

«Title» «First_Name» «Last_Name»
«Company»
«Street»
«Street_2»
«City» «State» «Zip»

Dear «Title»«Last_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 where we will take crude oil and condensate royalty production in-kind beginning April 1, 2004. This letter supercedes previous operator letters you have received regarding oil royalties taken in-kind and is effective the first day of the month following its receipt by you.

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 your properties flowing to the Facility Measurement Point(s) (FMP) listed in Enclosure 1 beginning April 1, 2004, 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 FMP or first interconnect into a main pipeline, as identified in Enclosure 1. Enclosure 1 lists the properties we believe are flowing to the FMP listed in Enclosure 1. It is your responsibility to ensure that royalty production from any of your properties that is actually flowing to the designated FMP on any given month, with the exception of leases in royalty relief status, section 6 leases, state leases or net profit share leases, will be delivered in-kind to the Lessor or our designee. The Lessor or designee will take custody and responsibility for royalty oil at the delivery point. You can be reimbursed for transportation and quality bank debits and/or quality differentials associated with royalty oil

delivery to points identified in Enclosure 1 that lie 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 or where a quality differential exists on a pipeline where there is not an instituted quality bank, as allowed in applicable MMS regulations. Please use the applicable GravCap tables to calculate the quality differential on pipelines where there is a not an instituted quality bank.

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 Enclosure 1. Royalty oil from such new properties may be added to the RIK volumes at the existing delivery points by 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

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 by the dates shown in Enclosure 2 for each of the properties identified in Enclosure 1. On this same schedule, for each of the properties, 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 Enclosure 1; 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 Enclosure 1 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 MMS. 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.

Operator Assignments

For leases which are being taken in-kind and which you are assigning to another operator, you will make best reasonable efforts to notify one of the New Lease Production-Lessor's Point of Contact listed below. In addition, any ending imbalance existing at the effective date of the assignment will be cashed out as described under "Balancing Account and Imbalances".

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 Enclosure 1 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 royalties for the RIK properties listed in Enclosure 1 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, section 6 leases, state leases, net profit share leases 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:

Mr. Larry Barker

Telephone: 303-231-3157; Fax: 303-231-3846

E-mail: Lawrence.Barker@mms.gov or

Mr. Ted Drescher

Telephone: 303-231-3143; FAX: 303-231-3846

E-mail: Theodore.Drescher@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 OMB Control Number for this Dear Operator Letter is 1010-0126 with an expiration date of June 30, 2006. 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,

Gregory W. Smith
Deputy Program Manager
for Royalty In-Kind

2 Enclosures

bc: RM File
RIK Chron
Author Chron

MMS/MRM/RIK/Author:date:N:\RIK\RIK Oil\Offshore\Gulf\New Research\Unrestricted
042004\DearOpLtr\Unrestricted Operator Letter 0404.doc:final:sp:021004

Offer Pkg.	Royalty Oil Type	Custody Transfer Point	Volume Metered at (FMP Location)	MMS Facility Measurement Point Number	MMS Agreement Number	MMS Lease Number	Area	Bik	Common Industry Name	Royalty Rate	Section 8(g)	Lease/Agreement Operator	Working Interest Owner	Payor Name/Number	New to RIK	Lessor or Designee
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540148640	HI	141		16.667%		TDC Energy LLC	William G. Helis Co.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540148640	HI	141		16.667%		TDC Energy LLC	Houston Energy			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540148640	HI	141		16.667%		TDC Energy LLC	Duke Energy			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540148700	HI	202		16.667%		Spinnaker Exploration Co.	Apache Corp.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540148700	HI	202		16.667%		Spinnaker Exploration Co.	Spinnaker Exploration Co.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157400	GA	151		16.667%		Mariner Energy, Inc.	Mariner Energy, Inc.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157400	GA	151		16.667%		Mariner Energy, Inc.	El Paso Production Company			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157400	GA	151		16.667%		Mariner Energy, Inc.	ENI Petroleum			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157420	GA	225		16.667%		Seneca Resources	Seneca Resources			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157780	HI	178		16.667%		Unocal	Unocal			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157810	HIA	7		16.667%		Spinnaker Exploration Co.	Forest Oil Corporation			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157810	HIA	7		16.667%		Spinnaker Exploration Co.	Apache Corp.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157810	HIA	7		16.667%		Spinnaker Exploration Co.	Black Hills Exploration			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157810	HIA	7		16.667%		Spinnaker Exploration Co.	Spinnaker Exploration Co.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540157810	HIA	7		16.667%		Spinnaker Exploration Co.	Fidelity Exploration & Production			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540171240	GA	241		16.667%		TDC Energy LLC	Houston Exploration			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540171500	HI	175		16.667%		El Paso Production	El Paso Production Company			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540206580	HI	53		16.667%		Forest Oil Corporation	Forest Oil Corporation			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540206600	HI	206		16.667%		Spinnaker Exploration Co.	EOG Resources			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540206600	HI	206		16.667%		Spinnaker Exploration Co.	Spinnaker Exploration Co.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540206600	HI	206		16.667%		Spinnaker Exploration Co.	Hunt Chieftan Development			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540206600	HI	206		16.667%		Spinnaker Exploration Co.	CL & F Resources			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540206600	HI	206		16.667%		Spinnaker Exploration Co.	Fidelity Exploration & Production			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540213460	HIA	18		16.667%		Spinnaker Exploration Co.	Spinnaker Exploration Co.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540213470	HIA	19		16.667%		Spinnaker Exploration Co.	Walter Oil & Gas			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540222380	HI	197		16.667%		Spinnaker Exploration Co.	Continental Land & Fur Co. Inc.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540222380	HI	197		16.667%		Spinnaker Exploration Co.	Spinnaker Exploration Co.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540222380	HI	197		16.667%		Spinnaker Exploration Co.	Westport Resources Corp.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450		0540222410	HI	233		16.667%		TDC Energy LLC	TDC Energy LLC			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005080	HI	52		16.667%		Gryphon Exploration	Energy Resource Technology			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005080	HI	52		16.667%		Gryphon Exploration	American Coastal Energy			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005080	HI	52		16.667%		Gryphon Exploration	Endeavour Oil & Gas			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005080	HI	52		16.667%		Gryphon Exploration	Sterling Energy inc.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005090	HI	52		16.667%		Energy Resource Technology	Energy Resource Technology			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005090	HI	52		16.667%		Energy Resource Technology	American Coastal Energy			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005090	HI	52		16.667%		Energy Resource Technology	Endeavour Oil & Gas			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005090	HI	52		16.667%		Energy Resource Technology	Sterling Energy inc.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005110	HI	52		16.667%		Energy Resource Technology	Energy Resource Technology			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005110	HI	52		16.667%		Energy Resource Technology	Endeavour Oil & Gas			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005110	HI	52		16.667%		Energy Resource Technology	Sterling Energy inc.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005120	HI	53		16.667%		Energy Resource Technology	Energy Resource Technology			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005120	HI	53		16.667%		Energy Resource Technology	American Coastal Energy			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005120	HI	53		16.667%		Energy Resource Technology	Endeavour Oil & Gas			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005120	HI	53		16.667%		Energy Resource Technology	Sterling Energy inc.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005130	HI	53		16.667%		Energy Resource Technology	Energy Resource Technology			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005130	HI	53		16.667%		Energy Resource Technology	American Coastal Energy			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005130	HI	53		16.667%		Energy Resource Technology	Endeavour Oil & Gas			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005130	HI	53		16.667%		Energy Resource Technology	Sterling Energy inc.			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550005180	HI	140		16.667%		Devon Energy Production Co	Devon Energy Production Co			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550007400	HI	53		16.667%		Energy Resource Technology	Energy Resource Technology			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550007400	HI	53		16.667%		Energy Resource Technology	American Coastal Energy			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550007400	HI	53		16.667%		Energy Resource Technology	Endeavour Oil & Gas			Shell Trading
8	LLS	Johnson Bayou, LA	Johnson Bayou, LA	20170230450	8910063810	0550007400	HI	53		16.667%		Energy Resource Technology	Sterling Energy inc.			Shell Trading

Minerals Management Service
RIK - Unrestricted
IFO Effective 04-01-2004
Summary of Due Dates

Enclosure 2

Calendar Month	Nomination Period	Anticipated Due Date for Nominations and Prior Period Adjustments
Mar-04	April 04 Noms	Thursday, March 18, 2004
Apr-04	May 04 Noms	Friday, April 16, 2004
May-04	June 04 Noms	Tuesday, May 18, 2004
Jun-04	July 04 Noms	Thursday, June 17, 2004
Jul-04	August 04 Noms	Friday, July 16, 2004
Aug-04	September 04 Noms	Wednesday, August 18, 2004
Sep-04	October 04 Noms	Friday, September 17, 2004
Oct-04	November 04 Noms	Monday, October 18, 2004
Nov-04	December 04 Noms	Thursday, November 18, 2004
Dec-04	January 05 Noms	Friday, December 17, 2004
Jan-05	February 05 Noms	Tuesday, January 18, 2005
Feb-05	March 05 Noms	Thursday, February 17, 2005