

LC.  
Wayne Rios  
Bottom  
Fork  
RPIU



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

___	JPS	___
___	NTB	___
___	RLI	___
___	RWK	___
___	PMF	___
___	GAR	___
___	DBW	___
___	FILE	___

May 24, 1991

RECEIVED

Tamano (BSSC) Unit  
Tamano Working Interest Owners  
(Mailing List Attached)

MAY 24 1991  
LAND SURVEY DIV  
MIDLAND, TEXAS

Re: Changes Proposed by Working Interest Owners to Unit Operating Agreement for Tamano (BSSC) Unit and Marathon's Response.  
Submission of Draft 4 for Review

Gentlemen:

Summarized below are the comments received from HEYCO, ARCO, Pennzoil, and Kerr-McGee in response to draft 3 of the Unit Operating Agreement for the Tamano Unit which Marathon sent out on April 5, 1991. Following each comment is Marathon's response which has been incorporated in the enclosed draft 4.

1. Pennzoil has proposed adding as an additional Exhibit a form Notice of Unit Operating Agreement Lien.

Response: This recommendation is accepted in principle, however, Marathon believes a simpler form of lien notice than that proposed by Pennzoil can be used. This form will be sent to you next week.

2. Pennzoil proposes that the second paragraph of page 1 of the Operating Agreement be changed to provide that the Working Interest Owners have executed the Unit Agreement on the same date as the Unit Operating Agreement.

Response: The execution of the two Agreements will probably take place on the same day by any particular Working Interest Owner, however, Marathon sees no reason to require in the Unit Operating Agreement that the two documents be executed the same day.

3. HEYCO proposes to add as a defined term, "Unit Remaining Primary Reserves".

Response: In light of the near unanimous agreement of the Working Interest Owners as to the allocation formula, Marathon sees no reason to add this additional term.

Marathon 32  
10341

RECEIVED  
MAY 24 1991  
MID-CONTINENT REGION  
An Equal Opportunity Employer

Tamano Working Interest Owners

May 24, 1991

Page 2

4. ARCO has asked for the addition a two new Exhibits, one dealing with non-discrimination and the other consisting of a list of the wells to be included within the Unit.

Response: In that Article 23.2 deals with equal employment opportunity, Marathon sees no reason to add a separate exhibit addressing this issue. However a list of wells has been added in draft 4.

5. 3.2.3 ARCO proposes that the following language be deleted: "Unit Operator shall have the right to shut-in, temporarily abandon, or reactivate a well which was shut-in or temporarily abandoned to its former use, without notification to the Working Interest Owners if doing so is reasonably estimated to require a expenditure not in excess of the expenditure limitation specified in Article 3.2.4 herein below."

Response: This proposal is rejected as being unduly restrictive of the Unit Operator.

6. 3.2.4 ARCO and HEYCO propose changing the dollar limit over which Working Interest Owner approval must be obtained to \$25,000 from \$75,000. Pennzoil proposes changing the figure to \$50,000.

Response: A limit of \$50,000 has been used in draft 4.

7. 3.2.5 HEYCO suggests changing the title of this Article to "Disposition of Surplus Unit Equipment", and both HEYCO and Pennzoil suggest tying the provision to Exhibit "D".

Response: Both suggestions are accepted.

8. 3.2.6. HEYCO suggests changing this Article dealing with appearances before a court or regulatory agency on behalf of the Unit to provide that "a representative" will be appointed by the Working Interest Owners rather than the Unit Operator automatically appearing on behalf of the Working Interest Owners.

Response: This change is accepted.

9. 3.2.9. This Article deals with the Working Interest Owners authorizing charges to the joint account for services provided by consultants or Unit Operator's technical personnel in excess of \$25,000 and not covered by overhead charges provided for in the Accounting Exhibit. HEYCO wants to delete this Article on the grounds that this subject is addressed by the Accounting Exhibit. Pennzoil proposes to reduce the approval amount to \$ \$10,000.

Tamano Working Interest Owners

May 24, 1991

Page 3

Response: Marathon has lowered the dollar amount for Working Interest Owner approval to \$20,000 and deleted the phrase "and not covered by the overhead changes provided by Exhibit "D" "while adding the words" but may be charged if approved under Section 3.2.9 of the Unit Operating Agreement" to Exhibit "D" (COPAS) III.1.iii.

10. 4.2. In line 5 before the word "working" HEYCO proposes to insert the phrase " in absence of protest by any qualified member at the meeting."

Response: This proposal is accepted.

11. 4.3.2. This Article deals with the percentages required for the Working Interest Owners to pass any proposal on which they are required to vote. Pennzoil and HEYCO propose that a proposal shall only pass if it receives 80% of total Unit Participation, with three Working Interest Owners voting in favor.

Response: Marathon has left this provision as originally proposed on the basis that the language is standard for these types of agreements and the proposed language is much too restrictive on Unit Operator.

12. 5.2.3. (new article) HEYCO proposes the addition of an Article setting out the right of Working Interest Owners to purchase "production...attributable to the interest owned by said Working Interest Owner".

Response: This proposal appears to give the Working Interest Owners the right to buy something they already have the right to take in-kind under the Unit Agreement. Therefore, this proposal has not been used.

13. 7.9. This Article addresses the dollar limit on Unit Operator expenditures without receiving approval of the Working Interest Owners. HEYCO proposes lowering the limit to \$25,000 while Pennzoil suggests lowering it to \$50,000. With regard to expenditures during emergencies, HEYCO suggests adding the language "which may otherwise cause loss of life or extensive damage to property" after the word emergency in line 5 of the Article.

Response: This limit has been changed to \$50,000. The suggested language change is rejected as too restrictive on Operator.

14. 8.2. Pennzoil suggests that this Article be changed to require that the Unit Operator pay all production, severance, gathering and other taxes and assessments imposed upon production.

Response: Marathon feels these obligations should continue to be borne by the individual Working Interest Owners.

**Tamano Working Interest Owners**

May 24, 1991

Page 4

15. 10.1.2. HEYCO proposes deleting the following language which begins in line 9: "to each Tract Operator who was responsible for delivery of same to Unit Operator." HEYCO also proposes deleting the language beginning in line 13 of this Article which reads "the individual Operators shall have ninety (90) days from the date of notification in which to remove the surplus property returned to them. Surplus property shall then be disposed of by each Tract Operator in accordance with the respective Joint Operating Agreement which governs each Tract. If the surplus property has not been removed from the Unit Area within the ninety (90) day period, then Unit Operator shall have the right to dispose of the property in a good and workmanlike manner as would a prudent operator under the same or similar circumstances." HEYCO would then replace the deleted language with the following: " the Unit

Operator shall be responsible for the disposal of surplus equipment, following Exhibit "D" ( COPAS) guidelines, and normal practices. Credit then can be given to Working Interest Owners."

Response: This proposal may cause the Unit Operator to have to purchase surplus property from the Working Interest Owners at above market price. Therefore it has been rejected.

Pennzoil proposes to add after the word "disposition" in the next to last line of this Article, the language "in excess of removal or cleanup costs" and to add at the end of the Article the language "any costs in excess of the proceeds credited to the Working Interest Owners will be charged to the Working Interest Owners in the specific Tract."

Response: These proposals are accepted.

16. 10.2. HEYCO proposes to change the word "may" to "shall" in line 13 of this Article. HEYCO also proposes to delete the clause "after the determination by the Unit Operator as to surplus property" which appears in line 18 of this Article.

Response: Both of these changes are rejected.

17. 10.4. HEYCO proposes deleting the last sentence of this Article.

Response: This change is rejected as not making any real change in the meaning of the Article.

18. 11.3. Pennzoil proposes adding the word "itemized" before the word "estimate" in line 11 of this Article.

Response: This change is accepted.

**Tamano Working Interest Owners**

May 24, 1991

Page 5

19. 14.2. This Article has to do with the dollar authority given to Unit Operator to settle claims against the Unit. HEYCO and Pennzoil suggest reducing the authority from \$50,000 to \$25,000.

Response: This change has been used.

20. 17.1. HEYCO proposes that the language "in and to its lease, leases, or other operating rights, insofar and only insofar as said lease, leases or operating rights pertain to the unitized formation" be inserted in line 3 of this Article after the word "Rights".

Response: Because "Oil and Gas Rights" is a defined term which only describes an Interest Owner's rights in the Unitized Formation underlying the Unit Area Marathon sees no reason to add this language.

21. 17.2. Pennzoil proposes to delete the clause " if it's Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess one-eighth (1/8) lessors royalty" and replaced it with the language " if such Working Interest Owner creates a carved-out interest as specified under Article 11.7 hereof".

Response: This change is rejected on the basis that the Working Interest Owners should keep the right to reject the tender by another Working Interest Owner of an interest which is heavily burdened, regardless of when that excess burden may have been created.

22. 18.1. Pennzoil proposes to change the language of this Article to give each Working Interest Owner in a Tract the option to take over a well on the Tract.

Response: In that the Unit Operator would have no way to deal with competing elections to take over a well by multiple Working Interest Owners owning in a Tract, Marathon believes this Article should be left as originally written with the option having to be exercised by the Working Interest Owners who own in a Tract as a whole.

18.1 Pennzoil proposes adding as a new second sentence to this Article the following language: "However, such deepening or plug back operations shall be governed by the applicable operating agreement(s) affecting such Tract."

Response: This proposal has been used.

23. 19.1. HEYCO proposes to change the language of this Article dealing with the Effective Date of the Agreement, so that the Agreement is not binding on any party until it has become effective.

Tamano Working Interest Owners

May 24, 1991

Page 6

Response: Marathon feels that once a party executes the Unit Agreement and Unit Operating Agreement it should be committed to the project until the project terminates under the provisions of the Unit Agreement.

19.1. Pennzoil proposes adding the language "which date shall also be the Effective Date of this Agreement" at the end of the Article.

Response: This language is rejected as adding nothing.

24. COPAS I.3.B. Pennzoil proposes changing the time period within which a non-operator shall pay its bills to thirty (30) days instead of fifteen (15) days.

Response: This change is accepted.

25. COPAS IV.2.E. ARCO proposes that we go back to the original language of the COPAS form providing for a charge of \$.25 per hundred weight of tubular good movements.

Response: This change is not used on the grounds that the \$.31 figure is \$.25 escalated from 1985 to present under the provisions of Section III.1.A(3) of COPAS.

26. Exhibit "E", Insurance Requirements: HEYCO proposes that the Operator be required to purchase for the joint account Comprehensive General Public Liability and Automobile Public Liability and Property Damage insurance.

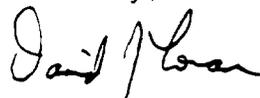
Response: This proposal is rejected on the grounds that Marathon's corporate policy is to remain self-insured whenever possible. Comments submitted by Pennzoil indicate a similar position on the part of that company.

27. Exhibit "F", Gas Balancing Agreement: Pennzoil has proposed certain changes to this Agreement to make it more applicable to Unit Operations.

Response: This proposal is accepted. Attached to draft 4 is a revised Exhibit "F". Underlined are the areas where language has been added or replaced. Asterisks indicate language deletions.

Your early review of draft 4 is requested. A ballot seeking approval of draft 4 will be sent out next week.

Sincerely,



D. J. Loran  
Engineering Manager

xc: D. D. Taimuty                      L. Lomas  
      J. P. Bush                         B. Loper