

By: Hughes

H.C.R. No. 256

CONCURRENT RESOLUTION

1 WHEREAS, Gulf Energy Exploration Corp. alleges that:

2 (1) Gulf Energy Exploration Corp. acquired four
3 inactive "orphaned" wellbores in Sherman Field, Offshore Calhoun
4 County, Texas, that are strategically located to enhance the
5 capture of reserves that would otherwise be uneconomical to
6 recover;

7 (2) One of these orphaned wellbores is designated
8 "State Tract 708-S No. 5";

9 (3) Gulf Energy Exploration Corp. intends to rework
10 the orphaned wellbores it owns in Sherman Field and tie them back in
11 to the Sherman pipeline system;

12 (4) In a conference on May 19, 2008, representatives
13 from Gulf Energy Exploration Corp., the Railroad Commission of
14 Texas, the Office of the Attorney General of the State of Texas,
15 American Coastal Energy, Inc., and bankruptcy counsel for American
16 Coastal Energy, Inc., reached a tentative settlement and
17 forbearance agreement, pending approval of the commission,
18 attorney general, and bankruptcy court;

19 (5) On or about May 25, 2008, the Railroad Commission
20 of Texas wrongfully plugged and abandoned State Tract 708-S No. 5,
21 using Superior Energy Services, Inc., as the plugging contractor;

22 (6) By June 9, 2008, all parties to the agreement of
23 May 19, 2008, had signed the settlement and forbearance agreement;

24 (7) On June 27, 2008, Gulf Energy Exploration Corp.

1 paid a deposit of \$400,000 and filed Certificates of Compliance and
2 Transportation Authority with the Railroad Commission of Texas;

3 (8) On June 30, 2008, the Railroad Commission of Texas
4 held a hearing and legal examination, and J.W. "Bill" Rhea IV, who
5 was at the time the president and chief executive officer of Gulf
6 Energy Exploration Corp., testified on the merit and benefit of
7 Gulf Energy Exploration Corp.'s Certificates of Compliance and
8 Transportation Authority;

9 (9) In a memorandum dated August 11, 2008, requested
10 by the Railroad Commission of Texas following the hearing on June
11 30, 2009, Gulf Energy Exploration Corp. submitted a brief
12 discussion and proposed operation of each of its orphaned wells in
13 Sherman Field, including State Tract 708-S No. 5, and its reserve
14 potential;

15 (10) On September 9, 2008, the Railroad Commission of
16 Texas approved Gulf Energy Exploration Corp.'s Certificates of
17 Compliance and Transportation Authority and rescinded its previous
18 plugging orders;

19 (11) On November 10, 2008, Superior Energy Service,
20 Inc., provided a wellbore diagram in support of the workover or
21 recompletion procedure to be performed by Gulf Energy Exploration
22 Corp. on State Tract 708-S No. 5;

23 (12) Under the State of Texas Oil and Gas Lease
24 #M-107592, the amount of royalties Gulf Energy Exploration Corp.
25 would have to pay to the State of Texas would increase if production
26 in paying quantities was not established by February 6, 2009;

27 (13) On December 30, 2008, Gulf Energy Exploration

1 Corp. commenced operations on State Tract 708-S No. 5 in
2 anticipation of completing workover operations and placing the well
3 in production ahead of the February 6, 2009, deadline only to
4 discover that State Tract 708-S No. 5 had been wrongfully plugged;

5 (14) One week later, on January 9, 2009,
6 representatives of Gulf Energy Exploration Corp. and the Railroad
7 Commission of Texas met to discuss the wrongful plugging of State
8 Tract 708-S No. 5;

9 (15) On January 14, 2009, representatives of Gulf
10 Energy Exploration Corp. and the Railroad Commission of Texas met
11 again, and the commission admitted to wrongfully plugging State
12 Tract 708-S No. 5;

13 (16) To date, Gulf Energy Exploration Corp. has
14 invested, spent, or committed to spend \$2,810,000, in addition to
15 the \$400,000 deposit paid to the Railroad Commission of Texas, in
16 support of workover, recompletion, pipeline, and facilities
17 repairs to the Sherman Field area gathering system and two of its
18 other orphaned wells;

19 (17) Gulf Energy Exploration Corp. has calculated the
20 known cost to unplug and drill out State Tract 708-S No. 5 to 2,000
21 feet to be at least \$1,596,650;

22 (18) Due to the manner in which State Tract 708-S No. 5
23 was plugged, a very real risk exists that substantial, unforeseen
24 problems may emerge in unplugging and drilling out the well and the
25 amount of contingency to use in calculating total costs cannot be
26 estimated with any degree of certainty;

27 (19) Given the degree of uncertainty in calculating

1 the contingency, Gulf Energy Exploration Corp. has used a range of
2 15 to 50 percent of the known costs, estimating the total cost to
3 unplug and drill out State Tract 708-S No. 5 to 2,000 feet to be
4 anywhere from \$1,836,200 to \$2,395,000; however, Gulf Energy
5 Exploration Corp. also recognizes, based on experience, that any
6 cost overrun could exceed the amount of known costs by 100 percent
7 or more and could result in the abandonment of the well;

8 (20) Alternatively, Gulf Energy Exploration Corp. has
9 received from Applied Drilling Technology, Inc., a viable, turnkey
10 proposal to redrill the well to 3,250 feet for known costs amounting
11 to \$2,075,000 plus nominally estimated additional costs for setting
12 and cementing production casing, mobilization and demobilization,
13 a structural link to the existing caisson and structure, the
14 expected use of the wellhead, tubing, packer, and supplies, and a
15 prefabricated flowline bridge connection, which brings the
16 estimated total cost to redrill State Tract 708-S No. 5 to 3,250
17 feet to \$2,426,000;

18 (21) Taking advantage of a third-party, turnkey
19 operation like Applied Drilling Technology, Inc.'s proposal
20 transfers the risk and responsibility of unforeseen problems and
21 expenses to the third party, making it a risk-free alternative;

22 (22) A risk-free option does not exist for the
23 Railroad Commission of Texas to reenter the abandoned well and
24 return the wellbore to useable condition for Gulf Energy
25 Exploration Corp., and a very real risk exists that the time and
26 money spent attempting a reentry would very likely exceed the cost
27 of a turnkey operation;

1 (23) Gulf Energy Exploration Corp. respectfully
2 requests that the Railroad Commission of Texas provide the funds
3 necessary to proceed with a risk-free alternative like the proposal
4 submitted by Applied Drilling Technology, Inc.;

5 (24) Gulf Energy Exploration Corp. also requests a
6 timely response from the Railroad Commission of Texas in providing
7 these funds considering the corporation's lost opportunity in the
8 well due to the wrongful plugging of State Tract 708-S No. 5; now,
9 therefore, be it

10 RESOLVED by the Legislature of the State of Texas, That Gulf
11 Energy Exploration Corp. is granted permission to sue the State of
12 Texas and the Railroad Commission of Texas subject to Chapter 107,
13 Civil Practice and Remedies Code; and, be it further

14 RESOLVED, That the total of all damages awarded in the suit
15 authorized by this resolution, including any court costs,
16 attorney's fees, and prejudgment interest awarded under the law,
17 may not exceed \$2,500,000, and that Gulf Energy Exploration Corp.
18 may not plead an amount in excess of that amount in any suit
19 authorized by this resolution; and, be it further

20 RESOLVED, That the chairman of the Railroad Commission of
21 Texas and the attorney general be served process as provided by
22 Section 107.002(a)(3), Civil Practice and Remedies Code.