

**RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
HEARINGS SECTION**

OIL & GAS DOCKET NO. 02-0257481

APPLICATION OF GULF ENERGY EXPLORATION CORP. TO SUPERCEDE THE FINAL ORDER SIGNED ON JANUARY 28, 2008, IN OIL & GAS DOCKET NO. 02-0248306 ONLY INsofar AS IT REQUIRED THAT THE STATE TRACT 708-S LEASE, WELL NO. 5 C (RRC NO. 127665), SHERMAN OFFSHORE (1700) FIELD, AND STATE TRACT 708-S LEASE, WELL NO. 5-T (RRC NO. 158317), SHERMAN OFFSHORE (2000) FIELD, CALHOUN COUNTY, TEXAS, BE PLUGGED, ENABLING GULF ENERGY EXPLORATION CORP. TO BECOME THE OPERATOR OF RECORD

FINAL ORDER

The Commission finds that after statutory notice the captioned proceeding was heard by the examiner on June 30, 2008. The proceeding having been duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas, the Commission makes the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. At least 10 days notice of this proceeding was given to Gulf Energy Exploration Corp. ("Gulf Energy") and American Coastal Energy, Inc. ("ACE"). Gulf Energy appeared at the hearing on June 30, 2008, and presented evidence. No person appeared at the hearing in opposition to the application. Gulf Energy has waived the issuance of a proposal for decision in this docket, and has agreed, in writing, that this Final Order shall be effective on the date a Master Order relating to this Final Order is signed.
2. On January 28, 2008, the Commission signed a Final Order in Oil & Gas Docket No. 02-0248306 requiring, among other things, that ACE plug the State Tract 708-S Lease, Well No. 5 C (RRC No. 127665), Sherman Offshore (1700) Field, and State Tract 708-S Lease, Well No. 5-T (RRC No. 158317), Sherman Offshore (2000) Field, Calhoun County, Texas ("subject wells").
3. ACE has not complied with the Final Order in Oil & Gas Docket No. 02-0248306 by plugging the subject wells, and ACE presently is the designated operator of the wells on records of the Commission. The Commission has officially noticed that the Form P-5 organization report of ACE has been delinquent since September 1, 2004. The Commission has also officially noticed that ACE filed Chapter 11 bankruptcy on May 15, 2008, in the matter styled Case No. 08-33160 H1-11, *In Re: American Coastal Energy, Inc., Debtor in Possession* in the United States Bankruptcy Court for the Southern District of Texas, Houston Division.

4. On June 19, 2008, Gulf Energy and ACE filed two-signature Forms P-4 (Certificate of Compliance and Transportation Authority) with the Commission requesting a change of operator of the subject wells from ACE to Gulf Energy.
5. On June 12, 2008, Gulf Energy filed with the Commission a request for hearing to consider whether the Commission should enter an order superceding the Final Order in Oil & Gas Docket No. 02-0248306 insofar as it required that the subject wells be plugged.
6. Gulf Energy has an active Form P-5 organization report and approved financial assurance on file in the amount of \$425,000.
7. Gulf Energy was formed in February 2006 to pursue opportunities in the transition zone in state waters offshore in the Gulf of Mexico. It is the second largest holder of State of Texas mineral leases, now possessing state leases on about 35,000 acres offshore in the Gulf of Mexico, including 15,670 acres south of the area where the subject wells are located.
8. Currently, Gulf Energy operates primarily through contract operators such as Brammer Engineering and the Wood Group who physically operate Gulf Energy's wells.
9. There is no common ownership or common management between Gulf Energy and ACE.
10. Gulf Energy is the assignee of a currently effective oil and gas lease covering acreage where the subject wells are located.
11. Gulf Energy plans to re-enter the subject wells and restore them to production.
12. Superceding the Final Order in Oil & Gas Docket No. 02-0248306 insofar as it required that the subject wells be plugged, and permitting Gulf Energy to become the designated operator of the wells, likely will prevent the ultimate loss of hydrocarbons.
 - a. From reservoir studies Gulf Energy has concluded that there is a significant amount of gas that has been bypassed in the subject wells.
 - b. The Sherman Field is a stratigraphic column from about 1,400' down to about 5,000' with 17 different zones that have demonstrated themselves over time to be productive of dry gas.
 - c. The subject wells are dual completions in the same wellbore.
 - d. The 1700 Sd zone in the subject wellbore contains 6' of gas sand. This zone was produced by Well No. 5 C, which produced 528 MMCF of gas before the well was shut in to produce downhole reservoirs. Well No. 5 C was capable of producing 500 MCFD when it was shut in. The 1700 Sd zone covers an area of about 2,000 acres. Gulf Energy's reservoir study estimates that 1-2 BCF of gas is recoverable from this zone.

- e. The 2450 Sd zone in the subject wellbore contains 7' of gas sand which has never been produced. Gulf Energy's reservoir study estimates that the reserve potential in this zone is 1-2 BCF.
 - f. The 2900 B Sd zone in the subject wellbore contains 3'-4' of gas sand never produced. The wellbore is structurally 12' high to the State Tract 707, Well No. 5 which produced 1.5 BCF of gas from the 2900 B Sd zone. Gulf Energy's reservoir study estimates that the reserve potential in this zone is 0.5-1 BCF.
 - g. The 3000 Sd zone in the subject wellbore contains 12' of gas sand never produced. Gulf Energy's reservoir study estimates that the reserve potential in this zone is 3-5 BCF.
13. There is no evidence that superceding the Final Order in Oil & Gas Docket No. 02-0248306 insofar as it required that the subject wells be plugged, and permitting Gulf Energy to become the designated operator of the wells, will endanger natural resources or circumvent Commission rules.
14. By order dated June 17, 2008, the United States Bankruptcy Court for the Southern District of Texas, Houston Division approved, and ordered the parties to carry out, the terms of a Settlement and Forbearance Agreement Between Debtor and Railroad Commission of Texas which provides for the transfer of the subject wells from ACE to Gulf Energy.

CONCLUSIONS OF LAW

- 1. Proper notice of hearing was timely issued by the Railroad Commission to appropriate persons legally entitled to notice.
- 2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties to this hearing have been performed or have occurred.
- 3. Gulf Energy Exploration Corp. is an active operator and has sufficient financial assurance on file with the Commission pursuant to Texas Natural Resources Code §§91.104, 91.1042, and 91.107.
- 4. Conditions respecting the subject wells have changed since issuance of the Commission's Final Order in Oil & Gas Docket No. 02-0248306.
- 5. Gulf Energy Exploration Corp. has a good faith claim of a current right to operate the subject wells.
- 6. Superceding the Final Order in Oil & Gas Docket No. 02-0248306 insofar as it required that the subject wells be plugged, and permitting Gulf Energy Exploration Corp. to become the designated operator of the wells, will promote conservation of natural resources and prevention of waste pursuant to Texas Natural Resources Code §85.201.

7. Pursuant to Texas Government Code §2001.144(a)(4), and the agreement and consent of all parties, this Final Order is effective when a Master Order relating to this Final Order is signed on September 9, 2008.

It is accordingly **ORDERED** that the Final Order signed on January 28, 2008, in Oil & Gas Docket No. 02-0248306 is hereby superceded only insofar as it required that the State Tract 708-S Lease, Well No. 5 C (RRC No. 127665), Sherman Offshore (1700) Field, and State Tract 708-S Lease, Well No. 5-T (RRC No. 158317), Sherman Offshore (2000) Field, Calhoun County, Texas, be plugged. All other provisions of the Final Order in Oil & Gas Docket No. 02-0248306 remain in full force and effect.

It is further **ORDERED** that the Forms P-4 (Certificate of Compliance and Transportation Authority) filed with the Commission on June 19, 2008, requesting a change of operator of the State Tract 708-S Lease, Well No. 5 C (RRC No. 127665), Sherman Offshore (1700) Field, and State Tract 708-S Lease, Well No. 5-T (RRC No. 158317), Sherman Offshore (2000) Field, Calhoun County, Texas, from American Coastal Energy, Inc., to Gulf Energy Exploration Corp. are hereby **APPROVED**.

It is further **ORDERED** that this Final Order shall be effective on September 9, 2008, when the Master Order relating to this Final Order is signed.

All pending motions and requests for relief not previously granted or granted herein are denied.

Done this 9th day of September 2008, in Austin, Texas.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
OGC Unprotested Master Order dated
September 9, 2008)**