

m. mealy 9/3/99

3 SEP 1999

In Reply Refer To: MS 5422

Mr. David H. Rhodes
Frontier Insurance Company
2636 Elm Hill Pike, Suite 500
Nashville, Tennessee 37214

Dear Mr. Rhodes:

On August 27, 1999, Mr. Scott Sewell of Petro-Marine Underwriters, Inc. delivered to this office four notices from you dated August 4, 1999, purporting to cancel and terminate the period of liability on four surety bonds, Nos. 121569 (OCS-G 9727, Main Pass 291), 121570 (OCS-G 1670, Main Pass 293), 127674 (OCS-G 3280, West Cameron 405) and 121571 (Pipeline Right of Way). These were bonds issued by your company to secure the plugging and abandonment obligations for Leases OCS-G 1670, G 3280 and G 9727 and all pipeline right-of-way reclamation obligations of the Allied Natural Gas Corporation, secured by substantial collateral furnished by the lessee of the bonded leases. The aforementioned leases expired in August of this year by operation of law for failure to resume production or other lease-holding operations.

Bonds provided to MMS pursuant to the regulations at 30 CFR Part I are not subject to your unilateral cancellation or termination of the period of liability. MMS cannot give you a written cancellation instrument under 30 CFR 256.58(c) because we cannot make the determinations set forth in 30 CFR 256.58(b). The lessee has not secured a replacement bond and the lease obligations for which the bond was given have not been performed. We will, however, terminate the period of liability for which Frontier is responsible as of the close of business this Friday, September 3, pursuant to the terms of 30 CFR 256.58(a). Consequently your company will not be responsible for obligations or liabilities which accrue after September 3, 1999.

We draw your attention to the provisions of 30 CFR 256.58(a). The termination of the period of liability under the bond does not release the surety. Rather, the surety is liable for all obligations and liabilities that accrued before the effective date of the termination of the period of liability. Under your supplemental bond, the relevant accrued obligations are the obligation to plug the wells, remove the platform, and clear the sea floor of obstructions to other uses pursuant to 30 CFR 250.700 et seq. and abandon a pipeline right-of-way pursuant to 30 CFR 250.1006. Those obligations accrue to the lessee at the time the well is drilled, the platform or other facility is

installed, or the obstruction is created and are the obligations of subsequent lessees and holders of operating rights until the obligations are satisfied. See 30 CFR 250.700(b)(1).

The grounds for cancellation enumerated in your notice dated August 4, 1999, and delivered August 27, 1999, do not give rise to cancellation under the MMS regulations of which you were on notice when you provided your bond. Nor are they relevant to your effort to terminate the period of liability on the bond, which we herein approve effective one week after receipt of your request.

If we can be of further assistance, please contact Mr. John Rodi at (504) 736-2768.

Sincerely,

(Orig. Sgd.) Chuck Hopson

Chuck Hopson
Chief, Leasing Activities Section
Leasing and Environment

cc: Mr. Dillon Murchison
Petro-Marino, Inc.
225 Baronne Building, Suite 1704
New Orleans, Louisiana 70112

Mr. Charles A. Sharman
Allied Natural Gas Corporation
1001 Fannin, Suite 900
Houston, Texas 77002

Ms. E. Kathleen Shahan
Civil Division
U. S. Department of Justice
1101 L Street, NW, Room 10026
Washington, DC 20530

Mr. Dennis Daugherty
Office of the Solicitor
Division of Mineral Resources
1849 C St., N.W., Room 6312
Washington, DC 20240

Mr. John S. Brannon
(Counsel for Chapter 7 Trustee
for Allied Natural Gas Corp.)
Morris & Campbell
600 Jefferson, Suite 800
Houston, Texas 77002

bc: Chief, Office of Enforcement, RMP (MS 3030)
Lake Charles District (MS 5271)
New Orleans District (MS 5250)
1101-02f - OCS-G~~1~~670, 3280, 9727 (MS 5032)
ORD Reading File (MS 5000)
B. Martin (MS 5200)
A. Alverado (MS 5232)
C. Moser (MS 5322)
S. Waddell (MS 5421)

CWilliams:mmm:9/3/99:a:\august.ltr