MINERALS MANAGEMENT SERVICE
WYOMING OIL ROYALTY IN KIND PILOT PROJECT

The purpose of this document is to summarize information about the bidding and bid analysis procedures regarding Invitation for Bid (IFB) No. 3947. The Minerals Management Service (MMS) began taking oil in-kind from specific properties in Wyoming for a 6-month term beginning Oct. 1, 1998.

Production Volumes, Qualities, and Locations

Approximately 12,700 royalty barrels/day (bbls/day) is produced from Federal leases in Wyoming from four major geologic basins: Bighorn Basin (4,420 bbls/day or 35% of royalty volumes), Powder River Basin (4,446 bbls/day or 35%), Green River Basin (2,729 bbls/day or 22%), and the Wind River Basin (765 bbls/day or 6%). The Federal government's 12,700 bbls/day places it as the second largest producer of Federal crude oil in Wyoming.

The MMS decided to take production in-kind from two basins. The Bighorn Basin whose production is almost entirely asphaltic sour (average gravity of 22 degrees and 3% sulfur) and the Powder River Basin whose production is approximately 60% sweet crude (average gravity of 40 degrees with little sulfur) and 40% general sour (average gravity of 24.4 degrees gravity and 2.5% sulfur).

The table below shows a general profile by basin and crude type of the properties offered in three bid packages.

Summary of Federal Properties for Bid in IFB No. 3947	Big Horn Asphaltic Sour	Powder River General Sour	Powder River Sweet	Totals
Royalty bbls/day	1782	890	1007	3679
Percent of Basin Prod.	40%	20%	22%	42%
Properties for Bid	56	63	67	186
Total Affected Leases	201	152	272	625
Pipeline Properties	28	26	9	63
Pipeline bbls/day	1733	658	909	3300
Trucked Properties	28	37	58	123
Trucked bbls/day	49	232	98	379
Total Affected Operators				77
Total Affected Payors				47

Bidding Procedures and Bid Analysis

Per the IFB, companies interested in bidding on Big Horn basin asphaltic sour and Powder River basin general sour properties submitted bids as an increment or decrement to the average of four Wyoming crude oil postings: Conoco, EOTT, Scurlock-Permian, and TTTI (name change to Equiva Trading Co. effective Oct. 1, 1998). Bids for the Powder River sweet properties were based on an increment or decrement from the average of the calendar months daily closing (settle) price on the NYMEX. Companies could submit bids individually on any property or as a package for any of the three bid packages. Bids were due to MMS by Aug. 7, 1998.

The property or package bid had to exceed the Minimum Acceptable Bid (MAB) as determined by MMS before it could be awarded. A 6-month average delta above/below monthly postings/NYMEX was calculated for each property. Sales months Oct. 1997 - March 1998 were used for the Big Horn basin asphaltic crude (due to seasonality of prices) and Dec. 1997 - May 1998 for the Powder River Basin sweet and general sour crudes. The 6-month average delta for properties with only one payor was increased by a 5% safety factor to arrive at the MAB. Properties with multiple payors utilized the 6-month average delta of the payor with the highest reported price for the MAB without a 5% safety factor.

Winning Bidders

MMS received bids from eight companies: Cenex, Conoco, EOTT Energy, Exxon, Northridge Energy/TransCanada, Scurlock-Permian, True Oil, and Western Gas Resources. Exxon's bids were disqualified as their bid specified Exxon's own posting with no bonus. True Oil's bids for Powder River sweet were also disqualified as they based their bids on the average of the four postings (sweet), not the NYMEX. MMS notified winning bidders on Aug. 17, 1998. A summary of the properties awarded by basin follows.

Summary of Properties With Winning Bids	Big Horn Asphaltic Sour	Powder River General Sour	Powder River Sweet	Totals
Royalty bbls/day	1736	780	0	2516
• Percent of IFB Offer	97%	88%	0	68%
Properties	51	46	0	97
• Percent of IFB Offer	97%	71%	0	52%
Pipeline Properties	26	25	0	51
• Percent of IFB Offer	93%	96%	0	81%
Pipeline bbls/day	1690	635	0	2325
• Percent of IFB Offer	98%	97%	0	70%
Trucked Properties	25	21	0	46
• Percent of IFB Offer	89%	57%	0	37%
Trucked bbls/day	46	145	0	191
• Percent of IFB Offer	94%	63%	0	50%
Total Affected Operators				43
Total Affected Payors				31
Properties: Bids below MAB	3	15	66	84
Properties: No bids received	2	1	1	4
Properties: Bid withdrawn		1		1

The following table details the properties and bbls/day production by winning bidder. Note that there were no properties awarded for Powder River sweet as all bids were less than the MAB. Also, no package bids were awarded.

Properties Awarded/ Winning Bidder	Cenex	EOTT	Northridge Energy	Scurlock-Permian	Western Gas Res.	Totals
Big Horn - A. sour						
• Bbls/day production	1382	13	12	329		1736
• Properties	22	9	10	10		51
Powder River - G. Sour						
• Bbls/day production		57	257		466	780
• Properties		10	24		12	46
Total - Both Basins						
• Bbls/day production	1382	70	269	329	466	2516
• Properties	22	19	34	10	12	97

Analysis of Winning Bids vs. MAB

MMS made revenue gain/loss projections based on two scenarios for the three bid packages:
1) Utilizing the difference between the winning high bid (all awarded properties) and the MAB and
2) Utilizing the difference between the high bid (all properties with a bid) and the MAB.

Category of Properties Volumes Used in gain/loss Calculations	Big Horn Asphaltic Sour	Powder River General Sour	Powder River Sweet	Totals
1) Winning bid over MAB per/bbl				
• Theor. monthly revenue gain/loss		X-4/X-5		
2) All High Bids considered				
• Theor. monthly revenue gain/loss				

Since the MAB's were calculated for a 6-month period as a delta over/under the average monthly postings or NYMEX, the above revenue gain/loss projections are only valid to the extent that contract premiums above/below postings or NYMEX for in-value properties remain stable and basically equal the MAB. If contract premiums for sales months Oct. 1998 to March 1999 rise, then the above projections are high and vice versa if contract premiums go down.

Based on October 1-19, 1998 crude oil postings (minus quality adjustment plus high bid), the revenues for the Big Horn basin asphaltic and Powder River basin general sour properties for October will be approximately : X-4/X-5 X-4/X-5, respectively, for a monthly total of $ X-4/X-5