Roll basis (offshore delivery point)	Required: Platts or Argus (indicate P or A)
1a	Bonito	GB 783 A	20608072603	ConocoPhillips	800	41.6	0.69	• Auger P/L into Bonito P/L into Ship Shoal P/L into St James <b>(Note 2)</b> • Prorated on Auger P/L		
1b	Eugene Island							• Auger P/L into Eugene Island P/L into Shell's South Louisiana System into St. James • Prorated on Auger P/L		
1c	Bonito							• Auger P/L into Ship Shoal P/L into St James <b>(Note 2)</b>		
		(100% Auger P/L)								
				<b>Pipeline Total</b>	<b>800</b>					
2a	Bonito	GB 426 A	20608072600	Shell Offshore Inc.	4,350	34.0	1.20	• Auger P/L into Bonito P/L into Ship Shoal P/L into St James <b>(Note 2)</b> • Prorated on Auger P/L		
					<b>(Note 3)</b>					
2b	Eugene Island							• Auger P/L into Eugene Island P/L into Shell's South Louisiana System into St. James • Prorated on Auger P/L		
2c	Bonito							• Auger P/L into Ship Shoal P/L into St James <b>(Note 2)</b>		
		(100% Auger P/L)								
				<b>Pipeline Total</b>	<b>4,350</b>					
3a	Bonito	SM 205 ssti (EI 397 A)	2017710260P	W & T Offshore	260	36.7	0.71	• Auger P/L into Bonito P/L into Ship Shoal P/L into St James <b>(Note 2)</b> • Prorated on Auger P/L		
					<b>(Note 3)</b>					
3b	Eugene Island							• Auger P/L into Eugene Island P/L into Shell's South Louisiana System into St. James • Prorated on Auger P/L		
3c	Bonito							• Auger P/L into Ship Shoal P/L into St James <b>(Note 2)</b>		
		(100% Auger P/L)								
				<b>Pipeline Total</b>	<b>260</b>					
4	Bonito	EI 330 D	2017710260E	Devon Energy	1,750	31.8	1.14	• Bonito P/L into Ship Shoal P/L into St James <b>(Note 2)</b>		
				<b>Pipeline Total</b>	<b>1,750</b>					

Offer Pkg	Royalty Oil Type	Custody Transfer Point (Volume Metered At)	MMS FMP No.	FMP Operator	Custody Transfer Point Royalty Volume (bbbls/day)	API Gravity (Note 1)	Sulfur % (Note 1)	Pipelines and Gulf Coast Market Center. All pipelines are common carrier.	NYMEX + Daily Roll basis (offshore delivery point)	Required: Platts or Argus (indicate P or A)
5a	HLS	MP 72 (MP 61 A )	20177255112	Energy XXI	750	31.5	N/A	Delta P/L into Empire		
5b	HLS	MP 72 (MP 61 B )	20177255113	Energy XXI	600	31.4	N/A	Delta P/L into Empire		
				<b>Pipeline Total</b>	<b>1,350</b>					
				<b>Grand Total</b>	<b>8,510</b>					

**MMS Contacts:**

• FMP: Facility Measurement Point

Donna Hogan (303 231-3148)  
 Allen Vigil (303-231-3098)  
 Fax No. (303-231-3846)

[donna.hogan@mms.gov](mailto:donna.hogan@mms.gov)  
[allen.vigil@mms.gov](mailto:allen.vigil@mms.gov)

Note 1: Gravity and Sulfur contents are not warranted and are measured at the FMP.

Note 2: The Ship Shoal Inventory Management Fees will not be reimbursed by MMS.

Note 3: FMP contains a lease in Royalty Relief status whose volume will not be included in deliveries to purchaser.

\_\_\_\_\_  
 Your Name

\_\_\_\_\_  
 Phone No.

\_\_\_\_\_  
 Company Name

\_\_\_\_\_  
 Fax No.