

MEMORANDUM OF AGREEMENT

**TEXACO EXPLORATION & PRODUCTION, INC.
BAKERSFIELD REGION**

**OFFER TO AMEND THE
COLLECTIVE BARGAINING AGREEMENT BETWEEN
TEXACO EXPLORATION & PRODUCTION, INC.
BAKERSFIELD REGION**

AND

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION, AFL-CIO

**AND TO TERMINATE THE
COLLECTIVE BARGAINING AGREEMENT BETWEEN
SANTA FE ENERGY RESOURCES, INC.
WESTERN DIVISION**

AND

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION, AFL-CIO

It is hereby agreed by and between Texaco Exploration & Production, Inc., Bakersfield Region (hereinafter called the "Company") and the Oil, Chemical and Atomic Workers International Union, AFL-CIO (hereinafter called "Union") that the following understandings have been reached in contract negotiation meetings for a new labor Agreement between the parties.

I. AGREEMENT

From the effective date of the ratification of this Memorandum of Agreement all pre-merger Monterey Resources, Inc. (MRI), represented employees currently covered by the MRI (Santa Fe Energy) contract will be merged into the Texaco bargaining unit and will be covered by the Texaco contract, as modified in this Memorandum of Agreement.

Article I of the Texaco Contract is amended by adding the following paragraphs:

In addition, this contract applies to those field development, production and maintenance employees formerly employed by MRI and formerly covered by a collective bargaining agreement between MRI and the Union.

All employees covered by this agreement will be eligible to work in any represented position for which he is qualified in any field specifically listed in this Article and in any represented field acquired from MRI by Texaco. Nothing in this paragraph is intended to change the language or meaning of any provision of Article V of the Collective Bargaining Agreement.

*Note: The former MRI garage in the San Joaquin Valley West Area is part of the Texaco bargaining unit.

Upon merging the pre-merger MRI represented employees into the Texaco bargaining unit and contract, the former MRI contract will terminate. Any grievances on file and received from MRI represented employees prior to the effective date of this Memorandum of Agreement will be handled in accordance with the grievance/arbitration procedures in the MRI contract. Any grievances received on or after the date of this Agreement will be handled in accordance with the Texaco OCAW Agreement.

II. BENEFITS

All pre-merger Monterey represented employees will be enrolled into Texaco's Benefit Plans for Represented Employees according to the terms specified in this Article. The Benefit Plans include but are not limited to the following plans:

- The Group Pension Plan of Texaco Inc.
- The Group Life Insurance Plan of Texaco Inc.
- The Vacation Plan of Texaco Inc.
- The Accident & Sick (A&S) Benefit Plan of Texaco Inc.
- The Permanent Total Disability (PTD) Plan of Texaco Inc.
- The Accidental Death & Dismemberment (AD&D) Insurance Plan of Texaco Inc.
- The Severance Pay Plan of Texaco Inc.
- The Benefit Cost Reduction Plan of Texaco Inc.
- The Employees Savings Plan of Texaco Inc.

Texaco agrees to recognize all pre-merger MRI/Santa Fe Energy/McFarland Energy service for the same benefit plan purposes for which it was recognized by MRI except any combined MRI/Santa Fe Energy/McFarland Energy & Texaco service credited to represented employees prior to the date Texaco's Group Pension Plan becomes effective for these employees will be recognized solely for purposes of eligibility and vesting under that Plan and will not be recognized for purposes of pension accrual.

The Company will enroll pre-merger MRI employees into the current alternate medical and dental plans already established by the Texaco OCAW Statewide Committee, and the contribution rates for the current alternate medical and dental plans, as applicable, will apply to pre-merger MRI employees.

Any pre-merger Monterey welfare benefit plans, policies and employee programs which may or may not have been included in any labor agreement, if not heretofore discontinued, shall be discontinued upon the earlier of enrollment into the Texaco Benefit Plans or thirty days after the first day of the calendar month after the effective date of this Memorandum of Agreement. Any pre-merger Monterey defined benefit and defined contribution plans shall be discontinued on the date MRI employees become eligible to participate in Texaco's defined benefit plan (Group Pension Plan of Texaco Inc.) and defined contribution plan (Employees Savings Plan of Texaco Inc.), respectively, and the MRI plans will be merged into Texaco's corresponding defined benefit plan (Group Pension Plan of Texaco Inc.) and defined contribution plan (Employees Savings Plan of Texaco Inc.), subject to receiving a favorable determination from the Internal Revenue Service before such action.

When pre-merger MRI employees become eligible for membership in the Texaco Group Pension Plan, they will cease to accrue pension benefits under the terms of the MRI Defined Benefit Plan, but will retain all other rights and privileges under the terms of the Plan. When Texaco receives a favorable determination from the Internal Revenue Service for the MRI Defined Benefit Plan, the accrued pension benefits of all plan members and the Plan's assets will be merged into the Texaco Group Pension Plan. Upon the merger and transfer of pension liabilities and assets from the MRI Defined Benefit Plan to Texaco's Group Pension Plan, each pre-merger MRI plan participant will be entitled to the pension accrued under the terms of the MRI Defined Benefit Plan as of the date immediately preceding the date of the plan merger, and in no event will any pre-merger MRI plan participant receive less than this benefit under the terms of the Texaco Group Pension Plan. The provisions of the MRI Defined Benefit Plan will continue to apply to that portion of each member's pension benefit accrued under that Plan before becoming eligible for the Texaco Group Pension Plan, except that effective on the date of the plan merger (1) the minimum service requirement for early retirement eligibility with respect to each member's accrued MRI pension benefit will be reduced from 15 years to 10 years of vesting service, and (2) the actuarial conversion factors used under Texaco's Group Pension Plan to calculate optional forms of payment will be used (a) to convert the 5-Year Term Certain normal form of payment for single employees under the MRI Defined Benefit Plan to a Straight Life Annuity and (b) to calculate optional forms of payment available to pre-merger MRI plan members for their accrued MRI pension benefit. The 5-Year Term Certain form of payment will also continue to be available to MRI plan members, without change. Further, MRI plan members may elect to receive their accrued MRI pension benefit in any optional form of payment available under the Texaco Group Pension Plan, except the Cash (Lump Sum) Option. All provisions of the Group Pension Plan will apply to the portion of each member's pension benefit accrued on and after the date he or she becomes eligible for the Texaco Group Pension Plan.

Before the MRI Defined Contribution Plan for Hourly-Rated Employees is submitted to the Internal Revenue Service for favorable determination, it will be amended (1) to eliminate the 50% Joint and Survivor Annuity as the normal form of payment for married participants, (2) to adopt a single cash payment (lump sum distribution) as the normal form of payment for all participants regardless of marital status, and (3) to eliminate optional

forms of annuity payments for any eligible employee who becomes a plan participant after the effective date of the amendment. Effective immediately upon the merger of the MRI Defined Contribution Plan into the Texaco Employees Savings Plan, all participants, including non-vested participants immediately prior to the merger, will be 100% vested in their Texaco Employees Savings Plan account, which will include any funds transferred from their MRI Defined Contribution Plan account.

The Company will not voluntarily discontinue, change or modify the above Plans during the term of the Agreement in such a way as to decrease the benefits under the Plans to any employee covered by this Agreement; provided, however, that periodic adjustments in actuarial factors used to achieve actuarial equivalence under the Group Pension Plan shall not be considered as changes or modifications of the Plan and shall not be construed as decreases in benefits under the said Plan.

III. SENIORITY

The Company will recognize pre-merger Monterey represented employees' MRI/Santa Fe Energy Company Seniority (i.e., date of hire recognized by MRI/Santa Fe Energy) for purposes of Company and Department Seniority as defined under Article V, paragraphs A & B of the Texaco contract. In addition, the Company will recognize Company Seniority of the former McFarland Energy employees (i.e., date of hire recognized by McFarland Energy) for purposes of Company and Department Seniority as defined under Article V, paragraphs A & B of the Texaco contract.

IV. WAGES

Pre-merger Monterey represented employees will be placed under Texaco's negotiated rates as shown in Appendix A-1. The Company will pay a non-benefit bearing lump sum payment to those pre-merger Monterey Automatic Control Repairman and Production Operators. The lump sum will be calculated based on the difference between the pre-merger Monterey negotiated rate effective 02-01-97 plus 3.5% and the 02-01-98 rate specified in Appendix A-1 times 40 times the number of full weeks between the effective date of this Memorandum of Agreement and January 31, 1999. The lump sum will be paid within a reasonable time after this Memorandum of Agreement has been ratified.

The new rate structure is as follows:

APPENDIX "A-1"					
TEXACO	EQUIVALENT PRE-MERGER MONTEREY	RATE PER HOUR			
<u>CLASSIFICATION</u>	<u>CLASSIFICATION</u>	<u>2/1/98</u>	<u>2/1/99</u>	<u>2/1/00</u>	<u>2/1/01</u>

Head Operator		\$22.47	\$23.26	\$24.07	\$24.91
- Gas Plants					
- Field Service	- Leadman; Mechanic Leadman				
- Facilities					
- Electrical					
Craftsman		\$21.96	\$22.73	23.53	\$24.35
- Electrical	- Automatic Control Repairman				
- Instrumentation					
- Machinery Repair	- Mechanic; Repairman;				
- Welding	- Welder				
Operator	- Auto. Control Repairman Apprent. - Heavy Equipment Operator - Production Operator - Mechanic Apprentice - Repairman Apprentice - Utilityman "A", "B", "C"	\$21.17	\$21.91	\$22.67	\$23.47
Fieldman		\$14.74	\$15.26	\$15.79	\$16.34

*Note: Pre-merger MRI/Santa Fe Energy employees will be "Grandfathered" into the Texaco equivalent classification as outlined above, without the necessity for completing additional training for that classification, as explained in Article V, D, 4.

**Note: Article V, D, 4, d, is amended to add paragraph (4) which states:

Former MRI employees in the Leadman and Mechanic Leadman classification will be grandfathered into the Head Operator classification without the necessity for completing additional training for that classification. The former MRI employee holding the classification Mechanic Leadman currently assigned to the Garage in the San Joaquin Valley West Area will be grandfathered into the position Head Operator until such time as the employee is bumped out of or bids out of the Garage. The employee must meet then current training requirements to be eligible for assignment to any other position as Head Operator or for bidding to any position in another classification.

Former MRI employees in the classifications Automatic Control Repairman, Mechanic, Repairman and Welder will be grandfathered into the Craftsman classification, shown in Appendix "A-1", without the necessity for completing additional training for that classification. Former MRI employees in the classification Craftsman Welder will be subject to the annual recertification requirements of Article V, D, 4, e, commencing in 1999.

Former MRI employees in the classifications Automatic Control Repairman Apprentice, Heavy Equipment Operator, Production Operator, Mechanic Apprentice, Repairman Apprentice and Utilityman "A" employees will be grandfathered into the Operator classification without the necessity for completing additional training for that classification. Former MRI employees in the classifications Utilityman "B" and "C" will be temporarily grandfathered to the Operator classification, subject to the condition that they will have 12 months from the date of this agreement to complete all steps listed in Appendix B-1 which are necessary to qualify for the Operator classification. Former MRI Utilityman "B" and "C" employees who complete qualification for Operator within the 12-month window will become permanent in the Operator classification. Former Utilityman "B" and "C" employees who do not complete the qualifications for Operator within 12 months will be demoted to Fieldman and will have an additional 12 months, as if they were a new Fieldman, to complete all steps listed in Appendix B-1 which are necessary to qualify for the

Operator Classification.

The Company will submit to the Union for review, comment and agreement to an MRI Training Conversion Table that, when agreed to, will be added to Appendix B. The Training Conversion Table will identify course equivalents for MRI training courses, which satisfy Company training requirements. Former MRI represented employees who have successfully completed a MRI course will be credited with completing the equivalent Company course when completing the qualifications to bid to a new classification.

V. SAFETY

Article XI, Paragraph K is amended as follows:

The Company will, at its expense, provide for training of one (1) Union member of the Joint Committee in the Ventura Area, a total of four (4) such members from the San Joaquin Valley West Area, and two (2) such members from the Kern River Area, twice during the term of this Agreement, when such training is requested by the Union members of the Committees. Such training will be in such areas as hazard evaluation and industrial hygiene measurements and shall not exceed five (5) days per trainee and will be conducted by qualified individuals, institutions, or organizations recognized in the field and mutually acceptable to the International Union President or his designee and to the Bakersfield Division.

Article XI, Paragraph F is amended as follows:

There shall be established at each location a joint Labor-Management Health and Safety Committee consisting of an equal number of Union and Company representatives, but not more than three each, to be known as the Health and Safety Committees, hereinafter referred to as the "Joint Committees."

VI. Article XIV, Paragraph A, 3 is amended as follows:

"One day at a time" vacation in other than consecutive days, not to exceed fifteen days per years, may be requested in accordance with the following guidelines. The Company will allow employees to use two (2) days (sixteen hours) of the fifteen (15) days vacation to be broken into half (1/2) day vacations:

VII. Article IX, Paragraph D, 3, will be amended with the addition of the following field location:

		Total Mileage Paid @ Company Approved Mileage Allowance**	Daily Transp. Allowance
<u>Living Center</u>	<u>Field</u>		
Taft	Belridge	31	\$9.92

- VIII. Commencing on the effective date of this Memorandum of Agreement, MRI employees will be bound by the terms of Texaco Company policy documents such as the Corporate Conduct Guidelines (see attached copy of Memorandum of Agreement dated 03/20/96) and the Substance Abuse Program for Represented Employees. Within a reasonable time after the effective date of this Memorandum of Agreement, Company will deliver copies of those policies to all former MRI represented employees.
- IX. While the parties, in negotiating this Memorandum of Agreement, consider and believe that all terms are in compliance with all legal and Government regulations and requirements, the parties hereby agree that if any provision(s) of the Labor Agreement or this overall settlement should be held to be invalid or in non-compliance with any provision of any Federal or State law or regulation, each and every provision of the remainder of the settlement shall not be affected thereby.

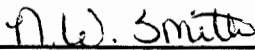
Dated this 20th of March, 1998.

**OIL, CHEMICAL AND ATOMIC WORKERS
INTERNATIONAL UNION, AFL-CIO**

**TEXACO EXPLORATION &
PRODUCTION, INC.
BAKERSFIELD REGION**



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