OMB Control Number 1010-0129
Expiration date: June 30, 2003

INVITATION FOR OFFER – MMS/WYOMING RIK OIL EXCHANGE
IFO No. 1435-02-02-RP-40386
October 2002 – September 2003

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 oil from selected Federal and State properties located in the Powder River Basin, for Wyoming Sweet crude oil at Guernsey, Wyoming.

This Invitation For Offer (IFO) is for a **twelve-month** term beginning October 1, 2002. Successful offerors will exchange 100 percent of the Federal and State royalty oil made available at the selected receipt points listed in the Exhibit. Successful offerors will take title of the oil at the property receipt points and will make available the same quantity of Wyoming Sweet crude oil at a designated pipeline transfer point at Guernsey, Wyoming. The successful offeror will be responsible for all transfer fees associated with any pipeline movements. The exact delivery meter at Guernsey will be determined when and if an award in the October 2002 through March 2003/September 2003 "Phase 7" open RIK crude oil competitive sale (IFO No. 1435-02-02-RP-40387) is made.

Offers regarding this IFO must be made in writing and submitted via facsimile (fax number 303-231-3846) **or** email (David.Domagala@mms.gov) **by 10:00 a.m. Mountain Time on August 2, 2002**. MMS will confirm receipt of all offers either by phone or email. MMS will issue a contingent award by 2:00 p.m. Mountain Time on August 6, 2002. Technical questions should be addressed to Dave Domagala at 303-231-3540. State contracting questions should be addressed to Harold Kemp at 307-777-6643 or email at hkemp@state.wy.us.

Offerors should be aware that MMS and the State will solicit offers for royalty oil purchased in Phase 7 at both the lease and at Guernsey. It is possible that the offers for the aggregated quantity of oil exchanged to Guernsey may not be acceptable. If this is the case, MMS and the State will award royalty production at the property instead of at Guernsey. Therefore, this award is contingent on the receipt of acceptable offers for the aggregated barrels at Guernsey in the Phase 7 open competitive sale. If acceptable offers are received, MMS and the State will issue a final award under this IFO by August 15, 2002.

Offers[1]

The Exhibit identifies the royalty oil properties, operators, transporters, estimated daily royalty volumes, and average gravity available for exchange. The royalty volumes

[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.

shown for each package 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 volumes.

Offers will be accepted only for the entire package of royalty oil. Offerors must bid on the full Federal and State royalty volume made available at the property receipt points. Offers must be made on a per-property basis, although the entire package will be awarded to one successful offeror.

The successful offeror assumes all risks associated with exchanging the oil from the receipt points to Guernsey. All royalty oil will be at deemed gravity with no allowance for any gravity bank debits or credits. Offerors should factor any gravity bank debits or credits into their offers.

All line-fill requirements and any other pipeline charges are the responsibility of the successful offeror.

The Exhibit is the offer sheet to be completed and faxed or emailed to Dave Domagala, as listed above, as the official offer. Offerors must record bids on the Exhibit as a value (to the nearest $0.0001), representing the offeror's view of the differences in value from the property and Guernsey (see below). Tiered offers with different prices based on levels of volumes are not acceptable. There will be no more than 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.

Successful offerors are granted the rights to receive royalty oil delivered and made available at the property, not the actual entitlement due the Federal or State government. Imbalances between these two volumes will be resolved between MMS, the State, and operators. Royalty oil from the properties listed in the Exhibit originating from new wells added during the term of this IFO will be automatically added to the volumes exchanged under this IFO.

Exchange

Federal and State royalty volumes will be sold by MMS and the State to the successful offeror at the receipt points listed in the Exhibit. In exchange, the same volumes will be purchased from the successful offeror at Guernsey. The purchase price MMS and the State pays the successful offeror for exchange barrels at Guernsey will be the monthly average of Wyoming Sweet posted prices from Plains, EOTT, Conoco, and Equiva applicable to the month of production. Offerors should subtract their total costs of transportation with other applicable cost items from the average of the four Wyoming Sweet posted prices to arrive at the offeror's purchase price for the barrels at the receipt point. The difference between the two prices is the "net out" difference and will fluctuate penny-for-penny should the applicable tariffs change at any time for any of the properties subject to this agreement. The invoices to MMS and the State will contain only the "net out" difference multiplied by the number of royalty barrels exchanged.

For example, an offeror may submit a purchase price of the average of the four Wyoming Sweet postings less $.8555 for production from the House Creek field. Knowing that MMS and the State will purchase oil back at Guernsey from the offeror at the average of the four postings with no deduction, the “net out” difference becomes $.8555. The offeror would then separately invoice the MMS and the State $.8555 for each barrel of Federal and State royalty production, respectively, from the House Creek field exchanged to Guernsey. If the tariff for the House Creek field rises $0.10 during the term of the contract, the “net-out” difference will be adjusted accordingly. As a result, the new charge would be $.9555 per barrel exchanged from the date the tariff changed forward. Again, there will be no adjustment for any gravity differences between property production and production exchanged at Guernsey.

Term

Contracts will be awarded for exchanging royalty oil for a twelve-month period beginning October 1, 2002 and continuing through September 30, 2003.

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 then receive title to the same quantity of oil at Guernsey. This quantity of oil will be made 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 will nominate delivery volumes at Guernsey no later than the 25th of the month preceding the production month. For information and tracking purposes, these nominations should also be made to MMS and the State.

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 MMS Crude Oil RIK Accounting. The “Crude Oil Transaction Confirmation” package provides points of contact for submission of this information.

Imbalances

Imbalances between volumes received at the property and volumes delivered to MMS at Guernsey 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 at Guernsey in subsequent months. MMS will communicate these volume adjustments in the month following the month of production.

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 judgement, 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. Please visit our web site at http://www.mrm.mms.gov/rikweb/Oilprequal.htm regarding pre-qualification information. Upon pre-qualification, MMS will issue an amount of unsecured credit based on the creditworthiness of the offeror. In most cases where offerors that have previously submitted financial documentation for 2001 or 2002, no additional information will be required. However, MMS reserves the right to request updated financial information in any situation it deems as reasonable and may reissue approved line 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. Failure to provide adequate financial assurance when requested may result in a loss of award, unless the MMS Contracting Officer extends the date.

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.

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, 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 (August 1 to August 31, 2002). 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.
Please submit the calculated amount of financial assurance to Lawrence Cobb (Lawrence.Cobb@mms.gov) of the RIK Office for verification before application is made for an ILOC or Bond. Failure to provide adequate financial assurance within five calendar days of notice of award will result in a loss of award unless the MMS Contracting Officer extends the date.

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.

Exhibit – Offer Sheet

MMS/Wyoming RIK Oil "Buy/Sell" Exchange
IFO No. 1435-02-02-RP-40386

Exhibit
Offer Sheet

Line Code	Lease or Agreement Number	Lease or Agreement Name	Field Name	Operator	Avg. Gravity	Avg. Daily Royalty Bbls	Avg. Daily Royalty Bbls	Oct-01 to Sept-30 12 Month Offer +/-
Powder River Basin: Wyoming Sweet								
Pipeline:	Belle Fourche							
PSW1601	84687U9690	HOUSE CREEK (SUSSEX)	HOUSE CREEK	DEVON ENERGY	35.1	76	26	
PSW1900	W 106652X	N. BUCK DRAW	BUCK DRAW	MERIT ENERGY	57.8	44	6	
PSW4200	048042194A	COYOTE CREEK, BUTTRAM GOV	DONKEY CREEK	TRUE OIL	40.7	4		
PSW4300	048011357C	COYOTE CREEK, PACIFIC OIL 2	DONKEY CREEK	TRUE OIL	41.3	4		
PSW4400	State/Fee Unit 2	GLEASON STATE	SODA WELLS	TRUE OIL	37.7		1	
PSW4479	8910210470	POWELL PRESS. MAINT. UNIT	POWELL	MERIT ENERGY	62.7	19		
PSW4505	W 114211X	HOUSE CREEK NORTH	NORTH HOUSE CREE	ENSIGN OIL & GAS INC	34.5	15		
PSW4517	W 142503A	AFRICAN SWALLOW	SPEARHEAD RANCH	BP OIL/PRICE WATERHOU	54.7	18		
PSW4600	891015482E	PINE TREE	PINE TREE	DEVON ENERGY	40.5	28	0.3	
PSW4700	W 123877X	SAND DUNES (MUDDY)	SAND DUNES	MERIT ENERGY	46.8	131	12	
				Total for Pipeline:		339	45	
Pipeline:	Belle Fourche & Black Hills Trucking Company							
PSW1300	8910194240	HARTZOG DRAW	HARTZOG DRAW	EXXONMOBIL	35.9	325	16	
Pipeline:	Equilon							
PSW1300	8910194240	HARTZOG DRAW	HARTZOG DRAW	EXXONMOBIL	35.9	120		
				Total for Pipeline/Trucked:		445	16	
				Grand Total		784	61	
Note:	Details on the MMS and State lease tract allocations and current royalty rates are available upon request.							