MAY 22 1998

AD/OE
Mail Stop 3030

Dennis Cernosek
Placid Refining Company
1940 LA Hwy 1 North
Port Allen, LA 70767

Luke Wethers
Giant Industries Arizona Inc.
23733 N. Scottsdale Road
Suite 329
Scottsdale, AZ 85255

Don Hamilton
Gary-Williams Energy Company
370 17th Street
Suite 5300
Denver, CO 80202

Murray Hetherwick
Calcasieu Refining Company
910 Travis Street
Suite 920
Houston, TX 77002

Dear Sirs:

This letter is to serve as the temporary confirmation of our agreement to amend the crude oil sales agreements between the Minerals Management Service (MMS) and the four refiners (refiners) who are parties to this contract (Calcasieu Refining Company, Gary-Williams Energy Company, Giant Industries Arizona Inc. and Placid Refining Company) under the small refiners royalty-in-kind program under authority of 43 U.S.C. §1353 (b)(2). The terms of the amended agreement will include the following:

1. All crude oil will be delivered by the producers at MMS's expense to the trading centers:
   a. For Light Lousiana Sweet (LLS) to St. James, LA
   b. For Heavy Lousiana Sweet (HLS) to Empire, LA
   c. For Eugene Island (EI) to St. James, LA
   d. For Mars Blend (Mars) to Clovelly, LA
   e. For Bonito Sour (BS) to St. James, LA
   f. For Texas Gulf Coast (TGC) to Texas City, TX

2. The price for each grade of crude oil will be based on the relevant marker prices for the month of delivery and the agreed upon differentials as follows:
   a.
   b. X-5, X-4

c.

d.

e.

X-5, X-4

f.

3. The refiners will not drop any leases without the permission of the MMS. MMS will not adjust the prices in paragraph 2 after audit.

4. MMS will not use the fact of this agreement in any way to influence its retroactive determination of value for any crude oil sold to the refiners.

5. MMS will agree under separate letter to hold any orders in abeyance under terms of a mutual tolling agreement.

6. MMS will allow the refiners to
   a. Apply the balance of the cash surety that the refiner paid for the first month's royalty oil under its contract to a current RIK bill (RIKB) or RIKB's, up to the amount of the cash surety; or
   b. Reduce its letter of credit to an amount, calculated by MMS, sufficient to cover the value of 69 days of royalty oil, while leaving the cash surety as is until it is used to pay for royalty oil delivered in the final month of the contract.

7. MMS will reduce the amount of the refiner's letter of credit in increments following termination of the contract. MMS will reduce the surety by corresponding amounts as the refiner fulfills its payment obligations. For example, when the refiner pays for a month's royalty oil after contract termination, the refiner will be allowed to reduce the surety to an amount to cover the estimated maximum adjustment that will be made to billed volumes following reconciliation. The surety will not be reduced to an amount less than that required to cover the estimated reconciliation amount until the refiner pays the final bill (post reconciliation). At that time, pursuant to the change explained in paragraph 9, MMS will release the surety.

8. If MMS still retains the cash surety, under paragraph 6.b, its value will be included with the letter of credit value in the calculations of the required surety amount until it is applied to a RIKB.

9. MMS will release the surety in its entirety when the refiner has paid all billed amounts up to and including the RIKB issued following final volume reconcilliation.

I believe that I have capture all of the points upon which we agreed. If you believe that this letter fairly states the substance of the agreement, please sign below and return by fax to me at 303-231-3362. If you believe that I have misstated something, left something out or been less

clear than you would prefer, please mark those changes and initial them, and then sign below. I will use this letter as the basis for the first draft of amended "CONTRACT FOR THE SALE AND PURCHASE OF GOVERNMENT ROYALTY OIL" to which we are parties. I hope to get a draft of the new or modified agreement to you next week.

We have already begun the process of informing the producers that they will need to change the delivery points as specified in paragraph 1. We expect to have this contract effective for deliveries beginning July 1, 1998. Thank you for your efforts in this renegotiation process. I hope that this is the beginning of a new mutually beneficial arrangement between us on commercially acceptable terms.

Sincerely,

Original Signed By
Kenneth R. Vogel

Kenneth R. Vogel
Chief, Office of Enforcement

Agreed to:

_____

on behalf of: _____

Date_____