



INVITATION FOR OFFER – UNRESTRICTED RIK CRUDE OIL SALE
IFO No. 1435-02-06-RP-25974
Deliveries beginning December 1, 2005

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 4-month sales term beginning December 1, 2005. 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 to Allen Vigil via facsimile (303-231-3846) or email (allen.vigil@mms.gov) by 10:00 am MST on October 11, 2005. MMS will confirm receipt of all offers. **Royalty oil packages will be awarded by 2:00 pm MST on October 13, 2005.** Call Allen Vigil for technical questions at 303-231-3098; 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 two 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 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 successful offeror upon award.

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 package 1, crude type HOOPS, may be for delivery at either Jones Creek or Texas City. You may offer using either or both Mars* or WTS at the delivery locations.

Offers on package 2, custody transfer point GB 783 A, may be for crude types **Bonito** and/or **Eugene Island**. For offers on crude type **Eugene Island**, a **Bonito** offer must also be submitted to account for volumes prorated on Auger Pipeline.

Please see the “Quality” section for more information on how to account for gravity and sulfur in your offer.

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 successful offerors.

Pricing Mechanism: Offerors must submit offers as an increment or decrement from either or all of the below pricing formulas. *Given the uncertainty of Mars, if you would like to submit an offer based on an alternative pricing formula, please caveat your offer with the alternative pricing formula used and/or call the technical contact listed.

1. (Koch WTI Posting + Platts P⁺) – (Platts WTI – Platts Crude Type)
2. (Koch WTI Posting + Argus P⁺) + (Argus Weighted Average Crude Type Differential)
3. (Calendar NYMEX + Daily Roll) – (Platts WTI – Platts Crude Type)
4. (Calendar NYMEX + Daily Roll) + (Argus Weighted Average Crude Type Differential)
5. (Calendar NYMEX) – (Platts WTI – Platts Crude Type)
6. (Calendar NYMEX) + (Argus Weighted Average Crude Type Differential)

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

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

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

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

Delivery of royalty oil begins December 1, 2005 and ends March 31, 2006.

Quality

Quality bank debits/credits should not be included in your offer for all packages. Successful offerors will pass back to MMS all quality bank(s) debits/credits received.

Successful offerors must net any quality bank credits or debits against the monthly charges for purchased oil. The net payment is due to MMS by the 20th of the month after receipt. All quality bank data must be accompanied by supporting documentation.

The quality information in the Exhibits 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

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 break out 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 awarded custody transfer point. Successful offerors, at their expense, will make all necessary arrangements to receive royalty oil at the custody transfer point. Successful offerors 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. Please note that for package 1, deliveries at either Jones Creek or Texas City will be based on actuals.

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/or successful offerors regarding significant changes in royalty oil production levels and production shut-ins.

The MMS will automatically adjust an awarded offeror by any increase or decrease in tariff-based transportation costs related to awarded properties. Changes will be effective on the effective date of the tariff. MMS will send the successful offeror written notification confirming such changes. Unless extraordinary circumstances exist, contract amendments will not be granted for rate changes in offeror’s 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.

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 of resolving certain extraordinary imbalances between MMS and operators.

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/PDFDocs/20050215.pdf>.

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

Confidentiality

Neither MMS or the successful offeror 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

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. 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. 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. For continuing surety instruments, we will contact you regarding renewal requirements. 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.

MMS will send the successful offeror a Transaction Confirmation detailing the award packages. Transaction Confirmations not signed and returned and/or errors noted within 2 business days of receipt of the Transaction Confirmations will be deemed binding on behalf of both parties.

MMS Contacts

- **Technical:**
Crystal Edler (Magnolia)
303-231-3126 (work)
720-201-3633 (cell)
303-231-3846 (fax)
email: Crystal.Edler@mms.gov

Allen Vigil (HOOPS)
303-231-3098 (work)
303-885-6162 (cell)
303-231-3846 (fax)
email: Allen.Vigil@mms.gov
- **Credit:**
Larry Cobb
303-231-3307 (work)
303-231-3846 (fax)
email: Lawrence.Cobb@mms.gov

- **Invoicing:**
Bernie Muniz
303-231-3854 (work)
303-231-3846 (fax)
email: Bernadette.Muniz@mms.gov
- **Contracts:**
Margaret Miller
303-231-3932 (work)
303-231-3846 (fax)
email: Maggie.Miller@mms.gov

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.

2 Exhibits:

Exhibit A – Offer Sheet

Exhibit B – RIK Custody Transfer Point Detail

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Custody Transfer Point Royalty Volume (bbls/day)	Gravity	Sulfur %	Koch P+ Offer	NYMEX w/ roll Offer	NYMEX CMA Offer	Indicate Platts (P) or Argus (A)
1a	HOOPS - Mars	Jones Creek	Jones Creek	7,200	31.5	0.83%				
1a	HOOPS - WTS	Jones Creek	Jones Creek	7,200	31.5	0.83%				
1b	HOOPS - Mars	Texas City	Texas City	7,200	31.5	0.83%				
1b	HOOPS - WTS	Texas City	Texas City	7,200	31.5	0.83%				
2a	Bonito	St. James	GB 783 A	3,650	42.5	0.66%				
2b	Eugene Island	St. James	GB 783 A	3,650	42.5	0.66%				

 Your Name

 Phone No.

 Company Name

 Fax No.

MMS Contacts

Allen Vigil 303-231-3098 allen.vigil@mms.gov
 Crystel Edler 303-231-3126 crystel.edler@mms.gov
 Fax No. 303-231-3846

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Royalty Volume Metered At	MMS FMP No.	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Gravity (Note 1)	Sulfur % (Note 1)	Pipelines	Common Carrier(s)
1a	HOOPS	Jones Creek	Jones Creek (from AC 25 A)	AC 25 A	20608050130	ExxonMobil	2,700	30.5	1.04%	ExxonMobil P/L into the Seaway P/L at Jones Creek, TX	yes
1b	HOOPS	Texas City	Texas City (from AC 25 A)	AC 25 A	20608050130	ExxonMobil	2,700	30.5	1.04%	ExxonMobil P/L into the Seaway P/L at Texas City, TX	yes
1a	HOOPS	Jones Creek	Jones Creek (from EB 602 A)	EB 602 A	20608040134	Kerr-McGee	2,400	34.8	0.44%	ExxonMobil P/L into the Seaway P/L at Jones Creek, TX	yes
1b	HOOPS	Texas City	Texas City (from EB 602 A)	EB 602 A	20608040134	Kerr-McGee	2,400 (Note 2)	34.8	0.44%	ExxonMobil P/L into the Seaway P/L at Texas City, TX	yes
1a	HOOPS	Jones Creek	Jones Creek (from EB 643 A)	EB 643 A	20608040135	Kerr-McGee	2,100	29.1	1.00%	ExxonMobil P/L into the Seaway P/L at Jones Creek, TX	yes
1b	HOOPS	Texas City	Texas City (from EB 643 A)	EB 643 A	20608040135	Kerr-McGee	2,100	29.1	1.00%	ExxonMobil P/L into the Seaway P/L at Texas City, TX	yes
Pipeline Total							7,200	31.5	0.83%		
2a	Bonito or	St. James	GB 783 A (Magnolia)	GB 783 A	20608072603	ConocoPhillips	3,650	42.5	0.66%	• Auger P/L into Ship Shoal P/L or;	yes
2b	Eugene Island	St. James								• Auger P/L into Bonito P/L into Ship Shoal P/L or;	yes
										• Auger P/L into Eugene Island P/L into Shell's South Louisiana System	yes
Pipeline Total							3,650				
Grand Total							10,850				

• FMP: Facility Measurement Point

Note 1: Gravity and Sulfur contents are not warranted.

Note 2: FMP 20608040134 (EB 602 A) contains a lease in Royalty Relief status whose volume will not be included in deliveries to the purchaser.