

1-1 By: Wentworth S.C.R. No. 72
1-2 (In the Senate - Filed May 13, 2009; May 13, 2009, read
1-3 first time and referred to Committee on Jurisprudence;
1-4 May 14, 2009, reported favorably by the following vote: Yeas 5,
1-5 Nays 0; May 14, 2009, sent to printer.)

1-6 SENATE CONCURRENT RESOLUTION

1-7 WHEREAS, Gulf Energy Exploration Corp. alleges that:

1-8 (1) Gulf Energy Exploration Corp. acquired four
1-9 inactive "orphaned" wellbores in Sherman Field, Offshore Calhoun
1-10 County, Texas, that are strategically located to enhance the
1-11 capture of reserves that would otherwise be uneconomical to
1-12 recover;

1-13 (2) One of these orphaned wellbores is designated
1-14 "State Tract 708-S No. 5";

1-15 (3) Gulf Energy Exploration Corp. intends to rework
1-16 the orphaned wellbores it owns in Sherman Field and tie them back in
1-17 to the Sherman pipeline system;

1-18 (4) In a conference on May 19, 2008, representatives
1-19 from Gulf Energy Exploration Corp., the Railroad Commission of
1-20 Texas, the Office of the Attorney General of the State of Texas,
1-21 American Coastal Energy, Inc., and bankruptcy counsel for American
1-22 Coastal Energy, Inc., reached a tentative settlement and
1-23 forbearance agreement, pending approval of the commission,
1-24 attorney general, and bankruptcy court;

1-25 (5) On or about May 25, 2008, the Railroad Commission
1-26 of Texas wrongfully plugged and abandoned State Tract 708-S No. 5,
1-27 using Superior Energy Services, Inc., as the plugging contractor;

1-28 (6) By June 9, 2008, all parties to the agreement of
1-29 May 19, 2008, had signed the settlement and forbearance agreement;

1-30 (7) On June 27, 2008, Gulf Energy Exploration Corp.
1-31 paid a deposit of \$400,000 and filed Certificates of Compliance and
1-32 Transportation Authority with the Railroad Commission of Texas;

1-33 (8) On June 30, 2008, the Railroad Commission of Texas
1-34 held a hearing and legal examination, and J. W. "Bill" Rhea IV, who
1-35 was at the time the president and chief executive officer of Gulf
1-36 Energy Exploration Corp., testified on the merit and benefit of
1-37 Gulf Energy Exploration Corp.'s Certificates of Compliance and
1-38 Transportation Authority;

1-39 (9) In a memorandum dated August 11, 2008, requested
1-40 by the Railroad Commission of Texas following the hearing on June
1-41 30, 2009, Gulf Energy Exploration Corp. submitted a brief
1-42 discussion and proposed operation of each of its orphaned wells in
1-43 Sherman Field, including State Tract 708-S No. 5, and its reserve
1-44 potential;

1-45 (10) On September 9, 2008, the Railroad Commission of
1-46 Texas approved Gulf Energy Exploration Corp.'s Certificates of
1-47 Compliance and Transportation Authority and rescinded its previous
1-48 plugging orders;

1-49 (11) On November 10, 2008, Superior Energy Service,
1-50 Inc., provided a wellbore diagram in support of the workover or
1-51 recompletion procedure to be performed by Gulf Energy Exploration
1-52 Corp. on State Tract 708-S No. 5;

1-53 (12) Under the State of Texas Oil and Gas Lease
1-54 #M-107592, the amount of royalties Gulf Energy Exploration Corp.
1-55 would have to pay to the State of Texas would increase if production
1-56 in paying quantities was not established by February 6, 2009;

1-57 (13) On December 30, 2008, Gulf Energy Exploration
1-58 Corp. commenced operations on State Tract 708-S No. 5 in
1-59 anticipation of completing workover operations and placing the well
1-60 in production ahead of the February 6, 2009, deadline only to
1-61 discover that State Tract 708-S No. 5 had been wrongfully plugged;

1-62 (14) One week later, on January 9, 2009,
1-63 representatives of Gulf Energy Exploration Corp. and the Railroad
1-64 Commission of Texas met to discuss the wrongful plugging of State
1-65 Tract 708-S No. 5;

1-66 (15) On January 14, 2009, representatives of Gulf

2-1 Energy Exploration Corp. and the Railroad Commission of Texas met
2-2 again, and the commission admitted to wrongfully plugging State
2-3 Tract 708-S No. 5;

2-4 (16) To date, Gulf Energy Exploration Corp. has
2-5 invested, spent, or committed to spend \$2,810,000, in addition to
2-6 the \$400,000 deposit paid to the Railroad Commission of Texas, in
2-7 support of workover, recompletion, pipeline, and facilities
2-8 repairs to the Sherman Field area gathering system and two of its
2-9 other orphaned wells;

2-10 (17) Gulf Energy Exploration Corp. has calculated the
2-11 known cost to unplug and drill out State Tract 708-S No. 5 to 2,000
2-12 feet to be at least \$1,596,650;

2-13 (18) Due to the manner in which State Tract 708-S No. 5
2-14 was plugged, a very real risk exists that substantial, unforeseen
2-15 problems may emerge in unplugging and drilling out the well and the
2-16 amount of contingency to use in calculating total costs cannot be
2-17 estimated with any degree of certainty;

2-18 (19) Given the degree of uncertainty in calculating
2-19 the contingency, Gulf Energy Exploration Corp. has used a range of
2-20 15 to 50 percent of the known costs, estimating the total cost to
2-21 unplug and drill out State Tract 708-S No. 5 to 2,000 feet to be
2-22 anywhere from \$1,836,200 to \$2,395,000; however, Gulf Energy
2-23 Exploration Corp. also recognizes, based on experience, that any
2-24 cost overrun could exceed the amount of known costs by 100 percent
2-25 or more and could result in the abandonment of the well;

2-26 (20) Alternatively, Gulf Energy Exploration Corp. has
2-27 received from Applied Drilling Technology, Inc., a viable, turnkey
2-28 proposal to redrill the well to 3,250 feet for known costs amounting
2-29 to \$2,075,000 plus nominally estimated additional costs for setting
2-30 and cementing production casing, mobilization and demobilization,
2-31 a structural link to the existing caisson and structure, the
2-32 expected use of the wellhead, tubing, packer, and supplies, and a
2-33 prefabricated flowline bridge connection, which brings the
2-34 estimated total cost to redrill State Tract 708-S No. 5 to 3,250
2-35 feet to \$2,426,000;

2-36 (21) Taking advantage of a third-party, turnkey
2-37 operation like Applied Drilling Technology, Inc.'s proposal
2-38 transfers the risk and responsibility of unforeseen problems and
2-39 expenses to the third party, making it a risk-free alternative;

2-40 (22) A risk-free option does not exist for the
2-41 Railroad Commission of Texas to reenter the abandoned well and
2-42 return the wellbore to useable condition for Gulf Energy
2-43 Exploration Corp., and a very real risk exists that the time and
2-44 money spent attempting a reentry would very likely exceed the cost
2-45 of a turnkey operation;

2-46 (23) Gulf Energy Exploration Corp. respectfully
2-47 requests that the Railroad Commission of Texas provide the funds
2-48 necessary to proceed with a risk-free alternative like the proposal
2-49 submitted by Applied Drilling Technology, Inc.;

2-50 (24) Gulf Energy Exploration Corp. also requests a
2-51 timely response from the Railroad Commission of Texas in providing
2-52 these funds considering the corporation's lost opportunity in the
2-53 well due to the wrongful plugging of State Tract 708-S No. 5; now,
2-54 therefore, be it

2-55 RESOLVED by the Legislature of the State of Texas, That Gulf
2-56 Energy Exploration Corp. is granted permission to sue the State of
2-57 Texas and the Railroad Commission of Texas subject to Chapter 107,
2-58 Civil Practice and Remedies Code; and, be it further

2-59 RESOLVED, That the total of all damages awarded in the suit
2-60 authorized by this resolution, including any court costs,
2-61 attorney's fees, and prejudgment interest awarded under the law,
2-62 may not exceed \$2,500,000, and that Gulf Energy Exploration Corp.
2-63 may not plead an amount in excess of that amount in any suit
2-64 authorized by this resolution; and, be it further

2-65 RESOLVED, That the chairman of the Railroad Commission of
2-66 Texas and the attorney general be served process as provided by
2-67 Subdivision (3), subsection (a), Section 107.002, Civil Practice
2-68 and Remedies Code.