



P.O. Box 552
Midland, Texas 79702
Telephone 915/682-1626

April 3, 1991

WORKING INTEREST OWNERS:
Proposed Tamano (BSSC) Unit
(Mailing List Attached)

RE: Minutes of March 25, 1991 WIO Meeting

Establishment of Consensus Procedure
Proposed Tamano (BSSC) Unit
Tamano (Bone Spring) Field
Eddy County, New Mexico

Please find enclosed the minutes from the first Working Interest Owners (WIO) Meeting of the proposed Tamano (BSSC) Unit held on March 25, 1991. It is requested that you review these minutes for accuracy and completeness. Amendments and/or additions to the minutes will be made at the second meeting, which is currently scheduled for April 16, 1991 at 10:00 A.M. at Marathon Oil Company's office in Midland, Texas.

At the first meeting, the Working Interest Owners agreed to attempt to establish a consensus procedure by mail prior to April 16, 1991. All WIOs were requested to formulate a voting procedure (prior to the final unitization formula) to be used to establish a consensus regarding pre-unitization matters. These formulas were to be forwarded to Marathon's Midland Office by the close of business on Monday, April 1, 1991.

The Harvey E. Yates Company, HEYCO, was the only WIO to submit a proposed formula. Their two page correspondence to D. D. Taimuty, dated March 27, 1991, is attached for your review. The proposal from HEYCO is a formula of 50 percent surface area and 50 percent usable wellbores. Stipulations include a required approval rate of 85 percent, or, an approval rate of 75 percent with agreement from two parties in addition to Marathon and the Hudson group if the combined voting interest of Marathon and the Hudson Group is a majority. Also, HEYCO has asked Marathon to show how acres and wellbores were calculated. Attachment 1 contains the data Marathon has used to calculate voting percentage based on wellbores and acreage. Attachment 2 and Attachment 3 are Marathon's calculations of voting percentage ~~using surface acres and~~ usable wellbores, respectively.

DDT/TAMANO.024.274/sk

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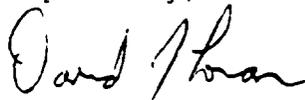
Marathon's proposed formula for a consensus voting percentage is a six-month produced oil volume with the six-month window being October 1, 1990 to March 31, 1991. Marathon also proposes that an approval rate of 75 percent be required to establish a consensus with at least four parties agreeing to the particular proposal in question.

Attachment 4 is a summary of each Working Interest Owner's voting percentage for a consensus procedure using the formula proposed by HEYCO. Attachment 5 is a summary of each Working Interest Owner's voting percentage for a consensus procedure using the formula proposed by Marathon.

Three ballots have been enclosed. Each ballot describes a formula to be used to establish a consensus for pre-unitization matters regarding the proposed Tamano (BSSC) Unit in Eddy County, New Mexico. You are encouraged to review each ballot carefully. If you have any questions regarding any of the ballots, do not hesitate to contact Dan Taimuty at (915) 687-8264. You are asked to indicate your vote on each of the ballots and return all three ballots to Marathon's Midland Office by 4:30 CDT on Monday, April 8, 1991. Marathon's Midland panafax number is (915) 687-8287.

Marathon appreciates your urgent attention to this matter and eagerly awaits your response.

Respectfully,



D. J. Loran
Engineering Manager
Midland Operations



MAILING LIST

WORKING INTEREST OWNERS
PROPOSED TAMANO (BSSC) UNIT

ARCO Oil and Gas Company
P. O. Box 1610
Midland, Texas 79702
Attention: Mr. Jim Hubbard
VIA FAX NO.: 915-688-5250

Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88202
Attention: Ms. Rosemary T. Avery
VIA FAX NO.: 505-622-4221

Hudson and Hudson
616 Texas Street
Fort Worth, Texas 76102-4216
Attention: Mr. Ed Hudson
VIA FAX NO.: 817-334-0442

Kerr-McGee Corporation
P. O. Box 11050
Midland, Texas 79701
Attention: Ms. Donna Suchy
VIA FAX NO.: 915-688-7056

Marathon Oil Company
P. O. Box 552
Midland, Texas 79702
Attention: D. D. Taimuty
VIA FAX NO.: 915-687-8287

Moore and Shelton Co., LTD.
1414 Sugarcreek Blvd.
Sugarland, Texas 77478
Attention: Mr. Donald B. Moore

Pennzoil Exploration & Production Company
P. O. Box 2967
Houston, Texas 77252
Attention: H. W. Hollingshead, Jr.
VIA FAX NO: 713-546-8559

Wainoco Oil and Gas Company
1200 Smith Street, Suite 1500
Houston, Texas 77002
Attention: Mr. Grant Rice
VIA FAX NO.: 713-658-8136

Yates Energy Corporation
500 N. Main, Suite 1010
Roswell, New Mexico 88201
Attention: Mr. Brian K. Luginbill
VIA FAX NO.: 505-623-4947



MINUTES

PROPOSED TAMANO (BSSC) UNIT
WORKING INTEREST OWNERS MEETING
MARCH 25, 1991

- I. Mr. D. J. Loran, Engineering Manager, opened the meeting by welcoming everyone to the first working interest owners meeting of the proposed Tamano (BSSC) Unit. He then introduced the following Marathon personnel:

R. J. Bruner	Development Geology Supervisor
R. W. Tracy	Operations Engineering Supervisor
D. R. Petro	Reservoir Engineering Supervisor
D. D. Taimuty	Reservoir Engineer
T. C. Lowery	Attorney
T. B. Robertson	Land Supervisor
S. H. Knight	Secretary
R. F. Unger	Production Manager

The agenda for the meeting was outlined as follows:

1. Review of field development.
2. Introduction and review of feasibility study.
3. Establish consensus procedure.
4. Vote on Unit expeditor.
5. Identify Land Department contacts.
6. Set date and discuss topics for second meeting.
7. Any other discussion.

After reviewing the agenda, Mr. Loran introduced Mr. D. D. Taimuty.

- II. Mr. Taimuty began by reviewing field development. Drilling activity started in 1987 and continued through January, 1991. Section 11, Township 18 South, Range 31 East, Eddy County, New Mexico was entirely developed on 40-acre spacing. Three wells were drilled in Section 10.

Mr. Taimuty continued by presenting Marathon's feasibility study of the proposed Tamano (BSSC) Unit. Conclusions and recommendations were discussed initially. A peripheral water injection pattern was concluded to be the optimum waterflood plan. Ratification of the plan by working interest owners in May, 1991 was recommended in order to file an application with the New Mexico Oil Conservation Division by May 28, 1991.

The proposed unit area contains all 640 acres of Section 11 and 240 acres of Section 10 described as the southeast quarter and the south half of the northeast quarter. Eight tracts were designated based on known working interests and net revenue interests.

The proposed unit interval was described as the interval between approximately 7,905 feet and 8,190 feet in the Johnson "B" Federal Well No. 4 (Marathon, et. al). The main pay was shown to be the lower resistivity section from roughly 8,050 feet to 8,190 feet.



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WORKING INTEREST OWNERS MEETING
MARCH 25, 1991
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After briefly discussing geology and primary production, secondary recovery was presented. An ECLIPSE™ computer simulator was used to evaluate the reservoir. Production from waterflood projections was concluded to be superior to gas injection forecasts based on net present value. Likewise, a peripheral waterflood plan was economically superior to a down-dip waterflood plan.

A peripheral waterflood plan would involve the conversion of five producing wells to water injection initially. Water injection would begin on January 1, 1992. Two future conversions to water injection were projected. Production facilities would be consolidated. Sufficient production facilities already exist in the Tamano Field; therefore, additional facilities would not be purchased. Also, no additional lift equipment would be necessary because existing lift equipment should be adequate to handle production at the onset of the flood. An initial gross investment of \$1,125,000 for battery consolidation, injection facilities, well conversions and workovers was estimated. Future gross investments in 1991 dollars of \$386,000 were anticipated. This money would be needed for three submersible pumps and well conversions. Economics as shown in the feasibility study were then discussed.

At this point, Mr. Loran presented a time line of proposed future meetings, filing dates and associated events. He reiterated that Marathon desired to have a plan ratified by Working Interest Owners in time to file with the NMOCD on May 28, 1991. Water injection would begin on January 1, 1992. HEYCO indicated that Marathon did not have royalty ratification in the time line. Mr. T. C. Lowry noted that this point was not forgotten and Marathon would address this issue as part of the unitization process.

Discussion regarding establishment of a consensus procedure ensued. Marathon proposed cumulative oil production through December, 1990 as the parameter for reaching a consensus prior to ratification of a unit formula. Pennzoil indicated that cumulative oil production through December, 1990 penalized the Stetco "10" Federal lease due to the late development of the lease compared to the remainder of the Tamano (BSSC) Field. Pennzoil considered current rate to be a more representative parameter. Kerr-McGee indicated a preference for surface acreage and/or usable wellbores because these two parameters have been the basis of consensus procedures in other unitization proceedings. After the Working Interest Owners discussed the merits of various parameters, Pennzoil indicated that they were considering a well proposal to drill a fourth well on the Stetco "10" Federal lease, to be located in the SE SE of Section 10, T-18-E, R-31-E, and that this could possibly affect the consensus procedure. The meeting was then adjourned for lunch.

Immediately following lunch, Pennzoil indicated they were not in a position to vote at the current meeting. Pennzoil did state that they preferred current rate as a first choice for establishing a consensus



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procedure and remaining primary reserves as a second choice. HEYCO indicated that an approval rate of 75 percent may be inappropriate and suggested that 75 percent approval plus three additional parties agreeing or, 80 percent approval would be a better threshold. After some discussion, each company was asked if they were ready to vote. The results were:

WOULD BE ABLE TO
VOTE THIS MEETING

ARCO
Hudson & Hudson
Marathon

WOULD NOT BE ABLE TO
VOTE AT THIS MEETING

HEYCO
Kerr-McGee
Pennzoil
Wainoco
Yates Energy

It was decided that each company would review the feasibility study and submit a proposed formula for a consensus procedure to Marathon on or before the close of business on April 1, 1991. Marathon would summarize the formulas on a ballot and submit the ballot to WIOs for consideration and approval of a final formula. In light of a pending second meeting scheduled for April 16, 1991, every attempt will be made to establish a consensus procedure before this date.

Mr. Loran then discussed the matter of selecting a Unit expeditor and expressed that Marathon would like to have that responsibility. Mr. Bill Hudson made a motion that Marathon be Unit expeditor. The motion was seconded by Mr. Bob Blucher and unanimously passed. With this business completed, the meeting was adjourned.



TAMANO WORKING INTEREST OWNERS MEETING
 ATTENDEES LIST
 MARCH 25, 1991

<u>NAME</u>	<u>COMPANY OR INDIVIDUAL REPRESENTED</u>	<u>TITLE</u>
Robin. Tracy	Marathon	Operations Engineering Supervisor
Randy Bruner	Marathon	Development Geology Supervisor
Dave Petro	Marathon	Reservoir Engineering Supervisor
Dave. Loran	Marthon	Engineering Manager
R. M. Hodgins	Pennzoil	Senior Engineer
J. R. Adams	Pennzoil	Senior Engineer
Bill Hollingshead, Jr.	Pennzoil	Exploration Advisor
Bob Blucher	Pennzoil	Landman
Bill Hudson	Hudson & Hudson	Landman
Randall Hudson	Hudson & Hudson	Geologist
Raymond Gasper	Wainoco Oil & Gas Co.	Engineering Manager
Ray F. Nokes	HEYCO	Production Manager
Leonard Carpenter	HEYCO	Materials Manager
Randal Wilson	HEYCO	Landman
Jack R. Jenkins	Marathon	Hobbs Production Superintendent
Tom Wesling	Marathon	Operations Engineer
Greg Wilson	Marathon	Geologist
Jim Hubbard	ARCO	Joint Interest Engineer
Dave Newell	ARCO	Senior O/A Engineer
Brian K. Luginbill	Yates Energy Corp.	Agent-Reservoir Engineer
Donna Suchy	Kerr-McGee	Joint Interest Engineer
Rosemary T. Avery	HEYCO	Senior Landman
Tim Gumm	HEYCO	Petroleum Engineer
Dan Taimuty	Marathon	Reservoir Engineer
Tom Lowry	Marathon	Attorney
Tim Robertson	Marathon	Land Supervisor
Sandy Knight	Marathon	Secretary



P.O. Box 552
Midland, Texas 79702
Telephone 915/682-1626

April 5, 1991

To: See Attached Mailing List

Re: Proposed Tamano (BSSC) Unit
Tamano Field Area
T-18-S, R-31-E, NMPM
Sec. 10: SE/4, S/2 NE/4
Sec. 11: All
Eddy County, New Mexico

Gentlemen:

Enclosed for your review are copies of the proposed Unit Agreement and Unit Operating Agreement covering the referenced unit. Please review the agreements and provide this office with your comments by May 3, 1991, which will allow the opportunity to remain within the time schedule which has been established to implement the proposed waterflood program by January 1, 1992.

Your cooperation and assistance is greatly appreciated and if there should happen to be any questions regarding this matter, please call the undersigned at the number listed above.

Very truly yours,

MARATHON OIL COMPANY

Randal P. Wilson
Landman

RPW/le
Enclosure

