

## BILL ANALYSIS

Senate Research Center  
81R33661 SKB-D

S.C.R. 72  
By: Wentworth  
Jurisprudence  
5/13/2009  
As Filed

### AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Gulf Energy Exploration Corp alleges that Gulf Energy Exploration Corp. acquired four inactive "orphaned" wellbores in Sherman Field, Offshore Calhoun County, Texas, that are strategically located to enhance the capture of reserves that would otherwise be uneconomical to recover. One of these orphaned wellbores is designated "State Tract 708-S No. 5." Gulf Energy Exploration Corp. intends to rework the orphaned wellbores it owns in Sherman Field and tie them back in the Sherman pipeline system.

In a conference on May 19, 2008, representatives from Gulf Energy Exploration Corp., the Railroad Commission of Texas (railroad commission), the Office of the Attorney General of the State of Texas (attorney general), American Coastal Energy, Inc., and a bankruptcy counsel for American Coastal Energy, Inc., reached a tentative settlement and forbearance agreement, pending approval of the railroad commission, attorney general, and bankruptcy court. On or about May 25, 2008, the railroad commission wrongfully plugged and abandoned State Tract 708-S No. 5, using Superior Energy Services, Inc., as the plugging contractor. By June 9, 2008, all parties to the agreement of May 19, 2008, had signed the settlement and forbearance agreement.

On June 27, 2008, Gulf Energy Exploration Corp. paid a deposit of \$400,000 and filed Certificates of Compliance and Transportation Authority with the railroad commission. On June 30, 2008, the railroad commission held a hearing and legal examination, and J.W. "Bill" Rhea IV, who was at the time the president and chief executive officer of Gulf Energy Exploration Corp., testified on the merit and benefit of Gulf Energy Exploration Corp.'s Certificates of Compliance and Transportation Authority. In a memorandum dated August 11, 2008, requested by the railroad commission following the hearing on June 30, 2009 (sic), Gulf Energy Exploration Corp. submitted a brief discussion and proposed operation of each of its orphaned wells in Sherman Field, including State Tract 708-S No. 5, and its reserve potential. On September 9, 2008, the railroad commission approved Gulf Energy Exploration Corp.'s Certificates of Compliance and Transportation Authority and rescinded its previous plugging orders.

On November 10, 2008, Superior Energy Service Inc., provided a wellbore diagram in support of the workover or recompletion procedure to be performed by Gulf Energy Exploration Corp. on State Tract 708-S No. 5. Under the State of Texas Oil and Gas Lease #M-107592, the amount of royalties Gulf Energy Exploration Corp. would have to pay to the State of Texas would increase if production in paying quantities was not established by February 6, 2009. On December 30, 2008, Gulf Energy Exploration Corp. commenced operations on State Tract 708-S No. 5 in anticipation of completing workover operations and placing the well in production ahead of the February 6, 2009, deadline only to discover that State Tract 708-S No. 5 had been wrongfully plugged. One week later, on January 9, 2009, representatives of Gulf Energy Exploration Corp. and the railroad commission met to discuss the wrongful plugging of State Tract 708-S No. 5. On January 14, 2009, representatives of Gulf Energy Exploration Corp. and the railroad commission met again, and the railroad commission admitted to wrongfully plugging State Tract 708-S No. 5.

To date, Gulf Energy Exploration Corp. has invested, spent, or committed to spend \$2,810,000 in addition to the \$400,000 deposit paid to the railroad commission, in support of workover, recompletion, pipeline, and facilities repairs to the Sherman Field area gathering system and two of its other orphaned wells. Gulf Energy Exploration Corp. has calculated the known cost to unplug and drill out State Tract 708-S No. 5 to 2,000 feet to be at least \$1,596,650. Due to the

manner in which State Tract 708-S No. 5 was plugged, a very real risk exists that substantial, unforeseen problems may emerge in unplugging and drilling out the well and the amount of contingency to use in calculating total costs cannot be estimated with any degree of certainty. Given the degree of uncertainty in calculating the contingency, Gulf Energy Exploration Corp. has used a range of 15 to 50 percent of the known costs, estimating the total cost to unplug and drill out State Tract 708-S No. 5 to 2,000 feet to be anywhere from \$1,836,200 to \$2,395,000; however, Gulf Energy Exploration Corp. also recognizes, based on experience, that any cost overrun could exceed the amount of known costs by 100 percent or more and could result in the abandonment of the well.

Alternatively, Gulf Energy Exploration Corp. has received from Applied Drilling Technology, Inc., a viable, turnkey proposal to redrill the well to 3,250 feet for known costs amounting to \$2,075,000 plus nominally estimated additional costs for setting and cementing production casing, mobilization and demobilization, a structural link to the existing caisson and structure, the expected use of the wellhead, tubing, packer, and supplies, and a prefabricated flowline bridge connection, which brings the estimated total cost to redrill State Tract 708-S No. 5 to 3,250 feet to \$2,426,000. Taking advantage of a third-party, turnkey operation like Applied Drilling Technology, Inc.'s proposal transfers the risk and responsibility of unforeseen problems and expenses to the third party, making it a risk-free alternative.

A risk-free option does not exist for the railroad commission to reenter the abandoned well and return the wellbore to useable condition for Gulf Energy Exploration Corp., and a very real risk exists that the time and money spent attempting a reentry would very likely exceed the cost of a turnkey operation. Gulf Energy Exploration Corp. respectfully requests that the railroad commission provide the funds necessary to proceed with a risk-free alternative like the proposal submitted by Applied Drilling Technology, Inc.

Gulf Energy Exploration Corp. also requests a timely response from the railroad commission in providing these funds considering the corporation's lost opportunity in the well due to the wrongful plugging of State Tract 708-S No. 5.

### **RESOLVED**

That the Legislature of the State of Texas grants permission to Gulf Energy Exploration Corp. to sue the State of Texas and the railroad commission subject to Chapter 107 (Permission to Sue the State), Civil Practice and Remedies Code.

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

That the chairman of the railroad commission and the attorney general be served process as provided by Section 107.002(a)(3) (relating to a requirement that a resolution to sue the state is subject to the condition that service of citation and other required process is required to be made on the attorney general and on a person named in the resolution as a representative of the affected state agency), Civil Practice and Remedies Code.