



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

AD/OE MS 3030

APR - 6 1998

Don Hamilton
Gary-Williams Energy Company
370 17th Street
Suite 5300
Denver, CO 80202
Fax Number:303-628-3828

Dear Don:

Thank you for your proposal to modify the existing terms of your contract regarding the value of oil taken in-kind. MMS believes that a negotiated agreement is in the best interest of both parties. As discussed at our meeting on March 27, 1998, you proposed reductions in surety and a revised valuation methodology to cover all production from now until the current contract expires in the summer of 1999. Specifically, you proposed:

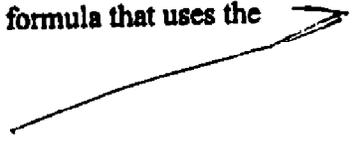
-Reduction in surety requirements. This may be in the form of surety timeframes and/or reductions in the amount/timeframe of coverage by letters of credit.

-Revised methodology r... on. You proposed a formula that uses the

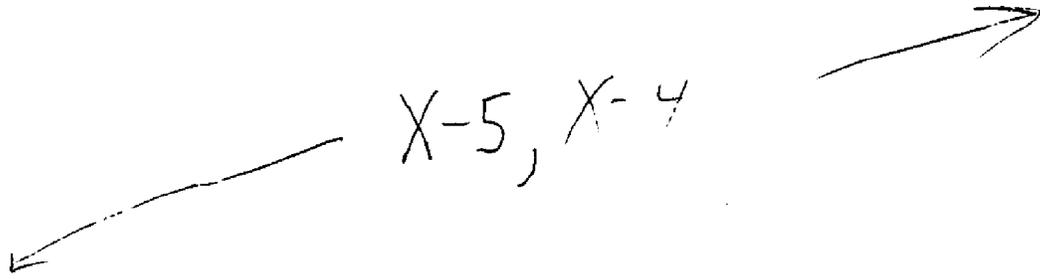
X-5 X-4

- Light Louisiana Sweet
- Heavy Louisiana Sweet
- Eugene Island Crude
- Bonito Sour Crude

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X-5, X-4



We will respond to each of your proposals in turn. The MMS is agreeable to the following changes to the eligible refiner Royalty-in-Kind (RIK) contract surety requirements. The changes, if adopted, will be only for offshore RIK contracts in effect as of April 1, 1998, and only for those contracts for which a prospective pricing formula has been negotiated.

- The MMS will allow the refiner to:
 - 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 RIKBs, up to the amount of the cash surety; or
 - 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.
- The MMS will reduce (Ratchet down) the amount of the refiner's letter of credit in increments following the termination of the contract. The 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 sufficient to cover the remaining royalty oil payments, plus 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 the last bullet below, the MMS will release the surety.

If the MMS still retains the cash surety, its value will be included with the letter of credit

value in the calculations of the required surety amount until it is applied to an RIKB(s).

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

The valuation proposal has merit and might be a workable solution with some modification. We

X-5, , X-4

-Light Louisiana Sweet

-Heavy Louisiana Sweet

-Eugene Island Crude

-Bonito Sour Crude

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As we agreed earlier, these values would not be subject to audit and would remain effective until the contracts are renewed in 1999.

As we recently discussed, you were also to give us a

X-5, X-4

earliest convenience at 303-231-3749.

I look forward to hearing from you at your

Sincerely,



Kenneth R. Vogel

Chief, Office of Enforcement