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

INVITATION FOR OFFER – STRATEGIC PETROLEUM RESERVE FILL
EXCHANGE OF ROYALTY IN KIND CRUDE OIL TO MARKET CENTERS
IFO No. 1435-02-03-RP-40419
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 exchange royalty oil and condensate produced from Federal offshore leases in the Gulf of Mexico for common stream quality crude oil (exchange oil) delivered to five Gulf Coast market centers. This exchange is for a 6-month term beginning October 1, 2003 through March 31, 2004.

This Invitation for Offer (IFO) is published in coordination with a separate solicitation of the Department of Energy (DOE) in a joint, 3-year initiative to fill the remaining capacity of the Strategic Petroleum Reserve (SPR). Exchange oil under this MMS IFO will be delivered at Gulf Coast market centers to MMS or its designated agent. MMS' designated agent, either DOE or its exchange contractor, is required to accept custody of all exchange oil delivered under the terms of this IFO.

Through a separate solicitation, DOE will contract for the exchange or direct movement of exchange oil resulting from this MMS IFO for crude oil delivered to the SPR. Please see the DOE website at http://www.spr.doe.gov. Additional MMS and DOE contracting efforts will occur over the course of the SPR initiative until the remaining SPR capacity is filled.

Regarding this MMS IFO, successful offerors will take custody of the royalty oil at offshore delivery points and will be responsible for moving the royalty oil downstream of these points. Deliveries of exchange oil at market centers will be reduced in volume to pay for the net value difference incurred due to location, quality, and other factors.

Offers must be made in writing and submitted via facsimile (fax no. 303-231-3846) by 10:00 a.m. Mountain Time on August 4, 2003. MMS will confirm receipt of all offers. Royalty oil packages will be awarded by 2:00 p.m. Mountain Time on **August 6, 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 6 packages of royalty oil offered. 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 to Crystel Tobar as the official offer. Offerors must make individual offers on Exhibit A, for each offshore 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 difference in value between the applicable Gulf Coast market center and the offshore delivery point identified in Exhibit A. Please see the "**Quality"** section for more information on how to account for gravity and sulfur in your offer.

Offerors may bid on delivery point GC 65 A in package 2 as any or all crude types Eugene Island, Mars, and Poseidon. For delivery point GC 19 A, also in package 2, offerors may bid as crude types Eugene Island and/or Mars. Offerors may bid on all delivery points in package 6 or just those delivery points in a specific segment. MMS may award package 6 as a whole or by segment as package 6a, 6b, and 6c.

For HLS deliveries occurring at the Empire terminal, the offeror should not include the outbound terminal fee in their offer. The successful offeror will invoice MMS the charge with appropriate third-party documentation. The outbound terminal fee may be netted against RIK quality bank credits owed the MMS.

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.

Successful offerors are obligated to deliver common stream quality crude oil at the following Gulf Coast market centers according to royalty oil type:

Royalty Oil Type	Gulf Coast Market Center
HLS	Empire
Eugene Island	St. James
Mars	Clovelly
Poseidon	Houma
TXG	Texas City

Deliveries of exchange oil will occur ratably during the month concurrent with royalty oil receipts.

The following formula will be used to calculate a Delivery Percentage to be applied to royalty oil volumes received at the offshore delivery point to arrive at exchange oil volumes to be delivered to DOE or its exchange contractor and volumes retained by successful offerors as described under "**Transportation and Scheduling of Royalty Oil**":

$$\frac{\text{Platts Trade Month Price} - X}{\text{Platts Trade Month Price}}$$

Where: Platts Trade Month Price: Average of the daily high and low spot price quotes (to the nearest \$0.0001) as published in Platts Oilgram Price Report for the relevant market center for the crude oil type exchanged for the period beginning the 26^{th} of the second month prior to the Delivery Month and ending on the **20^{th} of the month prior to the Delivery Month.**

For crude type designated as "TXG" offerors should use Platts crude type "WTI".

X: Accepted offer for the royalty oil.

Delivery Month: Physical month of delivery.

In the event that DOE rejects any offers for redelivery into the SPR of exchange oil related to successfully awarded royalty oil packages in this MMS IFO, the MMS award for such royalty oil packages will be for an outright purchase (see Exhibit C) at the offshore delivery points specified in Exhibit A.

Term

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

Quality

For crude types HLS, Eugene Island, Mars, and Poseidon, quality bank debits/credits should not be reflected in your offer. Successful offerors will pass back to MMS all quality bank(s) debits/credits received from the quality bank administrator(s). For package 2, where offerors can bid on any or all crude types Eugene Island, Mars, or Poseidon, the quality bank debit/credit will be based on the crude type of the awarded offer.

For crude type TXG, quality bank debits/credits should not be reflected in your offer as they will be passed back to the MMS by the operator.

Successful offerors will pay quality bank credits due to MMS by the 20th of the month after the quality bank credits are received. MMS will pay invoices from successful offerors for all quality bank debits received from the quality bank administrator within 30 days of receipt of the invoice. All quality bank data must be accompanied by supporting documentation.

Transporting and Scheduling Royalty Oil

Successful offerors are responsible for transporting all royalty oil volumes downstream of the delivery points 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 each of the delivery points where royalty oil is received. When nominating to the pipeline, you are required to indicate that the nomination is for MMS sourced crude oil.

Exhibit E identifies a transportation rate agreement that MMS has arranged with Marathon Pipeline. For the royalty oil volume associated with this pipeline, the successful offeror will be designated as MMS' agent under this transportation agreement for the transportation rate and terms specified in Exhibit E. The successful offeror's contract will be amended in the event that there is an increase or decrease in transportation costs relating to properties awarded during the term of the contract.

Within 10 days of executing 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 the pipeline statements and/or invoices at both the receipt and delivery points. In cases where the pipeline companies are unable to itemize the MMS volumes on the pipeline statement, you must provide MMS with acceptable third-party data that itemizes 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 royalty oil from the identified properties. Successful offerors, at their expense, will make all necessary arrangements to receive the royalty oil at the delivery point(s). Successful offerors are not responsible for any costs of transportation upstream of the delivery point(s).

On the 21st day of the month prior to the first day of each Delivery Month, the MMS and successful offerors will jointly communicate and agree on the Delivery Percentage and the anticipated daily royalty oil volumes for the following month of production. If this date falls on a Saturday, Sunday or any Federal holiday, then we will agree on the following business day. At the same time, MMS and successful offerors will apply this mutually agreed upon Delivery Percentage to the daily volumes anticipated to arrive at an agreed upon volume of exchange oil to be delivered to DOE or its agent. To facilitate resolution of market center imbalances at the end of the contract term, this volume may be reduced by an additional mutually agreed upon percentage to increase the likelihood that the successful offeror has underdelivered MMS at the end of the contract term. This reduced volume will be delivered ratably during the Delivery Month unless force majure events apply or the applicable pipeline cuts successful offerors' nominations. Successful offerors understand that nominations are not warranties of actual deliveries to be made but are provided to facilitate the planning of delivery of royalty oil. This process will continue each month for 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 have been 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.

Imbalances

Property imbalances are defined as differences between volumes delivered to successful offerors by lease operators at the offshore 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 from 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 D.

Market center imbalances are defined as the difference between the volumes delivered to MMS or its designated agent at the Gulf Coast market centers during the month of delivery and the actual volumes delivered to the successful offeror at the offshore delivery point adjusted by the Delivery Percentage. The successful offeror will resolve these imbalances by adjusting the nominated volumes to be delivered to MMS or its designated agent at the Gulf Coast Market Centers by noon on the 21st day of the month following the month of delivery, unless otherwise approved by MMS. If this date falls on a Saturday, Sunday or any Federal holiday, then it will be the following business day.

Market center imbalances existing at the conclusion of this contract will be settled by mutually agreed to arrangements in a crude type(s) and at a market center(s) at the earliest date possible.

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 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."

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 hereunder) 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-qualifying, 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 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 delivery of 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 the MMS website at http://www.mrm.mms.gov/ReportingServices/PDFDocs/4071.pdf for a sample of an ILOC, MMS Form-4071. See http://www.mrm.mms.gov/ReportingServices/PDFDocs/4072.pdf for a sample of a Bond, 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 30 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), then multiply by 30 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 a requirement to increase 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 perform 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.

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

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.

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 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.

5 Exhibits:
Exhibit A – Offer Sheet
Exhibit B – RIK Property Profile Detail
Exhibit C – Contingency for Outright Purchase
Exhibit D – Sample Dear Operator Letter
Exhibit E – Marathon Transportation Agreement

Minerals Management Service **Offer Sheet** **Exhibit A**
Strategic Petroleum Reserve Fill
IFO No.1435-02-03-RP-40419
Deliveries beginning: October 1, 2003

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Offshore Delivery Point	Volume Metered At	Delivery Point Royalty Volume (bbls/day)	Gravity	Sulfur	"X" Offer Quality Bank Debits/Credits Not Included	Accept MMS' Transportation Rate Agreement
								Offers for a 6-month term only	
1	HLS	Empire	SP 89 B	SP 89 B	100	28.9	not applic.		Yes or No
1	HLS	Empire	SP 89 B (Zia & Pluto)	SP 89 B	1,250	28.9	not applic.		Yes or No
2a	EI	St. James	GC 19 A	GC 19 A	50	30.7	1.20%		//////////////
2a	EI	St. James	GC 65 A	GC 65 A	3,800	32.6	1.47%		//////////////
2b	Mars	Clovelly	GC 19 A	GC 19 A	50	30.7	1.20%		//////////////
2b	Mars	Clovelly	GC 65 A	GC 65 A	3,800	32.6	1.47%		//////////////
2c	Poseidon	Houma	GC 65 A	GC 65 A	3,800	32.6	1.47%		//////////////
3	Mars	Clovelly	GI 116 A	GI 116 A	750	42.0	0.47%		//////////////
3	Mars	Clovelly	GC 158 A	GC 158 A	5,100	34.6	1.49%		//////////////
3	Mars	Clovelly	GI 115 SSTI	EW 921 A	1,000	27.4	1.96%		//////////////
4	Mars	Clovelly	MC 807 A	MC 807 A	20,290	28.7	2.20%		//////////////
5	Mars	Clovelly	MC 809 A	MC 809 A	16,500	30.6	2.00%		//////////////
6a *	TXG	Texas City	GA 256 SSTI	GA 209 B	625	33.9	0.10%		//////////////
6b *	TXG	Texas City	EB 159 A	EB 159 A	335	40.6	unknown		//////////////
6b *	TXG	Texas City	HIA 563 B	HIA 563 B	150	35.8	0.26%		//////////////
6b *	TXG	Texas City	EB 160 A	EB 160 A	260	37.0	unknown		//////////////
6b *	TXG	Texas City	HIA 536 C	HIA 536 C	340	33.5	unknown		//////////////
6b *	TXG	Texas City	HIA 582 C	HIA 582 C	1,655	48.3	0.13%		//////////////
6c *	TXG	Texas City	HIA 595 C	HIA 595 C	200	33.6	unknown		//////////////
6c *	TXG	Texas City	HIA 573 B	HIA 573 B	180	35.7	unknown		//////////////
6c *	TXG	Texas City	HIA 546 SSTI	HIA 376 A	200	35.0	0.43%		//////////////
6c *	TXG	Texas City	HIA 379 B	HIA 379 B	225	37.6	0.32%		//////////////
6c *	TXG	Texas City	HIA 546 SSTI	WC 661	375	32.9	unknown		//////////////

* Offerors may bid on each delivery point in package 6 as a whole or just those delivery points in a segment as package 6a, 6b, and 6c.

Your Name ______________________ Phone No. ______________________

Company Name ______________________ Fax No. ______________________

MMS Contacts

Crystel Tobar: 303-231-3126
Richard Fantel: 303-231-3502
Karen Krock: 303-231-3209
Fax No.: 303-231-3846

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Offshore Delivery Point	Volume Metered at	MMS Facility Measurement Point No.	Common Industry Name	Producing MMS Lease or Unit Agre. No.	Area	Blk	Operator	Royalty Volume (bbls/day) (note1)	Grav	Sulfur	Pipelines	Common Carrier(s)	Buy/Sell
1	HLS	Empire	SP 89 B	SP 89 B	20177224600		054-001618-0	SP	89	Marathon Oil Company	100			Marathon's South Pass - West Delta System into	yes	(note 3)
														ChevronTexaco P/L		
1	HLS	Empire	SP 89 B	SP 89 B	20177224600	Zia	054-014005-0	MC	496	Devon Energy	1,250			Marathon's South Pass - West Delta System into	yes	(note 3)
						Zia	054-021173-0	MC	497	Devon Energy				ChevronTexaco P/L		
						Pluto	754-396010-A	MC	718	Mariner Energy Inc.	(note 2)					
										• FMP 20177224600 Total	1,350	28.9	n/a			
										Package 1 Total	1,350					
2	El or	St. James or	GC 19 A	GC 19 A	20608112953	Boxer	054-004131-0	GC	19	Shell Offshore				Boxer P/L into EIPL into Shell's S. LA Sys.	yes	
	Mars	Clovelly				Shorts	054-015531-0	GC	20	Shell Offshore						
										• FMP 20608112953 Total	50	30.7	1.20%			
2	El or	St. James or	GC 65 A	GC 65 A	20608117000	Troika	754-393016-A	GC	244	BP Expl. and Prod.				Amberjack P/L or;	yes	
	Mars or	Clovelly or				Bullwinkle	754-399006-A	GC	65	Shell Offshore				Amberjack P/L into Boxer P/L into EIPL into Shell's	yes	
	Poseidon	Houma				Rocky	054-014023-0	GC	110	Shell Offshore				S. LA Sys. or;	yes	
						Angus	054-015545-0	GC	112	Shell Offshore				Shell 12" into	no	SOI
						Angus	054-015546-0	GC	113	Shell Offshore				Boxer P/L into EIPL into Shell's S. LA Sys. or;	yes	
						Manatee	054-016698-0	GC	155	Shell Offshore	(note 2)			Shell 12" P/L into	no	SOI
						Aspen	054-020051-0	GC	243	Nexen Petroleum USA	(note 2)			Shell Trading 12" P/L into	no	STUSCO
										• FMP 20608117000 Total	3,800	32.6	1.47%	Poseidon P/L	no	Poseidon
										Package 2 Total	3,850					
3	Mars	Clovelly	GI 116 A	GI 116 A	20177183651		754-398019-A	GI	116	Anadarko Petroleum Corp.				Amberjack P/L into Mars Oil P/L	yes	
										• FMP 20177183651 Total	750	42.0	0.47%			
3	Mars	Clovelly	GC 158 A	GC 158 A	20608113652	Brutus	754-395014-A	GC	158	Shell Offshore				Brutus P/L into Amberjack P/L into Mars Oil P/L or;	yes	
										• FMP 20608113652 Total	5,100	34.6	1.49%	Amberjack P/L to SS301 into	yes	
														Jackalope P/L to SS332 into	yes	
														Poseidon P/L	no	Poseidon
3	Mars	Clovelly	GI 115 SSTI	EW 921 A	20608103651	Morpeth	754-397011-A	EW	965	Agip Petroleum Co. Inc.				Amberjack P/L into Mars Oil P/L	yes	
							054-018184-0	EW	966	Mariner Energy Inc.	(note 2)					
										• FMP 20608103651 Total	1,000	27.4	1.96%			
										Package 3 Total	6,850					
4	Mars	Clovelly	MC 807 A	MC 807 A	20608173650	Mars	754-393002-0	MC	807	Shell Offshore				Mars Oil P/L	yes	
						Europa	754-395016-A	MC	935	Shell Offshore						
						King	054-008852-0	MC	764	BP Expl. and Prod.						
										• FMP 20608173650 Total	20,290	28.7	2.20%			
										Package 4 Total	20,290					
5	Mars	Clovelly	MC 809 A	MC 809 A	20608173651	Ursa	754-393012-A	MC	854	Shell Offshore				Ursa P/L (Mars Oil P/L)	yes	
						Crosby	754-398012-A	MC	899	Shell Offshore						
										• FMP 20608173651 Total	16,500	30.6	2.00%			
										Package 5 Total	16,500					
6a	TXG	Texas City	Segment I	GA 209 B	20427060150		054-003229-0	GA	192	ExxonMobil Corp.				HIPS P/L	yes	
			(GA 256 SSTI)				054-003237-0	HI	193	ExxonMobil Corp.						
							054-006093-0	GA	209	ExxonMobil Corp.						
										• FMP 20427060150 Total	625	33.9	0.10%			
										Package 6a - HIPS Segment I Total	625					
6b	TXG	Texas City	EB 159 A	EB 159 A	20608040150		054-002645-0	EB	158	UNOCAL				HIPS P/L	yes	
							054-002646-0	EB	159	UNOCAL						
							054-002647-0	EB	160	UNOCAL						
							054-017227-0	EB	114	UNOCAL						
										• FMP 20608040150 Total	335	40.6	unknown			

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Offshore Delivery Point	Volume Metered at	MMS Facility Measurement Point No.	Common Industry Name	Producing MMS Lease or Unit Agre. No.	Area	Blk	Operator	Royalty Volume (bbls/day) (note1)	Grav	Sulfur	Pipelines	Common Carrier(s)	Buy/Sell
6b	TXG	Texas City	HIA 563 B	HIA 563 B	20427090158		054-002384-0	HI	A 555	Chevron Texaco				HIPS P/L	yes	
							054-002388-0	HI	A 563	Chevron Texaco						
										• FMP 20427090158 Total	150	35.8	0.26%			
6b	TXG	Texas City	EB 160 A	EB 160 A	20608040151		054-002647-0	EB	160	UNOCAL				HIPS P/L	yes	
							054-002648-0	EB	161	UNOCAL						
							054-014204-0	EB	117	Apache						
							054-017237-0	EB	205	UNOCAL	(note 2)					
										• FMP 20608040151 Total	260	37.0	unknown			
6b	TXG	Texas City	HIA 536 C	HIA 536 C	20427090155		054-002696-0	HI	A 531	Newfield Exploration				HIPS P/L	yes	
							054-002696-0	HI	A 531	Hunt Oil Company						
							054-002697-0	HI	A 536	Newfield Exploration						
							054-002698-0	HI	A 537	Newfield Exploration						
							054-017188-0	HI	A 510	Hunt Oil Company						
							054-017188-0	HI	A 510	UNOCAL						
										• FMP 20427090155 Total	340	33.5	unknown			
6b	TXG	Texas City	HIA 582 C	HIA 582 C	2042709015E		054-002388-0	HI	A 563	Chevron Texaco				HIPS P/L	yes	
			(note 4)				054-002719-0	HI	A 582	Chevron Texaco						
							054-018959-0	HI	A 581	Chevron Texaco						
							054-018959-0	HI	A 581	Devon Energy						
										• FMP 2042709015E Total	1,655	48.3	0.13%			
										Package 6b - HIPS Segment II Total	2,740					
6c	TXG	Texas City	HIA 595 C	HIA 595 C	2042709015C		054-002393-0	HI	A 573	UNOCAL				HIPS P/L	yes	
							054-002721-0	HI	A 595	UNOCAL						
							054-002722-0	HI	A 596	UNOCAL						
							054-002757-0	HI	A 382	UNOCAL						
										• FMP 2042709015C Total	200	33.6	unknown			
6c	TXG	Texas City	HIA 573 B AC	HIA 573 B	2042709015B		054-002392-0	HI	A 572	Apache				HIPS P/L	yes	
							054-002393-0	HI	A 573	Apache						
							754-390002-0	HI	A 571	Apache						
							054-002757-0	HI	A 382	Apache						
										• FMP 2042709015B Total	180	35.7	unknown			
6c	TXG	Texas City	IP#4/SEG III	HIA 376 A	20427110152		054-002750-0	HI	A 365	Anadarko Petroleum Corp				HIPS P/L	yes	
			(HIA 546 SSTI)				054-002754-0	HI	A 376	Anadarko Petroleum Corp						
										• FMP 20427110152 Total	200	35.0	0.43%			
6c	TXG	Texas City	HIA 379 B	HI 379 B	20427110153		754-393023-0	HI	A 384	Kerr-McGee				Kerr-McGee private line into	no	Kerr-McGee
										• FMP 20427110153 Total	225	37.6	0.32%	HIPS P/L	yes	
6c	TXG	Texas City	IP#4/SEG III	WC 661	20177020150		054-016224-0	WC	661	Tarpon Offshore				HIPS P/L	yes	
			(HIA 546 SSTI)							• FMP 20177020150 Total	375	32.9	unknown			
										Package 6c - HIPS Segment III Total	1,180					
										Packages 6a, 6b, 6c - HIPS Segment I, II, & III Total	4,545					
										Grand Total (19 FMPs)	**53,385**					

• STUSCO contact for HLS properties, all deliveries at Empire: Brett Jones (713-230-1944)
• STUSCO contact for package 2 properties: Chuck Morelli (713-230-1949)
• SOI contact for package 2 properties: Dave Hernandez (504-728-7376)
• Poseidon contact for package 2 properties: James Hostetler (303-820-0846)
• Exxon Mobil contact for TXG properties: Chester Morris (713-656-4792)
• Kerr-McGee contact for TXG properties: Pennie Green (405-270-4027) or Beth Sachs (281-618-6605)

note 1: Contact for 1 year production history or projected volumes: Crystel Tobar (303-231-3126)
note 2: Property in Royalty Relief Status and volume <u>will not</u> be included in deliveries to purchaser until further notification.
note 3: Reserve Commitment Program for Marathon's tariff, see Exhibit E.
note 4: Production from HI A 582 C includes a new lease. Production may vary.

Exhibit C

CONTINGENCY FOR OUTRIGHT PURCHASE
IFO No. 1435-02-03-RP-40419

Introduction

In the event the Department of Energy rejects any offer for redelivery into the Strategic Petroleum Reserve of exchange oil related to a successfully awarded royalty oil package from this MMS Invitation for Offer (IFO), the MMS award will be for an outright purchase at the offshore delivery point specified in Exhibit A, rather than an exchange.

MMS will notify successful offerors by August 13, 2003, of any royalty oil packages awarded as an outright purchase rather than an exchange. **Any outright purchases of royalty oil packages will be for a 6-month term beginning October 1, 2003, and ending March 31, 2004.** Payment terms are governed by the MMS base contract "RIK Crude Oil General Terms and Conditions," previously signed by the offeror and MMS.

Pricing Mechanism

For any royalty oil package awarded as an outright purchase rather than an exchange, the accepted IFO offer ("X") will be used to price the royalty crude oil and will represent an increment or decrement from the following pricing formula:

(Koch Posting + Platts P^+) - (Platts WTI - Platts Crude Type Price)

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

Physical Month of Delivery: The calendar month during which delivery of crude oil occurs

Platts P^+: Platts Oilgram Price Report (Platts) arithmetic average of the daily high and low price quotes for "P-Plus WTI" for the *Platts Month of Delivery*

Platts Month of Delivery: Refers to quotes in Platts for the period of time from the 26th day of the month two months prior to the Physical Month of Delivery through the 25th day of the month one month prior to the Physical Month of Delivery (excluding weekends and holidays)

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

Platts Crude Type Price: The arithmetic average of the daily high and low price quotes for the crude oil type that is the subject of the bid (HLS, Eugene Island, Mars, Poseidon, or TXG (Platts WTI)) for the Platts Month of Delivery

Pre-qualification and Credit Requirements

For royalty oil packages awarded as outright purchases rather than as exchange agreements, all pre-qualification and credit requirements outlined under this IFO will continue to apply, with the following modifications. If required, 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 financial assurance must be effective for a period beginning on the date of first delivery under the contract and ending when final payment under the contract is verified. The value of the financial assurance should be calculated as the price per barrel using the above pricing mechanism plus the submitted offer applied to the August 2003 delivery month prices. Alternatively, the most currently available Platts pricing data may be used instead of Platts Month of Delivery.

Any questions regarding calculation of the financial assurance amount should be directed to Larry Cobb at 303-231-3307. Failure to provide adequate financial assurance when requested may result in a loss of award unless the date is extended by the MMS Contracting Officer.

Exhibit D

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.

<u>Term</u>
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.

<u>Royalty Oil Delivery</u>
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").

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, and/or royalty rates 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.

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.

<u>The Paperwork Reduction Act</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 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

Marathon Pipe Line LLC **Exhibit E**
Incentive Rates

Marathon contacts: Ted Skinner (713-296-3719) for South Pass - West Delta properties

Offer Pkg	Delivery Point	Incentive Program Rate	FERC Number
1	SP 89 B	$0.85	32
1	SP 89 B (Zia & Pluto)	$0.45	54

Note: Line loss based on actuals, see published FERC tariff for property specific information.