

MMS/MRM/RIK
Mail Stop 330B2

OMB Control Number 1010-0129
Expiration Date: July 31, 2003

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

Royalty Oil Delivery

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

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

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

Fulfillment of Royalty Obligations

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

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

Flash gas will continue to be paid in value.

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

Lessor's Obligation to Take

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

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

Communication with Lessor

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

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

Volume Reconciliation

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

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

You must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submitting the statement. We will monitor and reconcile royalty entitlements with the royalty oil deliveries you make. Reconciliation will involve communication between you and 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 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 royalties 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:

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: Crystal.Tobar@mms.gov or

Mr. Richard Fantel

Telephone: 303-231-3502; Fax: 303-231-3846;

E-mail: Richard.Fantel@mms.gov or

Ms. Karen Krock

Telephone: 303-231-3209; FAX: 303-231-3846

E-Mail: Karen.Krock@mms.gov

- Electronic Funds Transfer:

Mr. Joe Romero

Telephone: 303-231-3123; Fax: 303-231-3501;

E-mail: Joseph.Romero@mms.gov

- Marketable Condition Questions:

Mr. Roman Geissel

Telephone: 303-231-3226; Fax: 303-231-3473

E-mail: Roman.Geissel@mms.gov

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

The Paperwork Reduction Act

The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to document fulfillment of royalty obligations on minerals removed from Federal lands. The MMS uses the information to maintain and audit lease accounts. Responses are mandatory (43 U.S.C. 1334). Proprietary information is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1), (4)), and the Department regulations (43 CFR 2). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB Control Number. Public reporting burden for this form is estimated to average one hour per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Minerals Management Service, Mail Stop 4230, 1849 C Street, NW., Washington, DC 20240.

Sincerely,

Milton K. Dial
Assistant Program Director
for Royalty In-Kind

Enclosures

Minerals Management Service
Royalty in-Kind Program
Unrestricted Crude Oil Sale
Listing of properties eff. October 1, 2003

IFO Package No.	MMS Lease or Unit Agre. No.	MMS Unit Lease	Area	Blk	MMS Facility Measurement Point No.	Offshore Delivery Point	Volume Metered at	Royalty Rate	Operator	Purchaser
1	*054-004473-0		WD	27	20177194300	Venice	WD 27 A	16.67%	ChevronTexaco	ChevronTexaco
2	*754-392006-0	054-008735-0	WD	106	20177193907	WD 106i	WD 106 A	16.67%	Walter Oil & Gas Corp.	ChevronTexaco
2	*754-392006-0	054-008736-0	WD	107	20177193907	WD 106i	WD 106 A	16.67%	Walter Oil & Gas Corp.	ChevronTexaco
2	*754-392006-0	054-015645-0	WD	112	20177193907	WD 106i	WD 106 A	16.67%	Walter Oil & Gas Corp.	ChevronTexaco
2	*754-392006-0	054-015646-0	WD	111	20177193907	WD 106i	WD 106 A	16.67%	Walter Oil & Gas Corp.	ChevronTexaco
3	054-004481-0		MP	77	20177255102	MP 70	MP 77	16.67%	ChevronTexaco	Shell Trading
4	054-002937-0		WD	109	20177194602	WD 109	WD 109	16.67%	ChevronTexaco	ChevronTexaco
4	891-020245-0	054-002937-0	WD	109	20177194602	WD 109	WD 109	16.67%	ChevronTexaco	ChevronTexaco
4	891-020245-0	054-002941-0	WD	58	20177194602	WD 109	WD 109	16.67%	ChevronTexaco	ChevronTexaco
4	054-016479-0		WD	108	20177194602	WD 109	WD 109	16.67%	ChevronTexaco	ChevronTexaco
5	*054-002353-0		HI	110	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	W & T Offshore	Shell Trading
5	*054-002354-0		HI	111	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	W & T Offshore	Shell Trading
5	*054-002357-0		HI	154	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Apache Corp.	Shell Trading
5	*054-003115-0		HI	155	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Fairways Spec. Sales & Svc.	Shell Trading
5	*054-003235-0		HI	139	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Dunhill Resources, Inc.	Shell Trading
5	*054-003236-0		HI	179	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	UNOCAL	Shell Trading
5	*054-003237-0		HI	193	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Exxon Mobil Corp.	Shell Trading
5	*054-003738-0		GA	223	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	TDC Energy LLC	Shell Trading
5	*054-006165-0		HI	177	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	W & T Offshore	Shell Trading
5	*054-006166-0		HI	194	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Apache Corp.	Shell Trading
5	*054-006167-0		HI	195	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Apache Corp.	Shell Trading
5	*054-006168-0		HI	196	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Exxon Mobil Corp.	Shell Trading
5	*054-006180-0		HI	22	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Walter Oil & Gas	Shell Trading
5	*054-008151-0		HI	207	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	EOG Resources Inc.	Shell Trading
5	*054-009032-0		GA	239	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Walter Oil & Gas	Shell Trading
5	*054-014864-0		HI	141	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	TDC Energy LLC	Shell Trading
5	*054-014870-0		HI	202	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Spinnaker Exploration Co.	Shell Trading
5	*054-015740-0		GA	151	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Mariner Energy, Inc.	Shell Trading
5	*054-015742-0		GA	225	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Seneca Resources	Shell Trading
5	*054-015778-0		HI	178	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	UNOCAL	Shell Trading
5	*054-015781-0		HIA	7	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Spinnaker Exploration Co.	Shell Trading
5	*054-017124-0		GA	241	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	TDC Energy LLC	Shell Trading

Minerals Management Service
Royalty in-Kind Program
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IFO Package No.	MMS Lease or Unit Agre. No.	MMS Unit Lease	Area	Blk	MMS Facility Measurement Point No.	Offshore Delivery Point	Volume Metered at	Royalty Rate	Operator	Purchaser
5	*054-017150-0		HI	175	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	El Paso Production GOM	Shell Trading
5	*054-020660-0		HI	206	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Spinnaker Exploration Co.	Shell Trading
5	*054-021346-0		HIA	18	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Spinnaker Exploration Co.	Shell Trading
5	*054-021347-0		HIA	19	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Spinnaker Exploration Co.	Shell Trading
5	*054-022238-0		HI	197	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Spinnaker Exploration Co.	Shell Trading
5	*054-022241-0		HI	233	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	TDC Energy LLC	Shell Trading
5	*055-000518-0		HI	140	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Devon Energy Prod. Co.	Shell Trading
5	*754-388006-0	054-003228-0	GA	180	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Apache Corp.	Shell Trading
5	*754-388006-0	054-003229-0	GA	192	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Apache Corp.	Shell Trading
5	*754-388006-0	054-003236-0	HI	179	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Apache Corp.	Shell Trading
5	*754-388006-0	054-003237-0	HI	193	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Apache Corp.	Shell Trading
5	*891-006381-0	055-000508-0	HI	52	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Gryphon	Shell Trading
5	*891-006381-0	055-000509-0	HI	52	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Gryphon	Shell Trading
5	*891-006381-0	055-000511-0	HI	52	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Gryphon	Shell Trading
5	*891-006381-0	055-000512-0	HI	53	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Gryphon	Shell Trading
5	*891-006381-0	055-000513-0	HI	53	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Gryphon	Shell Trading
5	*891-006381-0	055-000740-0	HI	53	20170230450	Johnson's Bayou, LA	Johnson's Bayou, LA	16.67%	Gryphon	Shell Trading

* Denotes a new property in the RIK program.