



**INVITATION FOR OFFER – MMS/WYOMING RIK OIL
EXCHANGE OF ROYALTY IN KIND CRUDE OIL TO MARKET CENTERS
IFO No. 1435-02-04-RP-40475
October 2004 – March 2005 or September 2005**

Introduction

The Minerals Management Service (MMS) and the State of Wyoming, Office of State Lands and Investments (State), are jointly soliciting written offers from pre-qualified companies for the exchange of royalty oil from selected Federal and State properties located in the Big Horn Basin, for common-stream quality Wyoming Asphaltic Sour crude oil (exchange oil) at any of the points of Chatham, Casper, or Silver Tip, Wyoming.

This Invitation For Offer (IFO) is for either a six or twelve month term beginning October 1, 2004. Successful offerors will take title to the oil at the custody transfer points listed in the Exhibit and will make available the same quantity of Wyoming Asphaltic Sour crude oil at a designated pipeline transfer point at any of the three aggregation points. The successful offeror will be responsible for all fees associated with any pipeline movements of royalty oil. The exact delivery meter at Chatham, Casper, or Silver Tip will be determined when and if an award is made at an aggregation point in the MMS/State October 2004 through March 2005/September 2005 Phase 11 open RIK crude oil competitive sale (IFO No. 1435-02-04-RP-40476).

Offerors should be aware that MMS and the State are soliciting offers for the sale of royalty oil in Phase 11 at both the lease and at the Chatham, Casper, or Silver Tip aggregation points. It is possible that the offers for the aggregated quantity of oil exchanged to these points may not be acceptable. If this is the case, MMS and the State may award royalty production at the lease instead of at the aggregation point(s). Therefore, any award under this exchange/aggregation solicitation will be contingent on the receipt of acceptable aggregation offers in the Phase 11 open competitive sale. If MMS and the State receive acceptable aggregation offers, we will issue a final award under this IFO by 2:00 p.m. Mountain Time, August 11, 2004.

Offers regarding this IFO must be made in writing and submitted via facsimile (fax number 303-231-3846) or electronic mail (David.Domagala@mms.gov) by 2:00 p.m. Mountain Time, August 2, 2004. MMS confirms receipt of all offers either by phone or electronic mail. MMS will issue location-specific contingent awards by 2:00 p.m. Mountain Time on August 5, 2004. Address Federal technical questions to Dave Domagala at 303-231-3540. Address State contracting questions to Harold Kemp at 307-777-6643 or via electronic mail (hkemp@state.wy.us). Address Federal contracting questions to Maggie Miller at 303-231-3932. Address credit and pre-qualification questions to Larry Cobb at 303-231-3307.

Offers¹

Offerors must be pre-qualified to submit offers. Please see the "Pre-qualification and Credit Requirements" section for more information. MMS reserves the right to reject any offers.

¹ **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 have the signed MMS base contract "RIK Crude Oil General Terms and Conditions" on file with MMS.

The Exhibit identifies the pipelines, royalty oil properties, operators, estimated daily royalty volumes, and average gravity available for exchange. The royalty volumes shown represent the most recent production data for these properties. These volumes are only estimates of royalty oil available to successful offerors and are not warranted.

MMS will only accept offers for the entire package of royalty oil. Offerors must bid on the full Federal and State royalty oil volumes made available at the custody transfer points. Offers can be made on either a per-property basis or one offer for all transported barrels on a pipeline system, although the entire package will be awarded to only one offeror.

The successful offeror assumes all risks associated with exchanging the oil from the custody transfer points to either Chatham, Casper, or Silver Tip and is responsible for all line-fill requirements and any other pipeline charges.

Offerors must record bids on the Exhibit as a value (to the nearest \$0.0001) representing the offeror's view of the value differential between the properties and Chatham, Casper, or Silver Tip. Tiered offers corresponding to volumes levels are not acceptable. There will be only one award for this package of royalty oil. By submission of an offer, the offeror agrees to be bound by the terms of the signed MMS base contract "RIK Crude Oil General Terms and Conditions" and this IFO. MMS and the State reserve the right to reject any offer.

Royalty oil from any new wells on currently producing properties supplying custody transfer points during the contract term will be automatically added to the awarded volumes. Royalty oil from any new properties supplying custody transfer points during the contract term will be added to the awarded volumes on a case-by-case basis pursuant to mutual consent of all parties.

Exchange

MMS and the State will "sell" royalty volumes to the successful offeror at the custody transfer points listed in the Exhibit. In exchange, the MMS and the State will "buy" the same volumes from the successful offeror at Chatham, Casper, or Silver Tip.

The successful offeror will adjust both the "buy" and "sell" exchange values to actual gravity from 40 degrees API. For example, if MMS sells 23-degree property production from a field to a successful offeror, the sales value will be Calendar Month NYMEX, adjusted to 23 degrees, using ConocoPhillip's Wyoming Asphaltic Sour posted price gravity adjustment scale. When the production is a "buy" back of the royalty oil at one of the three market centers, MMS and the State will pay Calendar Month NYMEX, gravity-adjusted to the quality of the exchange volume at the market center (again, using the ConocoPhillips scale).

The difference between the "sell" and "buy" (before gravity adjustment) will be the "net difference" and forms the basis for your offer. The successful offeror will invoice the MMS and the State separately and will contain only the "net out" difference (after gravity adjustment), multiplied by the number of royalty barrels received at the custody transfer point.

Upon mutual consent between MMS, the State, and the successful offeror, the successful offeror's contract may be amended when there is an increase or decrease in tariff-based transportation costs related to awarded properties.

Term

Contracts will be awarded for exchanging royalty oil for a for either a six or twelve month term beginning October 1, 2004 through March 31, 2005 or September 30, 2005.

Supporting Documentation

Title to royalty oil will pass to the successful offeror at the flange connecting the tank batteries to the pipeline or truck receiving station at the point(s) of delivery. MMS and the State, or their designated agent, will receive title to the same quantity of exchange oil at Chatham, Casper, or Silver Tip. This quantity of oil will be nominated by the successful offeror to an account specifically designated for MMS and the State. Deliveries of exchange oil will occur ratably during the month concurrent with royalty oil receipts unless force majeure events apply or the pipeline cuts the successful offerors' nominated barrels.

The successful offeror or its designated agent will nominate delivery volumes of exchange oil at Chatham, Casper, or Silver Tip. For information and tracking purposes, these nominations must be provided to MMS and the State at the same time they are provided to the pipelines supplying the relevant aggregation points.

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

As stipulated in the MMS base contract "RIK Crude Oil General Terms and Conditions," successful offerors must provide pipeline/truck statements to support invoices to both the State and MMS Crude Oil RIK Accounting. The "Crude Oil Transaction Confirmation" package provides points of contact for submission of this information.

Imbalances

Successful offerors are granted rights to royalty oil delivered by operators at the custody transfer points indicated in Exhibit A, not actual entitlements due the MMS or State.

MMS and the operator will jointly monitor imbalances between deliveries and entitlements. 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. MMS will communicate these adjustments to the successful offeror regarding the first of month availability of royalty oil.

MMS and the operator will mutually resolve property imbalances not remedied within 90 days of the production month. The contract price under this IFO may form the basis of resolving certain extraordinary imbalances

Imbalances between volumes of royalty oil received by the successful offeror at the properties and volumes of exchange oil will be jointly monitored by MMS, the State, and the successful offeror. Routine imbalances will be resolved by adjustments in the volume of exchange oil delivered in subsequent months. MMS will communicate these volume adjustments in the month following the month of production.

The definition of market center imbalances is the difference between volumes delivered to MMS or its designated agent at the market centers during the month of delivery, and actual volumes delivered to the successful offeror at the custody transfer point. The successful offeror will resolve these imbalances by adjusting the nominated volumes to be delivered to MMS or its designated agent at the market centers in the month following the month of delivery, unless otherwise approved by MMS.

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

Imbalances not remedied within 90 days of the production month will be resolved by mutual agreement between MMS, the State, and the successful offeror.

Consideration of Offers

MMS and the State 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 and the State 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.

The MMS and State shall award a contract resulting from this IFO to the party whose offer, in their judgment, is most advantageous to the Federal and State Governments. MMS and the State will award to successful offerors by means of the "Crude Oil Transaction Confirmation."

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>. By submitting an offer, the offeror agrees to be bound by the terms of its signed MMS base contract and this IFO.

Upon pre-qualifying, MMS will issue an amount of unsecured credit based on the creditworthiness of the offeror. In most cases where offerors have submitted their most current financial documentation, or such information is available on Edgar Online, 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/State-acceptable surety instrument five 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 sale transaction confirmation. The ILOC, Bond, or other acceptable surety instrument must be effective for a period beginning the date of first delivery under the contract and ending when MMS and the State verify receipt of final delivery under the contract. 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, Form MMS-4071. For a sample of the Bond, Form MMS-4072, see <http://www.mrm.mms.gov/ReportingServices/PDFDocs/4072.pdf>. 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 for aggregation, less the amount of unsecured credit issued by the MMS as previously notified. The value of the financial assurance should be calculated using the Platts Oilgram calendar month Guernsey Spot Price

average for August 2004. This value is then multiplied by the daily production (estimated in the Exhibit), multiplied by 30 days, less the amount of unsecured credit issued by MMS.

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 MMS or the State 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 and the State. Failure to provide additional performance assurances when requested may result in early termination of the contract.

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 terms of this IFO and the MMS base contract will be resolved in favor of this IFO.

Please note: For production purchased from State leases, interest on late payments is governed by Wyoming statute under Title 30-5-303(a). This supersedes provisions in the RIK Crude Oil General Terms and Conditions, section 8(f).

The Paperwork Reduction Act: The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by MMS to document fulfillment of royalty obligations on minerals removed from Federal lands and that we will use this information to maintain and audit lease accounts. This ICR is approved by Office of Management and Budget (OMB) and is titled "Royalty-in-Kind (RIK) Pilot Program - Directed Communications by Operators of Federal Oil and Gas Leases (OMB Control Number 1010-0129, expiration date July 31, 2006)." We estimate the burden for reporting is 1 hour per response.

Comments on the accuracy of this estimate or suggestions for reducing this burden should be directed to the Information Collection Clearance Officer, Minerals Management Service, 1849 C Street, NW, MS 4230, Washington, DC 20240. Proprietary information submitted to the U.S. Department of the Interior 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 Departmental 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.

Exhibit – Offer Sheet

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Avg. Gravity	Federal Avg. Daily Royalty Bbls	State Avg. Daily Royalty Bbls	<u>Chatham</u> Oct-04 to Mar-05 6-Month Offer +/-	<u>Chatham</u> Oct-04 to Sep-05 One-Year Offer +/-	<u>Casper</u> Oct-04 to Mar-05 6-Month Offer +/-	<u>Casper</u> Oct-04 to Sep-05 One-Year Offer +/-	<u>Silver Tip</u> Oct-04 to Mar-05 6-Month Offer +/-	<u>Silver Tip</u> Oct-04 to Sep-05 One-Year Offer +/-
• Big Horn Basin -- Asphaltic Sour Crude												
Pipeline:	<u>Rocky Mountain Pipeline</u>											
B0100	892000435A	Black Mountain	Phoenix Production	22.3	38	27	\$	\$	\$	\$	\$	\$
B0101	0620393210	Black Mountain #55	Phoenix Production	22.3	1		\$	\$	\$	\$	\$	\$
B0800	W 138881X	Hamilton Dome	Merit Energy	19.2	425		\$	\$	\$	\$	\$	\$
B7239	0640689070	Little Sand Draw-Davis	Citation O&G	34.8	9		\$	\$	\$	\$	\$	\$
B7238	0640686650	Little Sand Draw-Nelson GS	Citation O&G	34.8	27		\$	\$	\$	\$	\$	\$
B7230	0620400270	Shad - Murphy Dome	Nance Petroleum Corp.	31.0	31		\$	\$	\$	\$	\$	\$
B0802	0490376990	Westates	Merit Energy	19.4	3		\$	\$	\$	\$	\$	\$
			Total for Pipeline:		534	27	\$	\$	\$	\$	\$	\$
Pipeline:	<u>Clear Fork</u>											
B7276	8920004390	Elk Basin (Madison)	Howell Petroleum	28.8	70	4	\$	\$	\$	\$	\$	\$
B7277	892000439A	Elk Basin (Emb.-Ten.)	Howell Petroleum	28.4	150	20	\$	\$	\$	\$	\$	\$
			Total for Pipeline:		220	24	\$	\$	\$	\$	\$	\$
Pipeline:	<u>Cottonwood Creek Inc.</u>											
B4000	891000463A	Cottonwood Creek (Phos)	Continental Resources	27.2	26	8	\$	\$	\$	\$	\$	\$
			Total for Pipeline:		26	8	\$	\$	\$	\$	\$	\$
Pipeline:	<u>Four Bear</u>											
B0400	8920001610	Fourbear	Goldmark Engineering	14.1	4	43	\$	\$	\$	\$	\$	\$
B1700	8920001130	Pitchfork	Marathon	17.6	190		\$	\$	\$	\$	\$	\$
B2100	892000279A	South Spring Creek	Marathon	15.4	110		\$	\$	\$	\$	\$	\$
			Total for Pipeline:		304	43	\$	\$	\$	\$	\$	\$
Pipeline:	<u>Red Butte</u>											
B3101	891012527A	Byron	Marathon	21.5	37		\$	\$	\$	\$	\$	\$
B3103	891002438A	Byron Pre-Tensleep, Amsden Pa	Marathon	21.5	1		\$	\$	\$	\$	\$	\$
B3102	891002438B	Byron Pre-Tensleep, Madison Pa	Marathon	21.5	1		\$	\$	\$	\$	\$	\$
B0300	W 112017X	Enigma (See Note Below)	Citation O&G	23.3	15		\$	\$	\$	\$	\$	\$
B0500	892000174A	Garland	Marathon	21.4	149		\$	\$	\$	\$	\$	\$
B1002	892000185C	Garland (Tensleep)	Marathon	21.4	20		\$	\$	\$	\$	\$	\$
B0600	8920003630	Gebo	Phoenix Production	24.5	85		\$	\$	\$	\$	\$	\$
B5000	892000223A	Gooseberry "A"	Westport O&G	21.6	27	8	\$	\$	\$	\$	\$	\$
B5100	892000223B	Gooseberry "B"	Westport O&G	19.5	23	10	\$	\$	\$	\$	\$	\$
B0710	W 150174X	Grass Creek	Marathon	23.5	15	134	\$	\$	\$	\$	\$	\$
B1004	0640446940	Kinney Coastal 012	Marathon	21.4	1		\$	\$	\$	\$	\$	\$

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Avg. Gravity	Federal Avg. Daily Royalty Bbls	State Avg. Daily Royalty Bbls	<u>Chatham</u> Oct-04 to Mar-05 6-Month Offer +/-	<u>Chatham</u> Oct-04 to Sep-05 One-Year Offer +/-	<u>Casper</u> Oct-04 to Mar-05 6-Month Offer +/-	<u>Casper</u> Oct-04 to Sep-05 One-Year Offer +/-	<u>Silver Tip</u> Oct-04 to Mar-05 6-Month Offer +/-	<u>Silver Tip</u> Oct-04 to Sep-05 One-Year Offer +/-
B1005	0640447690	Kinney Coastal 051,052	Marathon	21.4	1		\$	\$	\$	\$	\$	\$
B1000	892000185A	Kinney Coastal Garland - Mad "B"	Marathon	21.4	3		\$	\$	\$	\$	\$	\$
B1001	892000185B	Kinney Coastal Garland - Embar	Marathon	21.4	6		\$	\$	\$	\$	\$	\$
B1003	892000185E	Kinney Coastal Garland - Mad "A"	Marathon	21.4	2		\$	\$	\$	\$	\$	\$
B7100	064043977A	Kinney Coastal Garland 78Ea	Marathon	21.4	1		\$	\$	\$	\$	\$	\$
B6000	892000559A	Oregon Basin-N. Chugwater Pa	Marathon	21.7	1		\$	\$	\$	\$	\$	\$
B6100	892000559B	Oregon Basin-S. Chugwater Pa	Marathon	20.0	1		\$	\$	\$	\$	\$	\$
B6200	892000559C	Oregon Basin (N. Embar)	Marathon	21.7	198	17	\$	\$	\$	\$	\$	\$
B6300	892000559D	Oregon Basin (S. Embar)	Marathon	20.0	315	4	\$	\$	\$	\$	\$	\$
B6400	892000559E	Oregon Basin (N. Madison)	Marathon	21.7	28		\$	\$	\$	\$	\$	\$
B6500	892000559F	Oregon Basin (S. Madison)	Marathon	20.0	80		\$	\$	\$	\$	\$	\$
					Total for Pipeline:	1,009	173	\$	\$	\$	\$	\$
					Total for Asphaltic Sour Crude:	2,094	275					

Notes:

- Actual gravity adjustments on asphaltic sour.
- Legal locations can be obtained by calling technical representatives shown in the IFO.
- B0300 - Enigma, an additional operator transport charge is required to move the oil to Red Butte pipeline. Please call Peggy Stockton at 281-517-7321.
- For pipeline tariffs:
 - Rocky Mountain Pipeline - Gary Zollinger at 303-298-1000
 - Clear Fork - Carmel Helsley at 303-832-7187
 - Cottonwood Creek Inc. - Lindy Combrick at 580-233-8955
 - Red Butte - Andy Franklin at 307-587-4961