

March 6, 2001

Minerals Management Service  
Attention: Rules Processing Team  
Mr. John Mirabella

Re: Comments on Proposed Changes to 30 CFR Part 256,  
Regarding Bonding to the Minerals Management Service ("MMS")

I represent RLI Insurance Company and Planet Indemnity Company, two insurance companies that provide a substantial part of the current bonding to the MMS. The proposed changes in the above-referenced regulation represent some needed clarifications to current bonding statutes. However, listed below are additional clarifications which I believe would be useful in certain areas:

1. Cancellation of Bonds vs. Termination of Bonds

Currently, both supplemental bonds and base bonds are primarily terminated by the MMS. They are only canceled if the plugging and abandonment ("P&A") work is actually performed or if a replacement bond is issued that includes a "Prior Liability Rider", which picks up all liability accruing under the previous bond. I believe the proposed regulations attempt to expand and clarify this situation but I believe more clarification is necessary. If the intent of the proposed regulations are to effect cancellation of supplemental bonds upon replacement by a bond of equal or greater value, then that should be clearly stated as a stand alone requirement. The requirement of a "Prior Liability Rider" appears to be extraneous if this is the intent. I believe a clear statement that any replacement supplemental bond automatically cancels the prior bond would clear up the issue. Section 256.58(b)(1) should be changed to

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read "*and/or*" Section 256.58(b)(2) should have the following phrase added to the end "*that covers the same obligations as the bond which it is replacing*".and Additionally, the sale, transfer, or change in operating, or inclusion of an exempt party on the property currently trigger the termination of the supplemental bond. Again, if the intent is that the exempt party will assume all P&A obligations, then a cancellation should be effected on the supplemental bond, not a termination. I believe an additional section should be added that describes this.

Currently, many sureties continue to charge on bonds terminated and/or continue to hold collateral until the six (6) year time period runs. If the intent, upon meeting the obligations, is to cancel, then I believe it should be stated clearly and/or the definition of meeting the obligations *vi*à-à-*vi* posting new bonds or inclusion by an exempt party to be more clearly defined. In short, I believe a clear statement that supplemental bonds will be canceled when replaced by another bond or by an exempt party should be made.

I also believe a similar statement should be made about base bonds, save and except failure to make payments (royalties) during the term the bond was in force and any/or liability arising from wells plugged during the term of the bond that subsequently leak. The other exceptions, i.e., for misrepresentations and fraud are valid concerns and should continue to be the exception to cancellation.

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2. Terms of the "Look Back" Period

Currently, six (6) year period is used to "reactivate" any bonds where a problem might arise. To the extent the suggestions in 1. above are adopted, the reactivation period is less important. However, the seven (7) year period seems to be excessive. Any royalty audits can be made in a lesser time period. To the extent the base bond is reduced to only reflect possible royalty underpayments, the impact of the extended period is mitigated. However, although very few companies use cash for the base bonds, the holding of any such cash will have devastating consequences.

I hope these comments help to shed some light on any concerns from the surety side of the business. Please do not hesitate to call if I can be of any assistance.

Yours truly,

Roy C. Die  
Vice President, RLI Insurance Company  
President, Planet Indemnity Company

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