OMB Control Number 1010-0126
Expiration Date: June 30, 2006

INVITATION FOR OFFER – UNRESTRICTED RIK CRUDE OIL SALE
IFO No. 1435-02-03-RP-40407
Deliveries beginning October 1, 2003

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 sale is for a 6-month term beginning October 1, 2003. Successful offerors will take custody of the royalty oil at the applicable delivery point as 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 via facsimile (fax no. 303-231-3846) by 10:00 a.m. Mountain Time on August 06, 2003. MMS will confirm receipt of all offers. Royalty oil packages will be awarded by 2:00 p.m. Mountain Time on August 8, 2003. Technical questions can be addressed to Crystel Tobar at 303-231-3126. Contracting questions can be addressed to Terry Grush at 303-231-3931.

Offers

Offerors must be pre-qualified to submit offers. The pre-qualification process is described in our website at http://www.mrm.mms.gov/ RIKweb/Oilprequal.htm. Successful offerors must submit and have a signed MMS base contract "RIK Crude Oil General Terms and Conditions" on file with MMS. By submitting an offer, the offeror agrees to be bound by the terms of its signed MMS base contract and this IFO. MMS reserves the right to reject any offer received.

Exhibit A identifies 5 packages of royalty oil. Exhibit B provides further detail on properties, operators, pipelines, delivery points, and other information pertinent to this IFO. Data in the exhibits is not warranted. Offerors are expected to contact the appropriate parties for the most recent information. The royalty volumes shown for each delivery point represent the most recent production data available for properties behind the delivery point. You may call Crystel Tobar for a 1-year production history of royalty volumes associated with the delivery points in Exhibit A.

Exhibit A is the offer sheet to be completed and faxed as indicated above. Offerors must make individual offers on Exhibit A for each delivery point in a package as a value to the nearest $0.0001. MMS prefers to transact no more than one award for each package. However, consideration may be given to offers on only part of a royalty oil package if favorable to the government.

Offers must be on the full royalty oil volume to be delivered by the operators of the properties behind the indicated delivery points. Tiered offers that include different prices based on levels of volumes delivered will not be accepted.

The offer should represent the the offeror's view of value at the delivery point identified in Exhibit A. Please see the "Quality" section for more information on how to account for gravity in your offer.

Successful offerors are granted the rights to royalty oil delivered by operators at the delivery points indicated in Exhibit A, not the actual entitlement due the Federal government. Imbalances between these two volumes will be resolved between MMS and the operators.

Royalty oil from new wells on the properties listed in Exhibit B 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 delivery 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 one or both of the following pricing formulas:

(1) (Koch WTI Posting + Platts P^+) – (Platts WTI – Platts Crude Type)

or

(2) (Calendar NYMEX + Daily Roll) – (Platts WTI – Platts Crude Type)

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

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

Platts WTI: The arithmetic average of the daily high and low price quotes for WTI for the Platts Month of Delivery

Platts Crude Type: The arithmetic average of the daily high and low price quotes for the crude type that is the subject of the offer (HLS or LLS) for the Platts Month of Delivery

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 Month of Delivery: Refers to quotes in Platts Oilgram 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

Term

Deliveries of royalty oil to successful offerors will commence October 1, 2003, and end March 31, 2004.

Quality

For WD 106 package 2 (crude type HLS) quality bank debits/credits should not be reflected in your offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits receive from the quality bank administrator(s).

For all other HLS delivery points (packages 1,3,4) quality bank debits/credits should be reflected in your offer. Successful offerors will not pay or receive payment from MMS for quality bank debits/credits received. The quality information in Exhibit A represents MMS' most recent data for the delivery points in the packages offered.

For Johnson's Bayou, LA package 5 (crude type LLS) quality banks costs will not be incurred by the successful offeror and therefore should not be reflected in your offer.

Actual gravity during the term of this sale may vary.

Transporting and Scheduling Royalty Oil

Successful offerors are responsible for transporting all royalty oil volumes downstream of the delivery 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 delivery 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.

In the event that there is an increase or decrease in transportation costs relating to properties awarded during the term of the contract, MMS and the successful offeror may enter into negotiations which may result in a revised accepted price.

In cases where the quality bank debits/credits are included in the offer and significant post-award changes occur in either the package's quality or the common stream quality, MMS and the successful offeror may enter into negotiations which may result in a revised accepted price.

Within 10 days of implementing the "MMS Crude Oil Transaction Confirmation" relative to this IFO, successful offerors must request in writing to all pipeline companies that will move royalty oil, that MMS royalty volumes be separately itemized on pipeline statements and/or invoiced at both the receipt and delivery points. 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 that breaks out the MMS volumes delivered or use a measurement facilitator designated by the pipeline.

Successful offerors, through customary industry practice, will communicate directly with MMS and the operator and will make arrangements to deliver and transfer the royalty oil from the identified property. Successful offerors, at their expense, will make all necessary arrangements to receive royalty oil at the delivery point. Successful offerors are not responsible for any costs of transportation upstream of the delivery point.

No later than five 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.

Successful offerors will provide MMS with pipeline statements and any third-party documentation two days after the documents have been made available to the shipper. Documentation not received by the due date may be purchased by MMS and the successful offeror will be billed the associated costs.

The operators of properties offered in this IFO will 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.

Imbalances

Property imbalances are defined as differences between volumes delivered to successful offerors by lease operators at the delivery points indicated on Exhibit A and volumes entitled to the United States as Lessor. MMS and the operator will jointly monitor these imbalances. 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. These adjustments will be communicated by MMS 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. The rights and responsibilities of operators under RIK oil situations are outlined in MMS' Sample "Dear Operator" letter included as Exhibit C.

Pipeline imbalances, defined as the difference between the actual deliveries and the allocated volumes, are to be settled between the purchaser and the pipeline company.

Consideration of Offers

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 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."

Neither party shall disclose directly or indirectly without the prior written consent of the other party the terms of any transaction 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 for the enforcement of this Contract, (iii) to the extent necessary to implement any transaction, (iv) to the extent necessary to implement any transaction as described above in the Transportation and Scheduling of Royalty oil section, or (v) 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 one 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.

Upon pre-qualification, MMS will issue an amount of unsecured credit based on the creditworthiness of the offeror. In most cases where offerors that have previously submitted financial documentation for Calendar Year 2002 (or such information is available on ProEdgar.com), no additional information will be required. However, MMS reserves the right to request updated financial information in any situation it deems as 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 five 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. The value of the financial assurance should be calculated as the price per barrel using the offer amount applied to the monthly calendar mean for the Platts crude type price as published in Platts for August 2003. Multiply this amount by the daily royalty production (estimated in Exhibit A) multiplied by 60 days. Finally, subtract the amount of unsecured credit issued by MMS, available for this offer.

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 provided 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.

Please contact Larry Cobb at 303-231-3307 with any pre-qualification or credit requirements questions.

<u>Governing Contract</u>

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.

<u>Documentation</u>

As stipulated in the MMS base contract, "MMS RIK Crude Oil General Terms and Conditions," successful offerors must provide pipeline statements, invoices, quality bank data, and any other information necessary to support payments to MMS Crude Oil RIK Accounting as stated above. Documentation not received by the due date may be purchased by MMS and the successful offeror may be billed the associated costs. The "MMS Crude Oil Transaction Confirmation" provides points of contact for submitting this information.

<u>Paperwork Reduction Act of 1995 (PRA) Statement:</u>

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 one 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.

<u>3 Exhibits:</u>
Exhibit A – Offer Sheet
Exhibit B – RIK Property Profile Detail
Exhibit C – Sample Dear Operator Letter

Minerals Management Service
Unrestricted RIK Crude Oil Sale
IFO No. 1435-02-03-RP-40407
Term: Deliveries beginning October 1, 2003

Offer Pkg	Crude Type	Gulf Coast Market Center	Delivery Point	MMS Royalty Volume (bbls/day)	Gravity	**Bid 1/** Koch WTI + Platts P+ basis	**Bid 1/** NYMEX + Daily Roll basis
1	HLS	Empire	WD 27 A	285	27.3		
2	HLS	Empire	WD 106i	185	40.5		
3	HLS	Empire	MP 77	160	31.6		
4	HLS	Empire	WD 109	525	37.5		
5	LLS	St. James	Johnson's Bayou, LA	920	51.6		
			Grand Total	2,075			

1/ See "Pricing Mechanism" from IFO: Increment or Decrement from either or both:

- (Koch WTI Posting + Platts P^+) - (Platts WTI - Platts Crude Type)
- (Calendar NYMEX + Daily Roll) - (Platts WTI - Platts Crude Type)

Your Name ____________________ Phone No. ____________________

Company Name ____________________ Fax No. ____________________

MMS Contact

Crystel Tobar:	303-231-3126
Richard Fantel:	303-231-3502
Fax No.:	303-231-3846

Minerals Management Service **RIK Property Profile Detail** **Exhibit B**
Unrestricted RIK Crude Oil Sale
IFO No: 1435-02-03-RP-40407
Deliveries beginning: October 1, 2003

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Delivery Point	Volume Metered at	MMS Facility Measurement Point No.	Producing MMS Lease or Unit Agre. No.	Area	Blk	Operator	Delivery Point Royalty Volumes (bbls/day)	Gravity	Pipelines	Common Carrier(s)	Buy/Sell
1	HLS	Empire	WD 27 A	WD 27 A	20177194300	054-004473-0	WD	27	ChevronTexaco			ChevronTexaco P/L	yes	
									· FMP 20177194300 Total	285	27.3			
2	HLS	Empire	WD 106i	WD 106 A	20177193907	754-392006-0	WD	106	Walter Oil & Gas Corp.			(Walter private line into) West Delta/Marlin P/L	no	STUSCO
									· FMP 20177193907 Total	185	40.5			
3	HLS	Empire	MP 70	MP 77	20177255102	054-004481-0	MP	77	ChevronTexaco			(ChevronTexaco private line into) Pompano PL	no	STUSCO
									· FMP 20177255102 Total	160	31.6	into West Delta/Marlin P/L		
4	HLS	Empire	WD 109	WD 109	20177194602	054-002937-0	WD	109	ChevronTexaco			ChevronTexaco P/L	yes	
						891-020245-0	WD	109	ChevronTexaco					
						054-016479-0	WD	108	ChevronTexaco					
									· FMP 20177194602 Total	525	37.5			
	HLS Total -->>						**4 FMPs and 6 Properties**			**1,155**				
5	LLS	St. James	Johnson's	Johnson's	20170230450		**FMP operator:**		**Shell Offshore, Inc.**			Title transfer at Johnson's Bayou;	yes	
			Bayou, LA	Bayou, LA		054-002353-0	HI	110	W & T Offshore			Purchaser to ship onto Sabine Pass,		
						054-002354-0	HI	111	W & T Offshore			then to barge, etc.		
						054-002357-0	HI	154	Shell Offshore, Inc.					
						054-003115-0	HI	155	Fairways Spec. Sales & Svc.					
						054-003235-0	HI	139	Dunhill Resources, Inc.					
						054-003236-0	HI	179	UNOCAL					
						054-003237-0	HI	193	Exxon Mobil Corp.					
						054-003738-0	GA	223	TDC Energy LLC					
						054-006165-0	HI	177	W & T Offshore					
						054-006166-0	HI	194	Shell Offshore, Inc.					
						054-006167-0	HI	195	Apache Corp.					
						054-006168-0	HI	196	Exxon Mobil Corp.					
						054-006180-0	HI	22	Walter Oil & Gas					
						054-008151-0	HI	207	EOG Resources Inc.					
						054-009032-0	GA	239	Walter Oil & Gas					
						054-014864-0	HI	141	TDC Energy LLC					
						054-014870-0	HI	202	Spinnaker Exploration Co.					
						054-015740-0	GA	151	Mariner Energy, Inc.					
						054-015742-0	GA	225	Seneca Resources					
						054-015778-0	HI	178	UNOCAL					
						054-015781-0	HIA	7	Spinnaker Exploration Co.					
						054-017124-0	GA	241	Houston Exploration					
						054-017150-0	HI	175	El Paso Production GOM					
						054-020660-0	HI	206	Spinnaker Exploration Co.					
						054-021346-0	HIA	18	Spinnaker Exploration Co.					
						054-021347-0	HIA	19	Spinnaker Exploration Co.					
						054-022238-0	HI	197	Spinnaker Exploration Co.					
						054-022241-0	HI	233	TDC Energy LLC					
						055-000518-0	HI	140	Devon Energy Prod. Co.					
						754-388006-0	HI	179	Shell Offshore, Inc.					
						891-006381-0	HI	52	Energy Res. Technology					
									· FMP 20170230450 Total	920	51.6			
	LLS/Condensate Total -->>						**1 FMP and 31 Properties**			**920**				
	Grand Total -->>						**5 FMPs and 37 Properties**			**2,075**				

· STUSCO contact: Brett Jones 713-230-1944

Exhibit C

MMS/MRM/RIK
Mail Stop 330B2

OMB Control Number 1010-0126
Expiration Date: June 30, 2006

(Address)

Dear (Title, Name):

The Minerals Management Service (MMS) has selected one or more offshore Federal leases in the Gulf of Mexico (GOM) that you operate or are a working interest owner of to be included in a Royalty in Kind (RIK) program in which we will take crude oil and condensate royalties in kind beginning October 1, 2003.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil royalties in kind. Our authority is the Outer Continental Shelf Lands Act of 1953 (43 U.S.C. § 1353) and the royalty provisions contained in your Federal lease. For the purposes of this letter, royalty oil means the Federal lease oil and condensate production multiplied by the lease royalty rate. The volumes of royalty oil taken in kind by the Lessor will reflect and be consistent with all grants of royalty relief.

Term

The Lessor will take all royalty oil in kind from the properties listed in the enclosure beginning October 1, 2003, and will continue taking royalties in kind until we notify you that in kind status is terminated. We will provide Lessees and Operators with at least a 45-day prior written notice when terminating the in-kind status.

Royalty Oil Delivery

The delivery points for royalty oil produced from the properties are at the Facility Measurement Point (FMP) or first interconnect into a main pipeline, as identified in the enclosure. The Lessor or their designee will take custody and responsibility for royalty oil at the delivery point. You can be reimbursed for transportation and quality bank debits of royalty oil to any delivery points identified in the enclosure that are downstream of the FMP. If gathering upstream of the FMP has been approved by MMS, you may take this deduction, as well as other related fees, on the Report of Sales and Royalty Remittance (Form MMS-2014). You will be required to report quality bank debits and credits for properties where the quality bank is passed back to the operator/producer, as allowed in applicable MMS regulations.

Royalty oil must be placed in marketable condition at no cost to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions on marketable condition should be directed to the Lessor's points of contact identified in this letter.

You must deliver all royalty oil from the selected leases, including royalty oil from newly producing wells on these leases. During the in kind period, you will make the best effort to notify the Lessor's designated point of contact of new oil production flowing to the FMP identified in the enclosure. Royalty oil from such new properties will be added to the RIK volumes at the existing delivery points only upon mutual consent of the purchaser and the Lessor.

Fulfillment of Royalty Obligations
Delivering the accurate volume of royalty oil (taking into account the effects of normal operational imbalances) in accordance with the terms of this letter will satisfy in full the Lessee's royalty obligation to the Lessor.

For properties where the Lessee has applied for deepwater royalty rate relief, you may use the proposed royalty rate in the interim before MMS/Offshore Minerals Management (OMM) approves the reduction. If OMM does not approve the royalty rate reduction, the resulting imbalance will be resolved in the same manner as described below for imbalances not remedied within 90 days (see "Balancing Account and Imbalances").

Flash gas will continue to be paid in value.

All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, the Lessor will issue a bill including information supporting the calculation. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

Lessor's Obligation to Take
We agree to take 100 percent of the royalty oil delivered to the delivery point for the account of the Lessor. Using reasonable and customary industry practices, we will try to minimize imbalances with you and the Lessees.

To facilitate timely and accurate custody transfer of royalty oil, we will communicate with you regarding arrangements to transfer the royalty oil from the delivery point. The Lessee will not incur royalty-related penalties because of the Lessor's failure to take delivery of oil volumes as communicated by the Operator.

Communication with Lessor
No later than 10 business days before the first day of each month, you must notify the Lessor in writing via facsimile (303-231-3846) or e-mail addressed to our mailbox (rik.project@mms.gov) of the daily royalty oil volumes (Avails) anticipated for the following month of production for each of the delivery points identified in the enclosure (Enclosure). On this same schedule, for each of the delivery points, you will also provide any anticipated volume adjustments to resolve previous months' imbalances. The total volumes to be delivered to our purchaser at each of the delivery points must be indicated as a **volume net** of anticipated production plus or minus any adjustments. The Lessor understands that any such estimates are not warranties of actual deliveries but are provided to facilitate planning.

You must use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes to the information listed in the enclosure; e.g., oil production levels, oil type, royalty rates, etc. for the RIK contract properties, as well as if the property is sold and who it was sold to.

Volume Reconciliation
You must provide the pipeline with the volume allocation for MMS' royalty oil separately from other take in kind owners.

You must send all volume allocation schedules provided to pipeline companies that address Royalty oil volumes at the delivery points in the enclosure to MMS at the same time they are submitted to the pipeline companies. In addition, for condensate volumes metered at Johnson's Bayou, you must provide MMS with an operator sub-allocation statement that breaks the field volumes down a to lease level.

You must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submitting the statement. We will monitor and reconcile royalty entitlements with the royalty oil deliveries you make. Reconciliation will involve communication between you and the Lessor. Upon project termination, you, as the Operator must issue a final oil imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances." Volume allocation schedules and lease imbalance statements should be submitted to the rik.project@mms.gov mailbox.

Balancing Account and Imbalances

You and MMS will jointly monitor imbalances between delivered and entitled volumes of royalty oil. You will take timely action to remedy such imbalances by adjusting the royalty oil volumes delivered to MMS. Such volume adjustments will be identified in your communication of royalty oil volumes anticipated before the month of production (see above under "Communication with Lessor").

Imbalances will be remedied in the production month following the month that the imbalance is identified. Imbalances not remedied within 90 days of the end of the production month will be resolved as follows:

- Mutually agreed upon make-up delivery schedule.
- Cash out payment based on the contract price (at the delivery point) that MMS actually received (or would have received) from its Purchaser during the month or months that the imbalance occurred. Interest will accrue from 60 days after notification that cash out payment is due.
- When the lease is no longer taken in kind or after cessation of production from a lease, imbalances will be cashed out based on the MMS contract price (at the delivery point) for the last month the lease is taken in kind. Interest will accrue from 60 days after the final month of delivery. Imbalances remaining at the time of any sale/assignment of properties identified in the enclosure will be settled in compliance with your Purchase and Sale Agreement assignments. Imbalance provisions will be reviewed six months from initial contract date.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR). You must also report transportation allowances and quality bank debits/credits on the Form MMS-2014 for any royalty volumes that are delivered downstream of the FMP or where the quality bank is passed back to the operator/producer under requirements specified in the MMS regulations and the MMS *Minerals Revenue Reporter Handbook*, please see our website at http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf.

You will not be required to report royalty oil for the RIK properties listed in the enclosure on the Form MMS-2014 for the term during which the Lessor takes royalty in kind, with the exception of properties noted as Royalty Relief and any retrograde or free condensate not delivered to the Lessor. You must continue to report these properties on the Form MMS-2014 per the MMS regulations. Reporting does not change for non-RIK leases.

Lessor's Designee

The Lessor may act by or through a duly authorized designee. Enclosed is a list of designees, including contacts. The designee will agree in writing to comply with all provisions of this letter that are applicable to the Lessor when the designee acts on our behalf. You are allowed, but not required to direct communications to our designee. You are required to direct communications to us. We will provide written notification when the designee changes or is no longer authorized to act on our behalf for the purposes of this letter.

Audit

The Lessor may audit your records regarding all information relevant to volumes and qualities of royalty oil produced, measured, delivered, and, if applicable, transported. We reserve the right to examine your financial records for the subject properties related to any transportation allowances and quality banks prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph in accordance with the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (Public Law 104-185 Section 115(f)).

Lessor's Point of Contact

Copies of all correspondence between the Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are listed below:

- Volume Avails (Anticipated Volumes), Volume Allocation Schedules, and Operator Imbalance Statements:

  Ms. Faye Stewart
  Telephone: 281-987-6825; Fax: 281-987-6808
  E-mail: Berlinda.Stewart@mms.gov

- New Lease Production:

  Ms. Crystel Tobar
  Telephone: 303-231-3126; Fax: 303-231-3846;
  E-mail: Crystel.Tobar@mms.gov or;

  Mr. Richard Fantel
  Telephone: 303-231-3502; Fax: 303-231-3846;
  E-mail: Richard.Fantel@mms.gov or,

  Ms. Karen Krock
  Telephone: 303-231-3209; FAX: 303-231-3846
  E-Mail: Karen.Krock@mms.gov

• Electronic Funds Transfer:
Mr. Joe Romero
Telephone: 303-231-3123; Fax: 303-231-3501;
E-mail: Joseph.Romero@mms.gov

• Marketable Condition Questions:
Mr. Roman Geissel
Telephone: 303-231-3226; Fax: 303-231-3473
E-mail: Roman.Geissel@mms.gov

We acknowledge that you and the Lessees have given proper notice when using the telephone number or fax number provided to communicate with us. Any telephone communication regarding volumes must be confirmed by fax or e-mail no later than 1 business day after telephone communication occurs. We further agree to make arrangements to receive such communications regarding oil scheduling issues during normal business hours. You and the Lessees should communicate with one of the points of contact to answer any further questions.

The Paperwork Reduction Act

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 mandatory (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 one 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.

Sincerely,

Milton K. Dial
Assistant Program Director
for Royalty In Kind

Enclosure