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May 10, 2007

VIA FEDERAL EXPRESS & ELECTRONIC MAIL (PDF)

Christopher J. Plaisted, Esq.
Attorney-Advisor for Natural Resources
United States Department of Commerce
National Oceanic and Atmospheric Administration
Office of General Counsel
Suite 4470
501 West Ocean Boulevard
Long Beach, CA 90802

Dear Chris:

I write on behalf of K-Sea Transportation Partners L.P. ("K-Sea") to follow up to our letter of January 22nd wherein K-Sea accepted your invitation of December 7, 2006 to participate in a cooperative Natural Resource Damage Assessment ("NRDA") process in accordance with the Oil Pollution Act, 33 U.S.C. §§ 2701 *et seq.* ("OPA"), and 15 C.F.R. § 990.14 related to the release of oil¹ into federal waters of the Gulf of Mexico, approximately 35 nautical miles south of Sabine Pass, Texas and Calcasieu Pass, Louisiana (the "Incident").

As we have discussed, K-Sea wishes to continue its cooperative relationship with NOAA acting in its capacity as the federal Trustee to accomplish the goals set forth in 33 U.S.C. § 2706(c), including determination of the nature and extent of any natural resource injuries that may have resulted from the Incident and, if necessary, to develop and implement an appropriate plan for restoration, rehabilitation, replacement or acquisition of the agreed upon equivalent of the injured natural resources. During our various calls, we agreed on the desirability of a

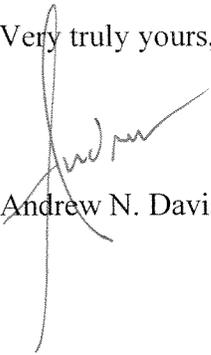
¹ In your December 7, 2006 letter, you quantified the amount of oil released during the Incident to be approximately 3 million gallons. We note that this amount is an estimate and may change depending upon the outcome of the ongoing mass balance calculations.

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cooperative NRDA process for the Incident as a possible means of resolving claims for any injuries and on the desirability of reaching a written agreement on principles for conducting the cooperative NRDA in lieu of a detailed MOA/MOU. To that end, on our call of May 4th, we collectively agreed on the final language of the principles that will guide the cooperative NRDA process for this Incident, which we have appended as Attachment A to this letter.

We look forward to continuing to work with you and your team to address K-Sea's natural resource damage obligations under OPA. If you have any questions or if anything raised herein is contrary to your understanding, please do not hesitate to call me directly at the above-referenced number.

Very truly yours,

A handwritten signature in black ink, appearing to read "Andrew N. Davis". The signature is fluid and cursive, with a long vertical stroke extending downwards from the end of the name.

Andrew N. Davis

Attachment

cc: Richard P. Falcinelli, K-Sea
Austin P. Olney, LeBoeuf, Lamb, Greene & MacRae LLP
Ralph K. Markarian, ENTRIX

ATTACHMENT A

Guiding Principles for NOAA/K-Sea DBL-152 Cooperative Natural Resource Damage Assessment

Goals and Objectives

- The goal of the cooperative assessment process will be the assessment of natural resource injuries in as efficient and cost-effective manner as is reasonably practicable and settlement of the alleged natural resource damage claims without contested litigation. Agreement to this process does not constitute any admission of or any evidence of liability, or constitute a waiver of any claims or defenses by either K-Sea Transportation Partners L.P. ("K-Sea") or the National Oceanic and Atmospheric Administration ("NOAA") (collectively, the "Parties"). The Parties may jointly develop or discuss "debit" and "credit" estimates, but those estimates, and the underlying assumptions, are for settlement purposes only, and would not be binding on the Parties in any subsequent litigation.
- Based on the Parties' initial discussions, the objective of this process is a settlement addressing all Natural Resource Damage ("NRD") liability associated with the release of oil into federal waters of the Gulf of Mexico, approximately 35 nautical miles south of Sabine Pass, Texas and Calcasieu Pass, Louisiana, caused by the allision of the double hull tank barge DBL-152 with an offshore natural gas pipeline service platform that toppled and sank during Hurricane Rita (the "Incident") for injury to natural resources, with the settlement vehicle expected to be a consent decree or consent order and statement of work outlining a project or projects that would offset any agreed upon lost natural resource values caused by the Incident.
- The Parties have initiated and will continue technical discussions to identify resources of potential concern, and anticipate, without determining at this point, that the major focus of restoration will be to address potential injury through habitat creation, protection and/or enhancement.
- The Parties will attempt to analyze injury issues and estimate debit and credit values using existing data to the extent reasonable and by filling data gaps where possible using appropriate, jointly agreed upon scientifically based assumptions rather than new studies, except where the Parties jointly agree on the need for and nature of further technical studies. The Parties agree that assumptions, analyses and conclusions derived from actual observation/empirical data will be assigned greater value/importance than assumptions, analyses and conclusions derived from theoretical or synthetic data and/or modeling in those instances where the Parties agree that the observation/empirical data sufficiently represents the exposure of natural resources to oil and/or injury to natural resources.
- All data, writings, analyses and modeling results collected or developed, including drafts, but excluding internal working documents and analyses as well as data, writings, analyses and modeling results which are protected by attorney-client privilege, shall be fully and freely

shared among the Parties as soon as possible after they are developed, produced or collected as is reasonably practicable.

- The Parties will make all reasonable efforts to complete this cooperative assessment process, with a goal of settlement, except for the public input and judicial approval requirements, by the end of calendar year 2007.
- Either Party may opt out of this process without further obligation under the terms outlined herein by providing thirty (30) days written notice to the other Party. Should K-Sea terminate its participation in this process, however, it agrees that it will reimburse NOAA for its reasonable assessment costs incurred in carrying out work in this process through the effective date of the termination.

Funding/Cost Documentation

K-Sea recognizes that claims for natural resource damages under OPA include the recovery of reasonable assessment costs, as defined at 33 U.S.C. § 2706(d)(1)(C) and 15 C.F.R. § 990.30. K-Sea acknowledges that NOAA will provide appropriate documentation (as described below) of its reasonable assessment costs for which it seeks reimbursement that were incurred prior to September 30, 2006. NOAA may request subsequent payments of past costs, supported by appropriate documentation, at intervals of no less than six (6) months beginning at the time of NOAA's first request for past costs. If K-Sea disagrees with any of the costs, the Parties will communicate promptly to discuss resolution of the disputed items. K-Sea will pay all uncontested amounts no later than sixty (60) days from receipt of appropriate documentation, with payment to be made according to instructions from NOAA.

K-Sea acknowledges that NOAA will submit an accounting of reasonable assessment costs incurred pursuant to the terms outlined herein when seeking reimbursement and that each such accounting shall include a spreadsheet summarizing labor (hours and rates), travel costs, equipment costs, contractors' costs, indirect charges, overhead charges and miscellaneous expenses (e.g., supplies, overnight mail).

K-Sea agrees to review promptly the accounting provided by NOAA and shall process payment to NOAA, or its contractors where direct payments are authorized, within sixty (60) days of receipt of the accounting. The Parties will discuss any issues related to the accounting within this sixty (60) day time period. If K-Sea believes any portion of an accounting is unreasonable, inconsistent with NOAA NRDA regulations or that it contains a mathematical error, it shall pay the undisputed amount and shall attempt to resolve the disputed amount with NOAA. If the dispute cannot be resolved, or if for any other reason the reimbursement has not been paid within ninety (90) days, and should NOAA subsequently prevail in any action to collect any disputed or other such unpaid amounts, K-Sea shall pay, in addition to the amount determined to be owed, interest on said amount calculated from the date that the reimbursement was payable under the terms herein. Any such interest payable by K-Sea shall be calculated in accordance with the Debt Collection Act, 31 U.S.C. § 3717.

Scope of Activities

For the period commencing November 11, 2005, K-Sea agrees to fund all reasonable assessment costs incurred by NOAA in carrying out activities undertaken pursuant to the process outlined herein for resolution of claims for injury, destruction or loss of natural resources or the services provided by those resources resulting from the releases of hazardous substances and/or the discharges of oil from the DBL-152. This obligation to reimburse such costs shall extend to costs of work performed by NOAA personnel or through contractors or others acting on NOAA's behalf that meet the statutory and regulatory definition of reasonable assessment costs.