

September 1, 2008

**RE: Request for Bids: Sale of Crude Oil Production, Offshore Louisiana**  
**Delivery Term: November 1<sup>st</sup>, 2008 through April 30<sup>th</sup>, 2009**

Dear Mr./Ms. Bidder:

Shell Offshore, Inc., hereinafter referred to as Shell, is soliciting bids for the sale of production from Shell's owned or controlled interest in several offshore Louisiana leases as listed on Attachment "A". The requirements for all bids are specified below.

**PRICING MECHANISM:**

Parties are asked to submit bids on any or all of following pricing mechanisms. Bidders should supply a bid for each lease offered in Attachment "A". Bidders may submit multiple bids with multiple pricing or volume conditions.

◆ **Case 1: DELIVERY (RUN) MONTH or TRADE MONTH PLATT'S Pricing.**

Delivery Month bids should be submitted based on the average *month of delivery* price for the appropriate grade of crude oil as quoted by **Platt's** Oilgram Price Report or **Argus** Media Price Quote, plus or minus any adjustments. (\* Please note that the Argus price quote can now be used for All grades)

Trade Month bids should be submitted based on the average *trading period* price (i.e. 26<sup>th</sup> of the month two months prior to the delivery month through the 25<sup>th</sup> of the month one month prior to the month of delivery) for the appropriate grade of crude oil as quoted by **Platt's** Oilgram Price Report or **Argus** Media Price Quote, plus or minus any adjustments. (\* Please note that the Argus price quote can now be used for All grades)

◆ **Case 2: CONTRACT (TRADE) MONTH NYMEX Pricing adjusted for trade month grade differentials.**

**Contract** Month **NYMEX** bids should be submitted using the arithmetic average of the daily settlement price for the prompt (front) month "Light Sweet Crude Oil" futures contract reported by the New York Mercantile Exchange (NYMEX) for each day when the delivery month is the prompt (front) month crude oil futures contract (typically beginning on or about the 21st day of the month two months prior to the month of delivery typically through the 20th day of the month prior to the month of delivery), adjusted for the trading month differential for the appropriate gulf coast grade (GRADE= HLS, LLS, etc.) of crude, as quoted by **Platt's** Oilgram or **Argus** Media for all reported days of the trading period for the delivery month (usually the 26th of the month two months prior to the month of delivery through the 25th of the month one month prior to the month of delivery), plus or minus any adjustments. (\* Please note that the Argus price quote can be now used for All trade month grade differentials)

◆ **Case 3: CALENDAR (RUN) MONTH NYMEX Pricing adjusted for trade month grade differentials.**

**Calendar** Month **NYMEX** bids should be submitted using the arithmetic average of the daily settlement price for the "Light Sweet Crude Oil" futures contract reported by the New York Mercantile Exchange (NYMEX) for the *calendar (run) month of delivery* (excluding weekends and holidays) adjusted for the trading month differential for the appropriate gulf coast grade (GRADE= HLS, LLS, etc.) of crude, as quoted by **Platt's** Oilgram or **Argus** Media for all reported days of the trading period for the delivery month (usually the 26th of the month two months prior to the month of delivery through the 25th of the month one month prior to the month of delivery), plus or minus any adjustments. (\* Please note that the Argus price quote can now be used for All trade month grade differentials)

◆ **Case 4: CALENDAR (RUN) MONTH NYMEX Pricing includes the *daily roll* and is adjusted for trade month grade differentials.**

**Calendar** Month **NYMEX** bids including the daily roll should be submitted using the arithmetic average of the daily settlement price for the "Light Sweet Crude Oil" futures contract reported by the New York Mercantile Exchange (NYMEX) for the *calendar (run) month of delivery* (excluding weekends and holidays) adjusted for the trading month differential for the appropriate gulf coast grade (GRADE= HLS, LLS, etc.) of crude, as quoted by **Platt's** Oilgram or **Argus** Media for all reported days of the trading period for the delivery month (usually the 26th of the month two months prior to the month of delivery through the 25th of the month one month prior to the month of delivery), plus, the average of the daily NYMEX settlement price for the prompt month when the delivery month is the prompt month less the average of the daily NYMEX settlement price for the second month during the same period, trading days only, times .6667, plus, the average of the daily NYMEX settlement price for the prompt month when the delivery month is the prompt month less the average of the daily NYMEX settlement price for the third month during the same period, trading days only, times .3333, plus or minus any adjustments. (\* Please note that the Argus price quote can now be used for All trade month grade differentials)

### VOLUME LIMITATIONS:

Bidders are requested to include a notional maximum and minimum volume for which a bid price applies. Simply tell us what volume you will accept at the price you provide in your bid. These volume limitations can be with respect to:

- grade (“Company Q bids Platt’s Run-Month less \$1.00 on up to 4,000 bpd of HLS)
- lease (“Company R bids Platt’s Run-Month less \$2.00 on up to 2,000 bpd from Ship Shoal 990)
- total volume (“the bids supplied by Company S apply to between 1,000 and 8,000 bpd of crude offered).

Bids received without a stated maximum total volume will be assumed to have no limit on the volume awarded. *In all cases, the volume awarded will be a percent of the actual production from a specified lease less RIK and Set-Aside volumes, if applicable. The volume figure shown in Attachment “A” represents the most recent 3-month average production rate available less RIK and Set-Aside volumes, if applicable.*

### TRANSPORTATION:

Please direct questions regarding transportation costs on Shell Pipeline proprietary pipelines to Shell Trading U.S. Company representative Chuck Morelli at (713) 230-1949 or Brett Jones at (713) 230-1944. Please direct questions regarding transportation costs on Poseidon Oil Pipeline System to GulfTerra representative David Dover at (713) 803-7933. Bidder can ship at their discretion when deliveries are made to common carrier pipelines. Additional information and contacts can be obtained from the Shell Pipeline Website at [www.shellpipeline.com](http://www.shellpipeline.com). Attachment “A” has direct links to Shell Pipeline’s tariff for all common carrier pipelines that the production may flow through. Delivery shall be from platform facilities (typically custody transfer meters) into transporting pipelines or at the facilities noted in Attachment “A”. Title transfer location, if different from the lease location is noted.

### QUALITY: Sulfur & Gravity

Sales **will not be** adjusted for SULFUR or GRAVITY except for Hoops, Poseidon, NaKika/Coulomb, and Mars Blend crude. Sales for Hoops, Poseidon, NaKika/Coulomb, and Mars Blend (Receipt Bank Only for Mars) crude **will be** adjusted for SULFUR and GRAVITY and bidder shall pass any quality payments/credits incurred back to SHELL. All quality information denoted in the attachment “A” will represent the most recent three-month average for sulfur (if applicable) and gravity for that given lease. For all crude grades not listed above, Bidder shall estimate the impact of sulfur and gravity on price and include an adjustment in their bids to account for any quality payments/credits incurred.

Information regarding quality adjustments and contacts for questions about quality banks for Shell Pipeline pipelines can found at the Shell Pipeline Website at [www.shellpipeline.com](http://www.shellpipeline.com), and detailed Mars Blend quality information can be found at [www.marscrude.com](http://www.marscrude.com). Shell may elect to handle quality in a different manner than described above in future tendering packages.

### TERM:

The Term is six months (fixed) effective for the months as noted above. If the bidder desires, a 30-day evergreen extension may be included as an option on any bid submitted. Acceptance of the evergreen option shall be at Shell’s discretion.

### TENDER SCHEDULE: (approximate 2-hour turnaround)

- ◆ Bids must be received in writing by **10:00 a.m. CST on September 9, 2008 (Tuesday)**.
- ◆ Shell will award ALL VOLUMES at approximately **12:00 p.m. CST on September 9, 2008 (Tuesday)**.

Bid submission options are as follows:

- **mail your bid(s)** to the undersigned at the address below,
- submit your bid(s) through the **website bid response form**,
- **e-mail your bid(s)** to the undersigned at [rick.osullivan@shell.com](mailto:rick.osullivan@shell.com),
- or **fax your bid(s)** to the attention of Rick O’Sullivan at (713) 230-2999. It is suggested that bidders call to confirm receipt of any e-mailed or faxed bids.

### GENERAL:

Shell reserves the right to reject any bid received. Any crude sales resulting from this bid are subject to purchaser meeting Shell’s credit requirements, up to and including a letter of credit, as determined by Shell. Shell’s General Terms and Conditions dated April 2001 shall be applied to all contracts.

If you have any questions or concerns regarding this request for bid, please do not hesitate to call me at my office at (713) 230-1967 or on my mobile phone (281) 731-6526.

Sincerely,

Michael Faulise

**Director of Marketing**

2 Houston Center, Room 7T-144, 909 Fannin, Houston, TX 77010